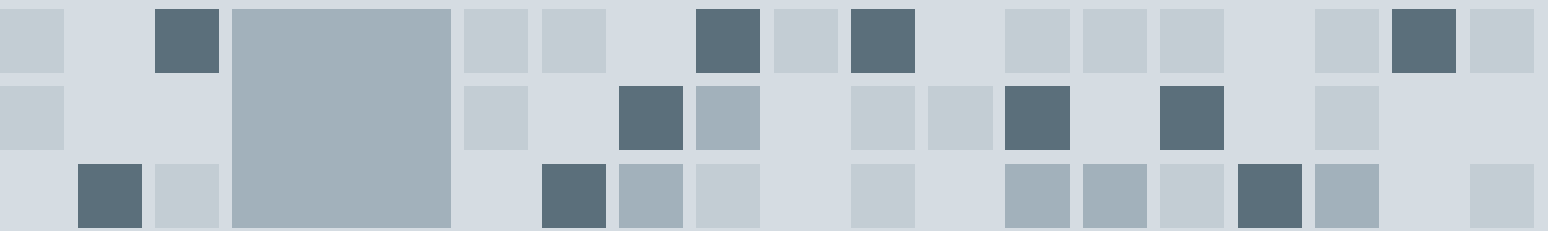
ANNUAL REPORT **2006**

MARSH
MERCER
KROLL
GUY CARPENTER
PUTNAM



MMC is a global professional services firm with annual revenues of approximately $12 billion. It is the parent company of Marsh, the world's leading risk and insurance services firm; Guy Carpenter, the world's leading risk and reinsurance specialist; Kroll, the world's leading risk consulting company; Mercer, a major global provider of human resource and specialty consulting services; and Putnam Investments, one of the largest investment management companies in the United States. More than 55,000 employees provide analysis, advice, and transactional capabilities to clients in over 100 countries.

This annual report contains "forward-looking statements," as defined in the Private Securities Litigation Reform Act of 1995. Please see "Information Concerning Forward-Looking Statements" on page 101 of this annual report.

Michael G. Cherkasky

Dear Shareholder

For MMC, 2006 was a pivotal year. It was a year of transformation—one in which we built a strong foundation to grow MMC's preeminent brands. We began to increase operating efficiencies, strengthen and leverage our market-leading knowledge and resources, and evolve our business model to increase revenues and profitability. We migrated toward greater standardization of business processes, better client-profitability metrics, and more effective compensation systems. We focused on improving the operations and financial performance of each operating company, simultaneously seizing opportunities to leverage MMC as a whole. There remains a great deal of work to be done, but today we are more client-centric, efficient, and profitable.

FINANCIAL RESULTS

This management team delivered on its commitment to achieve revenue growth and cost reduction in 2006. MMC's revenues grew 3 percent to $11.9 billion. Operating income increased 71 percent to $1.5 billion. Net income more than doubled to $990 million. Income from continuing operations more than doubled to $818 million. The fourth quarter of 2006 was a particularly significant period for MMC. We achieved a 9 percent increase in revenues—the strongest growth in three years. It was the sixth straight quarter in which we reduced our year-over-year expenses. In terms of profitability, we achieved a more than threefold increase in operating income in the fourth quarter. Top-line growth, despite challenging market conditions in risk and insurance services, drove this increase.

As a result of strong operating cash flows, successful restructuring actions, and strategic dispositions, total net debt at the end of 2006 was $2.9 billion, a reduction of $640 million from the end of 2005. We also raised MMC's quarterly cash dividend 12 percent to $.19 per share payable in the first quarter. One of MMC's historic strengths has been its financial flexibility, which has given the company the ability to grow. We dramatically improved our financial position in 2006. MMC has enormous opportunities for investment in its businesses, and we are poised for meaningful growth in 2007.

ONGOING TRANSFORMATION

To foster growth, reinforce our focus on excellence, and improve our governance structure, we must be willing to embrace change. Our actions in 2006 indicate that we are successfully doing so.

Putnam has been an important contributor to MMC's success over the last three decades, but we have decided to focus on growing our risk and human capital businesses to achieve superior long-term shareholder return. In January, Great-West Lifeco, a subsidiary of Montreal-based Power Financial Corporation, agreed to purchase Putnam for $3.9 billion in cash. We expect this transaction to close in the middle of 2007, subject to certain customary conditions.

In September, we named Matt Bartley chief financial officer of MMC. Matt had been our treasurer for the prior five years. He has an intimate knowledge of the financial dynamics of MMC's operating companies and will be an integral part of MMC's growth.

In May, we were pleased to welcome Steve Hardis as non-executive chairman of MMC's Board of Directors. Steve has been a member of the Board since 1998. He is an effective leader and valuable partner. Under Steve's leadership, the Board has continued its ongoing review of MMC's corporate governance practices and implemented a number of significant changes. Among other things, the Board implemented stock ownership requirements for directors and executive officers, and adopted a bylaw providing for majority voting in uncontested director elections. These changes are the latest in a series of governance enhancements we have made in the last two years.

GROWTH: PRIORITY ONE

MMC is in the right markets at the right time. Risk and human capital issues are dominating today's headlines and corporate agendas. There are hazard risks including fire, flood, and earthquake; financial risks such as currency volatility, interest rate swings, and loan defaults; operational risks such as technology failures and supply chain interruption; strategic risks associated with technological advances, formidable competition, and major shifts in the perception of established brands; and human capital risks such as competition for talent, increasing pension liabilities, and rapidly rising healthcare costs. These risks are front page in our newspapers and front-of-mind for our clients. As a result, the demand for comprehensive risk solutions is growing rapidly.

Our companies help clients identify, plan for and respond to today's critical issues and risks. Marsh, Guy Carpenter, Kroll, Mercer Human Resource Consulting, and Mercer Specialty

Consulting are market leaders with exceptional people and distinguished global clients. In short, we have the global platform and depth of talent and expertise to help clients turn critical issues and risks into competitive advantages.

Each of our operating companies has specific strategic plans and targets in place, yet across many of our businesses there are common themes: continued operational improvements; training and professional development for our colleagues; aggressive recruiting; accelerated investment in high-potential markets such as Asia; expanded presence in European and other more established markets; advancement of our leadership position in the U.S. middle market; product innovation; and diversification of product and service offerings. Our operating company leaders offer more insights about their plans in the pages that follow.

To achieve our goals, our companies will focus on core competencies in risk and human capital. They will continue to refine their business models and pursue collaborative opportunities across the MMC spectrum to deliver integrated advice and solutions. The needs of our clients are our responsibility and also represent an opportunity to grow MMC.

LOOKING AHEAD

We have so many ways to win as a company. Our colleagues are innovators and entrepreneurs who have the ideas, ingenuity, drive, and experience to fuel our growth. They act with integrity, resolve, and a sense of urgency in serving our clients. We have a clear operational and strategic imperative—use our superior brands and distribution to drive the growth of our businesses, and to do so efficiently.

MMC made significant progress in 2006, but we can—and will—do better. We view 2007 as a year of opportunity, a year of innovation and imagination. It is a year for decisive action. We will continue to move forward aggressively to improve our results in 2007 and beyond. We expect to achieve higher revenues, operating income, and margins. Over the next three years, our companies will work together to leverage our market-leading positions to deliver exceptional value to our clients, shareholders, and colleagues alike.

For 135 years, MMC has built a reputation for excellence and is now the world's leading global advice and solutions firm. This is just the beginning of our turnaround. Our management team is energized, optimistic, and focused. We are committed to bringing MMC back to its former glory—and more.

Sincerely,

Michael G. Cherkasky
President and Chief Executive Officer

February 28, 2007

Risk and Insurance Services

MARSH

***Brian M. Storms**, chairman and chief executive officer*

Brian Storms assumed his position at Marsh in September 2005, after a period at the helm of Mercer Human Resource Consulting. Prior to joining MMC, Brian spent more than 25 years in a range of international management roles in the financial services industry.

What is your vision for Marsh?

We will complement our capabilities as the world's leading broker by leading the industry as the preeminent broker and risk advisor, helping our clients turn risk into a competitive advantage. The market opportunity goes well beyond insurance. Our clients have asked us to play a bigger role across the full spectrum of the risk lifecycle, helping them navigate the increasingly fluid, complex global risk landscape. While insurance brokerage is and always will be at the core of what we do, we are expanding our horizons to capture the enormous growth potential in the accelerating market for broader risk advisory services. We intend to be a leader in both.

How is Marsh being transformed?

We are repositioning every aspect of our business, executing against two primary strategic imperatives: 1) build a world-class, globally integrated operating platform; and 2) drive profitable growth by creating a differentiated approach to risk management and by investing in priority growth areas.

Operationally, we are retooling for maximum efficiency and growth across three dimensions: distribution, product, and infrastructure.

Distribution—how Marsh acquires, services, and retains clients—is a critical focus, and we are rewiring our go-to-market approach to deliver a seamless, responsive, and consistently high quality client experience. Our clients are clear about their expectations. They want our best knowledge and capabilities regardless of where they access us; they want us to leverage our size and global reach to assert our placement strength on their behalf, with complete transparency; they want us to deliver sophisticated advisory capabilities; and they want us to provide innovative solutions to their evolving risk needs. With greatly enhanced tools, training, and discipline, we believe that our global distribution platform will enable us to meet and exceed our clients' high expectations.

In the product area, we are exploiting our unrivaled intellectual capital and re-energizing our legacy of innovation. This includes global integration of our risk practices and specialties, significant investment and expansion in our industry expertise, and an expanding pipeline of unique new product innovations.

On the infrastructure front, we are overhauling, integrating, and streamlining our core tools, processes, and functional disciplines. Most notably, we are enhancing our technology by developing a unified global data strategy and an integrated suite of core global applications. The improvements we are making will increase productivity, improve quality, streamline operational processes, and ultimately deliver substantial new value to our clients.

This multifaceted focus on our operating platform goes well beyond prudent cost management. We are transforming, upgrading, and repositioning all aspects of the company, while simultaneously redeploying significant resources for growth.

Tell us how Marsh differentiates itself in the marketplace.

The scale and scope of our global footprint; the depth of our intellectual capital; the breadth of our global placement network; our unrivaled expertise across industries, risk practices, and specialties; our heritage and capacity for innovation; the complementary capabilities of our MMC sister companies; and the collective passion of our 26,000 colleagues—these are the bedrock of our differentiation.

Beyond this foundation is our focus on strategic risk advisory work. By applying a rigorous analytic and diagnostic "total cost of risk" approach, we are helping an increasing number of clients embrace risk as a core element of their strategy and turn risk from a liability to an advantage. This strategic approach to risk, coupled with our deep intellectual capital, lies at the core of a truly differentiated Marsh client experience.

How did Marsh perform in 2006?

For Marsh, 2006 was a foundation-building year. We made good progress stabilizing revenues, improving margins, and preserving our client relationships. Underlying revenue growth, excluding contingent commissions, rebounded with positive growth for the last two quarters of the year. New business grew by 10 percent for the full year, accelerating to 15 percent over the last three quarters after a decline in the first quarter. Margins for the year improved significantly. Client retention rates have now had more than a full year of stabilization and are within a few percentage points of revenue retention levels in a soft market.

How will Marsh grow?

While we emphasize growth across all aspects of our business, we have prioritized a handful of growth areas for significant investment.

Our people are the most important factor for future success. We are shifting our compensation and rewards programs to drive objective pay-for-performance. We are expanding our development programs, with particular emphasis on building leadership bench strength and enhancing client relationship management capabilities. We are also aggressively investing in recruiting.

We are building a segmented U.S. middle market business with fully dedicated distribution resources and tailored product offerings. Importantly, we're investing into a position of strength given that we're already among the industry leaders in this segment. Our focus now is on accelerating profitable growth.

We are investing into high potential markets in Asia where the macroeconomic trends are compelling and where we feel strongly that the pioneer advantage is attainable. This approach targets India, Japan, Korea, and Greater China—where we

were granted the first Wholly Owned Foreign Enterprise insurance broking license—and leads with selected risk specialties, such as our financial products and private equity groups. Similarly, we are focusing on industries that align with evolving market needs, including power and utilities, technology and telecommunications, and real estate.

We are returning to our heritage of innovation, applying our unique intellectual capital to solve risk challenges on our clients' behalf. The most recent example is MaRI (Marsh Risk Innovations). MaRI provides a solution to the capacity gap in the property market for catastrophe exposures, and it provides clients with direct capital market access for the first time.

We are expanding our risk consulting business to meet the demand for risk advisory services, focusing on improving the insurability of our clients' risks and helping clients manage their risks through non-risk-finance means. We are also developing and monetizing our thought leadership on a variety of key mega-trend risk issues, including climate change, terrorism, and pandemics.

What is the outlook?

We are pursuing our vision to lead the industry as the preeminent broker and risk advisor. We are executing a wholesale transformation to create a world-class operating platform, while investing in select areas to drive profitable long-term growth. Our plan is clear. We're proud of our recent progress and excited about the future.

GUY CARPENTER

David Spiller, *president and chief executive officer*

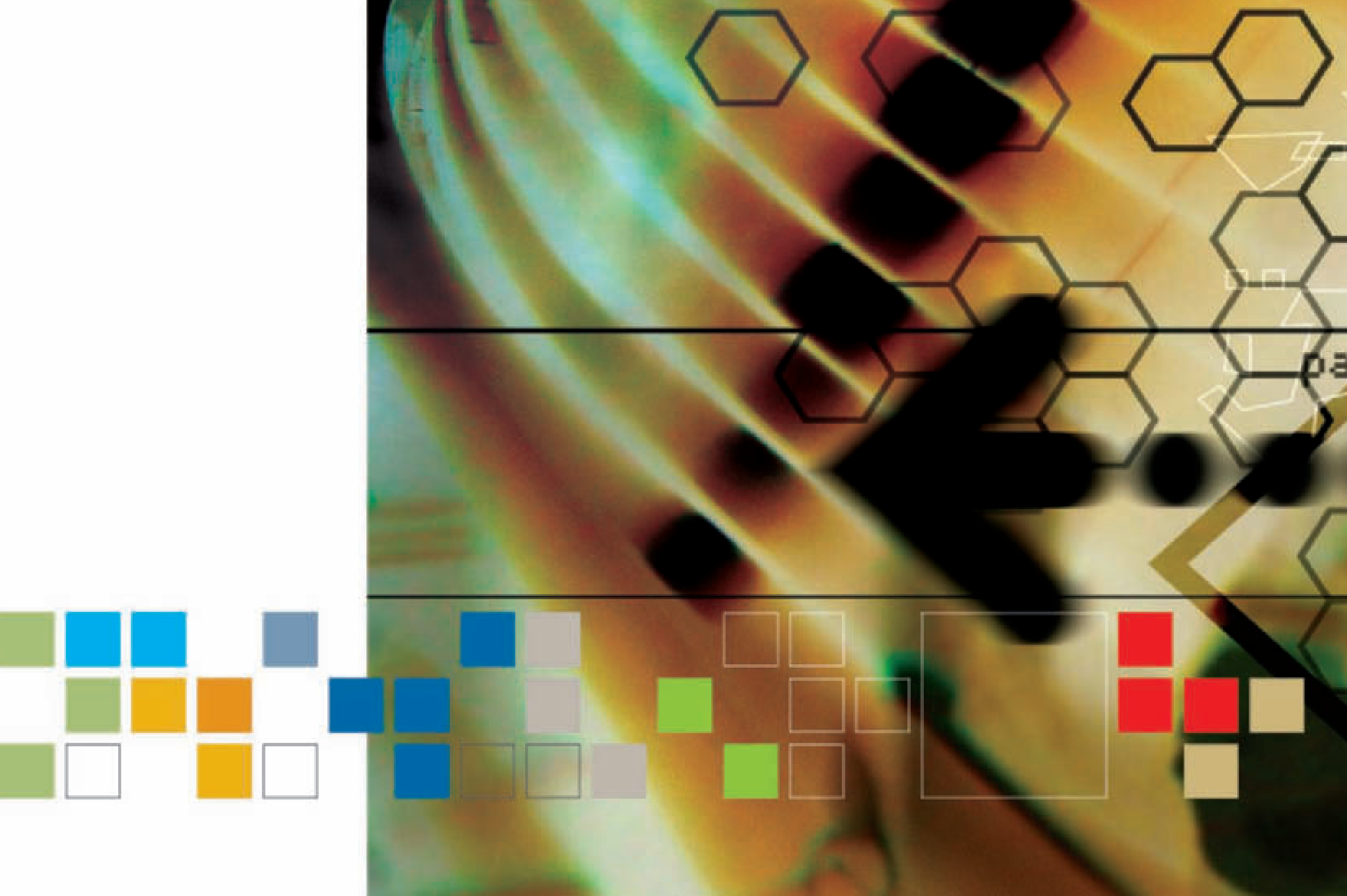
David Spiller joined Guy Carpenter in January 2006. Nearly 30 years of experience in the global insurance industry has given him knowledge and relationships that complement Guy Carpenter's global strategy of delivering the most effective solutions for clients worldwide.

What is Guy Carpenter's role in the reinsurance industry?

We are the leading global reinsurance intermediary and risk specialist, and our clients—insurance and reinsurance companies—look to us to help them control their risks and financial volatility. While the placement of risk into the reinsurance market at the best terms and conditions remains a key skill of our organization, our profile has expanded as risks have grown larger and more complex, insured values have risen, and catastrophe losses have increased. We are our clients' trusted advisors, with preeminent analytical knowledge and market relationships.

What are the dynamics of the reinsurance marketplace?

The market has been challenged in recent years by the increase in the frequency and severity of catastrophe losses. In 2005, it was tested by record loss due to hurricane activity, which caused $83 billion of insured losses, nearly double the amount in the prior year. As a result, there was a significant increase in rates for U.S. property catastrophe reinsurance followed by an influx of new capital, including the recapitalization of existing reinsurers, a number of Bermuda-based



reinsurer start-ups, and non-traditional forms of capacity such as catastrophe bond issuance. The active hurricane season predicted for 2006 did not occur, so 2006 should be a very profitable year for reinsurers.

Total global reinsurance premium is about $150 billion, of which Guy Carpenter places approximately 10 percent. The reinsurance markets accept business on a direct basis and through intermediaries. Brokers are capturing an increasing share of the market as both buyers and reinsurers recognize the value brokers bring to the reinsurance transaction. Guy Carpenter is ideally suited to deliver significant value to clients in a fast changing market that requires a highly technical, global approach. Our 2006 revenues grew 5 percent on an underlying basis to $880 million, driven by double-digit growth in new business. We were pleased that strong new business production levels continued through the January 2007 renewal season.

How does Guy Carpenter differentiate itself?

We have a full service model. We deliver sophisticated analytics, specialty-line expertise, and customized reinsurance solutions to achieve optimum terms and conditions for clients. We have a unique and strong global platform, with 2,600 colleagues conducting business in over 80 countries around the world. That platform enables us to leverage our global network for clients through effective sharing of knowledge and expertise.

Our portfolio is diversified, with about 40 percent in property catastrophe lines, 30 percent in general property lines, and the balance in general liability and other specialty classes of business. Our specialty practices have 16 different areas of expertise, ranging from accident and health to environmental pollution and investment banking.

We develop industry-leading analytics and promote new and creative approaches to risk. Our most recent innovation is a powerful online risk management platform called i-aXs, which gives clients access to their own exposure data as well as a suite of integrated tools to manage and analyze information to make better and faster decisions. The tool incorporates the latest technology and integrated satellite imagery to assess potential risk by catastrophe loss, and is an excellent example of how we leverage our knowledge and resources to help make our clients more successful.

What is the outlook?

We have a strong standing in the Americas, with opportunities to grow in the U.S. middle market, and excellent prospects in Europe and Asia-Pacific, where clients are increasingly turning to brokers to find risk solutions for complex exposures. We see further opportunities in developing capital market solutions for catastrophe risks. With a solid reputation in the reinsurance market, a strong value-added business model, and a commitment to invest in strengthening our platform, we are well positioned for growth. ■

Risk Consulting and Technology

KROLL

Simon Freakley, *president and chief executive officer*
Simon Freakley assumed his current position at Kroll in 2004. Prior to the company's acquisition by MMC in 2004, he led Kroll's Restructuring and Consulting Groups. Simon is one of the industry's leading experts in business turnaround and recovery strategies.

What is Kroll's business?

Kroll is the world's leading risk mitigation company. We provide advice and solutions to help clients solve problems and capitalize on opportunities. Historically, Kroll has been well known for its work in due diligence consulting. Today, we are much more than that. Through strategic acquisitions beginning in the late 1990s, Kroll has transformed its business from a concentration in consulting to a platform that is now evenly divided between consulting and technology-enabled solutions.

Some of our most high profile consulting work is in independent monitorships and corporate restructurings. This area also includes our more traditional services such as business intelligence and investigations, financial advisory, corporate preparedness, and security. On the technology side, we have leading businesses in electronic discovery, data recovery, and background screening—all growing markets. Mortgage credit screening and substance abuse testing complete our portfolio of scalable, technology-based businesses, all of which have recurring revenues and contribute to our balance of cyclical and counter-cyclical businesses.

How did Kroll perform in 2006?

We had revenues of $979 million, an increase of 12 percent from 2005, or 9 percent on an underlying basis. Consulting revenues increased 13 percent, while revenues from technology-enabled solutions rose 12 percent. The operating margin was 15 percent, including amortization expense.

Toward the end of the year, we sold our international high-risk asset and personnel protection division as part of a strategy to focus on higher-margin security segments such as consulting, training, and homeland security solutions.

What will drive your growth?

We are very optimistic about our prospects because powerful market drivers play directly to our core competencies. For example, increasing globalization and foreign direct investment drive growth in our due diligence and restructuring businesses, the latter helping corporations to restructure these investments when they encounter problems. As the leading transatlantic restructuring business, Kroll is well positioned to capitalize on the inevitable swing of the pendulum, when default rates return from recent historic lows.

The exponential growth of electronic information plays to our competencies in electronic discovery and data recovery. Globally, more than 93 percent of data is now created electronically and less than 30 percent ever makes it to paper. Any major fraud, litigation, or compliance review becomes enormously difficult for corporations and regulators without access to the kinds of electronic tools and computer forensic expertise Kroll provides. The intensified regulatory environment creates demand for many of our compliance and monitoring services, including court-mandated independent monitorships, anti-money laundering training, and Foreign Corrupt Practices Act programs.

Identity theft is an emerging risk that Kroll is well placed to address. According to a 2005 FBI report, identity theft is one of the dominant white-collar crimes of the 21st century, with about 5 percent of Americans having their identities compromised annually. We have leveraged our expertise in background screening and credit-checking technology to develop an identity theft business from scratch—a great example of how we innovate organically to drive growth in new markets.

We also see increasing demand among clients for integrated, enterprise-wide solutions to problems. Kroll is uniquely positioned to provide these services, especially in collaboration with its sister companies in MMC. In addition, strategic acquisitions have always played a key role in Kroll's growth, and we expect this to continue in the future. We have been able to successfully leverage the capabilities of the businesses we acquire, thereby driving long-term growth in new and important ways.

What are Kroll's prospects?

We see sustainable competitive advantage in capitalizing on our brand and global reach. Our widely recognized brand gives us access and credibility because people are accustomed to Kroll dealing with difficult situations and complex problems. It also lets us attract and retain the best talent because we are seen as market leaders in much of what we do. Our broad service offerings give us a diverse revenue stream and the ability to capitalize on global opportunities at multiple points in the cycle. For all of these reasons, we are extremely optimistic about Kroll's future. ■

Consulting

MERCER HUMAN RESOURCE CONSULTING

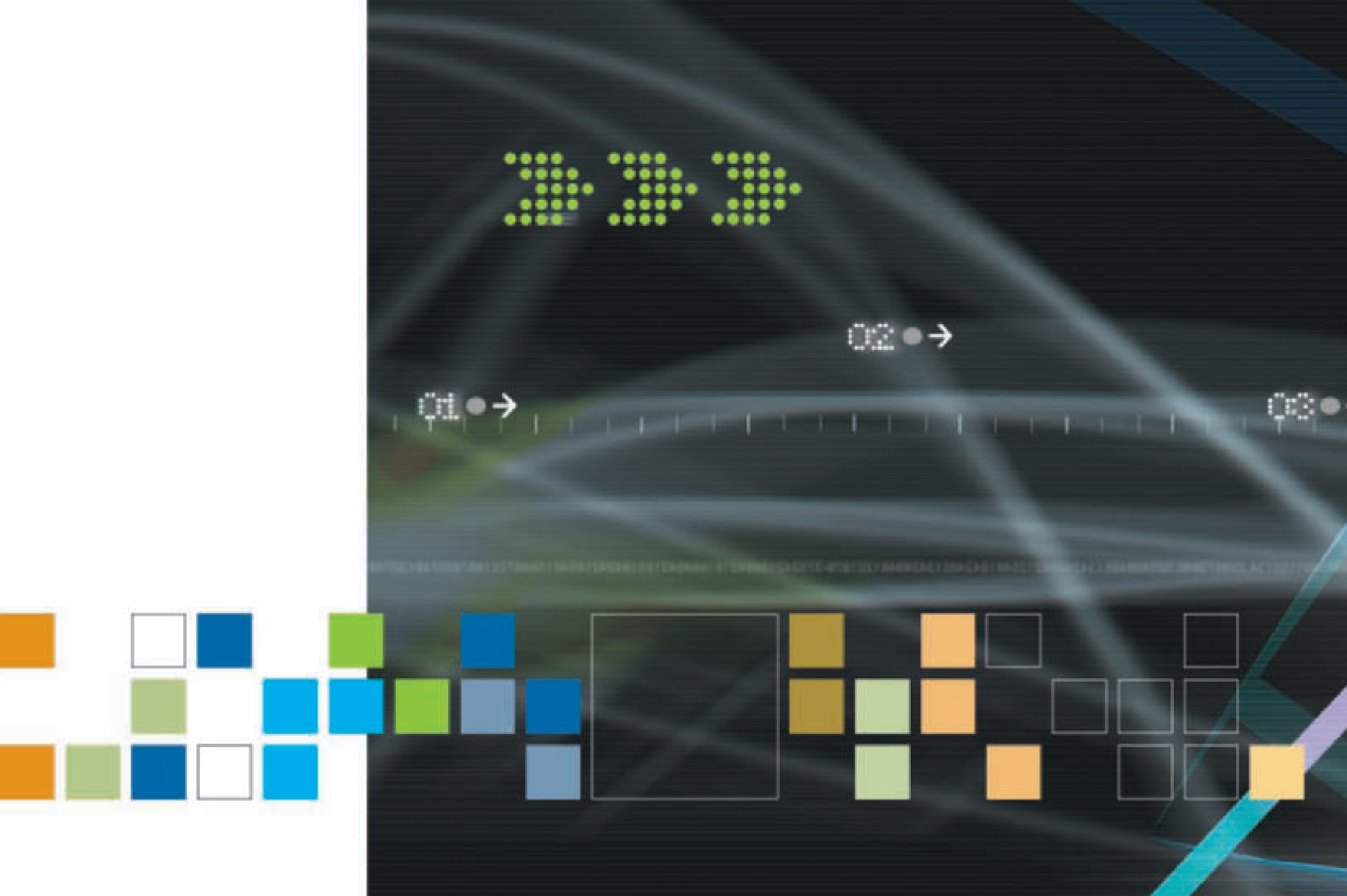
M. Michele Burns, *chairwoman and chief executive officer*

Michele Burns was named to her position at Mercer Human Resource Consulting in September 2006, after serving for a period as chief financial officer of MMC. Prior to joining MMC, Michele held a range of senior management positions in finance, but her roots are in consulting, where she began her career and had a successful 18-year experience.

Please describe Mercer HR.

Mercer Human Resource Consulting is the world's premier human resource consulting firm. As a $3 billion company, we operate in 41 countries with over 16,000 colleagues. As our clients become more global, we are exceptionally well positioned to meet their needs. Mercer HR is unique in that it has capabilities, products, and solutions for many market segments. In any given geography, we're organized to serve both global and local clients. We have 20,000 clients globally, with half of those in the United States. Our client base is broad, although we have a particularly large market share among major companies worldwide, serving nine out of 10 companies in the Fortune 100 and two out of three companies in both the Fortune 1000 and FTSE 100. Mercer HR represents about 70 percent of MMC's overall consulting segment.

Mercer HR began a transformation in 2005, moving from a geography-based model to a business-line model. Today, we go to market in four core competencies: retirement and investments, health and benefits, talent, and outsourcing.



Tell us more about your business model.

Our role is to provide advice and solutions, depending on our client needs. We are the market leader in retirement and investments. The major trends affecting this market—aging populations, pension reform, and the shift from defined benefit to defined contribution plans—are top-of-mind for companies and the public sector globally. Our capabilities allow us to provide clients with a unique mix of advice and services. For example, we help clients define their worldwide pension strategy as well as evaluate pension costs, risks, and funding requirements. In certain cases, we develop and implement investment strategies for the assets. In some countries we administer these plans on an outsourced basis.

The health and benefits market is being transformed by underlying trends affecting employers worldwide, such as rising healthcare costs, aging of the workforce, privatization of healthcare, and the shift of more responsibility to the individual beneficiary. Our clients look to us for both consulting and services aimed at designing and implementing employee and retiree health and welfare plans that address these issues. Our sales model is powered by Mercer's intellectual capital and consulting services, delivered in partnership with the Marsh distribution channel.

Talent is an excellent illustration of Mercer's ability to deliver both advice and solutions across an integrated continuum. We provide consulting services and related content and products that seek to optimize our clients' performance through their workforce. We have the broadest consulting expertise and product offering in the marketplace. For instance, in addition to value-added consulting in areas such as executive remuneration, workforce strategies, and HR effectiveness, we provide

in-depth analysis as well as web-based software solutions. These services are complementary across our businesses, giving us the opportunity to grow and extend our relationships.

In outsourcing, we follow a total benefits outsourcing model, meaning that we can provide solutions to clients for defined benefit, defined contribution, and health and benefit plans individually or on a bundled basis.

What were Mercer HR's financial results?

Our businesses performed well in 2006. Increased demand for services resulted in revenues growing 8 percent, or 7 percent on an underlying basis, to over $3 billion. The retirement and investments businesses represent 39 percent of revenues; health and benefits, 24 percent; outsourcing, 22 percent; and talent, 15 percent. Retirement and investments and talent performed particularly well. We are optimistic about growth and profitability in 2007.

How will Mercer HR continue to grow?

We offer a complete array of the capabilities that a client might need and that CEOs, CFOs, and HR executives care about as they try to ensure the competitiveness of their companies. We believe we are the premier provider in the areas we serve, and we expect to retain our standing as the preeminent firm for HR consulting and services. We operate in large and growing markets that provide us with the platform to achieve organic revenue growth, with improving profitability. In the near term, we are working to deploy services and capabilities more effectively.

In retirement and investments, we are standardizing processes in actuarial services, using technology-based solutions in retirement service centers located in lower-cost markets domestically and abroad. In addition, we are packaging solutions to help clients in the transition from defined benefit to defined contribution plans. Multiple clients can utilize these solutions with some customization.

In health and benefits, we expect our colleagues to look comprehensively at client needs and seek to bundle our full "advice-to-solutions" capabilities to benefit their clients. We also will continue to use our strong intellectual capital and core brokerage and service capabilities, as well as our strong partnership with Marsh, to grow in this large market. By focusing our teams relentlessly on these goals, we will greatly reduce the cost of client acquisition, and by leveraging the intellectual capital we create, we can drive down the cost of providing advice.

Parallel with our focus on execution, our strategic agenda for the future is to extend our leadership position by anticipating emerging client needs and then providing solutions. In retirement and investments, we plan to apply our market-shaping thought leadership to help redefine global retirement. In the United States, the 401(k) plan is changing from a savings plan to a retirement plan, with huge implications. The experience and insights of our consultants help define the issues for clients. We then work to develop solutions to meet clients' needs.

We see opportunities to leverage our leadership position, knowledge, and experience in health and benefits in the Americas to be the first mover in the rapidly changing European and Asian markets, where we see similar trends developing.

What is the outlook?

Mercer HR is a tremendous franchise. We have leading market positions, a strong brand, and superb client relationships. As a company, we are intent on capitalizing on these capabilities to extend our leadership position and redefine HR as a critical business imperative for our clients.

MERCER SPECIALTY CONSULTING

***John P. Drzik**, president and chief executive officer*

John Drzik was appointed to lead Mercer Specialty Consulting in June 2006. He continues to serve as president of Mercer Oliver Wyman, formed in 2003 after MMC's acquisition of Oliver, Wyman & Company. John joined the latter in 1984. He is a recognized leader in the risk management and financial services industry.

Please give us an overview of your group.

Mercer Specialty Consulting comprises five operating units, each of which is a leader in its field and provides advisory services to a global client base. Four businesses are in the management consulting space, and work principally with the CEOs and executive teams of the global Fortune 1000: Mercer Oliver Wyman focuses on strategy and risk management consulting to the financial services industry; Mercer Management Consulting advises corporations on strategy and operational performance issues; Mercer Delta Consulting works with executive teams on organization, change management, and leadership development; and Lippincott Mercer helps clients design and develop their corporate identity and brand strategy. Our fifth unit, NERA Economic Consulting, provides advice to corporations, law firms, and regulators, with a focus on the economics of competition and regulation. Experienced management teams lead each of our businesses.

MMC entered the specialty consulting space in 1983 through the acquisition of NERA. Subsequent growth has been through a combination of organic development and targeted acquisitions. Currently, Mercer Specialty Consulting represents about 30 percent of MMC's overall consulting segment revenues. Our business is well diversified by both industry and geography, with about 60 percent of our activities in North America and 40 percent in Europe and Asia.

Please describe your financial performance.

We have more than doubled our revenues in the last four years and generated revenues of $1.2 billion in 2006. This represents an increase of 19 percent over the prior year, or 16 percent on an underlying basis. Each of our five units had double-digit growth in 2006, and our business expanded in all major geographies.

What is your group's place in the market?

The global consulting market is estimated at $200 billion, and the segments our companies address are about one-quarter of that amount. We rank in the top tier of consulting firms serving these markets and have been the fastest growing firm among our major competitors. We are the only publicly held firm in the elite tier and benefit from having MMC's capital resources behind us.

We are deeply committed to specialization in our practices, believing it is critical to our future success. Clients increasingly demand tangible results from consultants, and we can have a more significant impact than our competition because we have deeper insights into the industries and functions we serve. Our advantage is that we have formed our consulting group by pooling enterprises that already had strong specializations, rather than trying to convert a firm with a generalist tradition into a specialist firm.

How do you attract top talent?

Growing competition for talent is one of our biggest challenges, and we must continuously revise and improve our value proposition for professionals. Our advantage is that we offer a faster career growth track for high achieving professionals than our competition. Our people are entrepreneurial, with the energy and knowledge to enter new markets successfully. We must also maintain our content edge by investing in the development of our intellectual capital. Our clients have increasingly sophisticated strategic planning, marketing, risk management, and financial capabilities, and we must bring them something that goes beyond what they can already do internally. The quality of our people and our commitment to their development make that possible.

What are the opportunities?

All of our businesses have the opportunity to expand organically into new geographic markets. Additionally, greater collaboration across our units, and with other MMC companies, will enable us to blend our expertise and develop new propositions for clients. We also plan to grow through targeted consulting acquisitions that expand our business into new market segments and capabilities. Finally, there is an opportunity to evolve our business model through acquisitions from a pure advice model to an advice-plus-solutions business.

What is the outlook?

We expect to grow revenues to $2 billion by 2010 and increase margins by implementing a more unified operating platform across our businesses. We have demonstrated that we can grow consistently and profitably and can successfully enter new markets, organically and through acquisitions. In short, the future for Mercer Specialty Consulting looks very bright. ■

MMC's Management Team

From left: **David Spiller**, chief executive officer, Guy Carpenter; **John P. Drzik**, chief executive officer, Mercer Specialty Consulting; **M. Michele Burns**, chief executive officer, Mercer Human Resource Consulting; **Simon Freakley**, chief executive officer, Kroll; **Brian M. Storms**, chief executive officer, Marsh.
Not pictured: **Charles E. Haldeman, Jr.**, chief executive officer, Putnam Investments.

Standing, from left: **Peter J. Beshar**, general counsel; **E. Scott Gilbert**, chief compliance officer; **Joyce M. Phillips**, head of Worldwide Human Resources; **David W. Fike**, chief technology officer; **James D. Speros**, chief marketing officer; **Michael A. Beber**, chief strategic development officer; **Michael A. Petrullo**, chief administrative officer.
Seated, from left: **David A. Nadler**, vice chairman, Office of the CEO; **Mathis Cabiallavetta**, vice chairman, Office of the CEO and chairman, MMC International; **Matthew B. Bartley**, chief financial officer.

MMC Worldwide

RISK AND INSURANCE SERVICES

Marsh is the world leader in delivering risk and insurance services and solutions to clients. It provides global risk management, risk consulting, insurance broking, alternative risk financing, and insurance program management services for businesses, public entities, associations, professional services organizations, and private clients. Marsh is organized by client, industry, and risk categories to facilitate the global delivery of highly specialized products and services covering a wide spectrum of risks.

Guy Carpenter is the world's leading risk and reinsurance specialist, creating and executing reinsurance and risk management solutions for clients worldwide. It provides risk assessment analytics, actuarial services, highly specialized product knowledge, and trading relationships with reinsurance markets throughout the world. Client services also include contract and claims management and fiduciary accounting. Run-off services and other reinsurance and insurance administration solutions are offered through Guy Carpenter subsidiaries on a fee basis.

RISK CONSULTING AND TECHNOLOGY

Kroll, the world's leading risk consulting company, provides a wide range of investigative, intelligence, financial, security, and technology services to help clients solve problems and capitalize on opportunities. Kroll serves a global clientele of law firms, financial institutions, corporations, nonprofits, government agencies, and individuals.

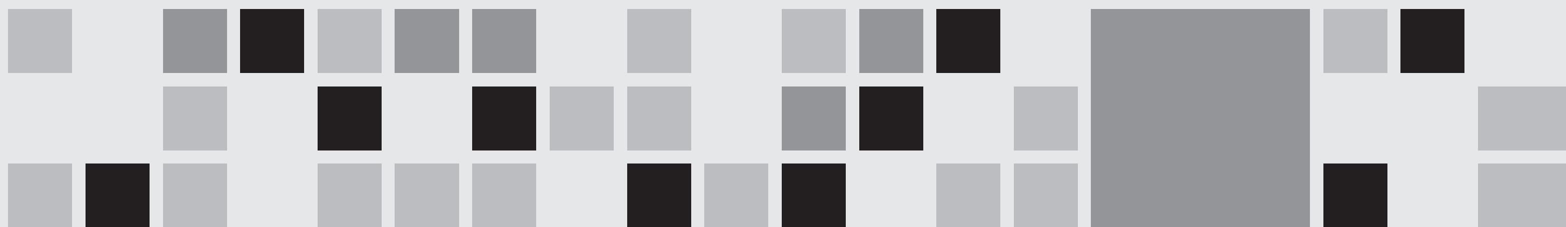
CONSULTING

Mercer Human Resource Consulting is a leading global provider of a broad range of human resource (HR) advice and solutions. Mercer Human Resource Consulting also provides related financial advice, products, and services in the retirement and health and benefits areas. Mercer works with clients to design, implement, and administer HR solutions that improve the effectiveness and efficiency of an organization's HR programs and policies. Its consulting units help clients address their employee health, welfare, and retirement needs and optimize workforce performance while managing HR program costs. **Mercer HR Services** provides outsourced HR administration, technology, and business process solutions. **Mercer Global Investments** is a global asset management business that provides multi-manager investment solutions.

Mercer Specialty Consulting delivers advisory services to clients through five operating units, each of which is a leader in its respective field. **Mercer Oliver Wyman** provides strategy and risk management advice to financial services firms. **Mercer Management Consulting** advises corporations on issues of strategy and operational excellence. **Mercer Delta Organizational Consulting** works with CEOs, executive teams, and boards of directors on organization and leadership. **Lippincott Mercer** helps clients create, develop, and manage their corporate branding, identity, and image. **NERA Economic Consulting** advises corporations, law firms, and government entities on the economics of competition, regulation, public policy, finance, and litigation.

INVESTMENT MANAGEMENT

Putnam Investments, one of the oldest and largest money management organizations in the United States, offers a full range of both equity and fixed income products, invested domestically and globally, for individual and institutional investors. Putnam, which manages over 100 mutual funds, has 204 institutional clients and over 9 million individual shareholder accounts. It had $192 billion in assets under management at year-end 2006.



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Financial Highlights

For the Years Ended December 31, *(In millions, except per share figures)*	**2006**	2005	2004
Revenue	**$11,921**	$11,578	$11,727
Income Before Income Taxes and Minority Interest	**$ 1,219**	$ 568	$ 399
Income From Continuing Operations	**$ 818**	$ 367	$ 152
Net Income	**$ 990**	$ 404	$ 176
Stockholders' Equity	**$ 5,819**	$ 5,360	$ 5,056
Diluted Income Per Share:			
Income From Continuing Operations	**$ 1.45**	$ 0.67	$ 0.29
Net Income	**$ 1.76**	$ 0.74	$ 0.33
Dividends Paid Per Share	**$ 0.68**	$ 0.68	$ 1.30
Year-end Stock Price	**$ 30.66**	$ 31.76	$ 32.90

General

Marsh & McLennan Companies, Inc. and Subsidiaries ("MMC") is a global professional services firm. MMC's subsidiaries include Marsh Inc. ("Marsh"), which provides risk and insurance services; Guy Carpenter & Company, LLC ("Guy Carpenter"), which provides reinsurance services; Kroll Inc. ("Kroll"), which provides risk consulting and technology services; Mercer Inc. ("Mercer"), which provides human resource and specialty consulting services; and Putnam Investments ("Putnam"), which provides investment management services. MMC's approximately 55,000 employees worldwide provide analysis, advice and transactional capabilities to clients in over 100 countries.

MMC operates in four principal business segments based on the services provided. Risk and Insurance Services includes risk management and insurance and reinsurance broking and services, provided primarily by Marsh and Guy Carpenter. Risk Consulting & Technology, conducted through Kroll, includes risk consulting and related investigative, intelligence, financial, security and technology services. Consulting, which comprises the activities of Mercer Human Resource Consulting and Mercer's Specialty Consulting Businesses, includes human resource consulting and related services, and specialized management and economic consulting services. We conduct Investment Management through Putnam. Please see Note 18 to the consolidated financial statements, which discusses MMC's agreement to sell Putnam to Great-West Lifeco Inc.

We describe the primary sources of revenue and categories of expense for each segment below, in our discussion of segment financial results. Management evaluates performance based on segment operating income, which reflects expenses directly related to segment operations, but not MMC corporate-level expenses. A reconciliation of segment operating income to total operating income is included in Note 17 to the consolidated financial statements included elsewhere in this report. The accounting policies used for each segment are the same as those used for the consolidated financial statements.

This MD&A contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. See "Information Concerning Forward-Looking Statements" on page 101 of this report.

Significant Developments in 2006

MMC's historical financial information should be viewed in light of the significant developments discussed below.

As described more fully below, results of operations in 2006 reflect, among other items:

- stock option expense under SFAS 123(R) ("Share-Based Payment"), which MMC adopted effective July 1, 2005. MMC's 2006 results include stock option expense in each segment for the full year. The 2005 results reflect a charge for six months (from the date of adoption on July 1, 2005) recorded in corporate expenses;
- restructuring savings and charges under MMC's 2005 and 2006 restructuring plans;
- the sale of Sedgwick Claims Management Services in the first quarter of 2006, the gain from which appears in discontinued operations;
- the sale of Price Forbes, MMC's U.K.-based wholesale brokerage business in the third quarter of 2006, the loss from which, net of current year earnings, is included in discontinued operations;
- the sale of Kroll Security International ("KSI"), Kroll's international high-risk asset and personal protection division in the fourth quarter of 2006, the gain from which, net of current year operating loss, is included in discontinued operations; and
- the continuing decline in market service revenues in the risk and insurance services segment.

Consolidated Results of Operations

For the Years Ended December 31, *(In millions, except per share figures)*	**2006**	2005	2004
Revenue:			
Service revenue	**$11,699**	$11,395	$11,527
Investment income (loss)	**222**	183	200
Operating revenue	**11,921**	11,578	11,727
Expense:			
Compensation and benefits	**7,113**	6,897	6,685
Other operating expenses	**3,350**	3,788	3,476
Settlement and other costs	**—**	40	969
Operating expenses	**10,463**	10,725	11,130
Operating income	**$ 1,458**	$ 853	$ 597
Income from Continuing Operations	**$ 818**	$ 367	$ 152
Discontinued Operations, net of tax	**172**	37	24
Net income	**$ 990**	$ 404	$ 176
Income from Continuing Operations Per Share:			
Basic	**$ 1.49**	$ 0.68	$ 0.29
Diluted	**$ 1.45**	$ 0.67	$ 0.29
Net Income Per Share:			
Basic	**$ 1.80**	$ 0.75	$ 0.33
Diluted	**$ 1.76**	$ 0.74	$ 0.33
Average number of shares outstanding:			
Basic	**549**	538	526
Diluted	**557**	543	535

Consolidated operating income in 2006 increased 71% to $1.5 billion, resulting from a 3% increase in operating revenue and a 2% decrease in operating expenses. Revenue increases in consulting and risk consulting & technology were partly offset by decreases in risk and insurance services and investment management. The decrease in operating expenses reflects cost savings from restructuring activities, reduced net restructuring and related charges as well as lower costs related to several significant expense items, discussed in more detail below under "Consolidated Revenue and Expense". These expense savings were partly offset by incremental costs, primarily related to stock options under SFAS 123(R).

Results from discontinued operations in 2006 were $172 million net of tax, primarily resulting from the gain on the sale of Sedgwick Claims Management Services in January 2006. In the third quarter of 2006, MMC completed the sale of Price Forbes, its U.K.-based wholesale insurance broker. The loss on the disposal of Price Forbes and net income associated with its 2006 results are included in discontinued operations. The results of Price Forbes were insignificant to MMC's 2005 results and, therefore, prior year amounts have not been restated. In the fourth quarter of 2006, Kroll completed the sale of Kroll Security International ("KSI"), its international high-risk asset and personal protection division. The gain on the disposal of KSI, and the financial results associated with 2006 and prior periods, are included in discontinued operations.

Consolidated Revenues and Expenses

Consolidated revenue for the year ended December 31, 2006 was $11.9 billion, a 3% increase over the prior year. Higher revenue in the consulting and risk consulting & technology segments was partly offset by lower revenue in the risk and insurance services and investment management segments. Consolidated revenue increased 3% on an underlying basis, which includes the impact of a $71 million reduction in market services revenue.

MMC does business in over 100 countries, as a result of which the impact of foreign exchange rate movements may impact period-to-period comparisons of revenue. Similarly, the revenue impact of acquisitions and dispositions may affect period-over-period comparisons of revenue. Underlying revenue measures the change in revenue from one period to another by identifying these impacts. The impact of foreign currency translations, acquisitions and dispositions on MMC's operating revenues by segment is as follows:

	Twelve Months Ended December 31,			**Components of Revenue Change**		
(In millions, except percentage figures)	**2006**	2005	**% Change GAAP Revenue**	**Currency Impact**	**Acquisitions/ Dispositions Impact**	**Underlying Revenue**
Risk and Insurance Services						
Insurance Services	**$ 4,390**	$ 4,567	(4)%	—	(2)%	(2)%
Reinsurance Services	**880**	836	5%	—	—	5%
Risk Capital Holdings (a)	**193**	189	2%	—	(5)%	7%
Total Risk and Insurance Services	**5,463**	5,592	(2)%	—	(2)%	—
Risk Consulting & Technology (b)	**979**	872	12%	—	3%	9%
Consulting						
Human Resource Consulting	**3,021**	2,794	8%	1%	—	7%
Specialty Consulting	**1,204**	1,008	19%	1%	2%	16%
Total Consulting	**4,225**	3,802	11%	1%	1%	9%
Investment Management	**1,385**	1,506	(8)%	—	—	(8)%
Total Operating Segments	**$12,052**	$11,772	2%	—	—	2%
Corporate/Eliminations	**(131)**	(194)				
Total Revenue	**$11,921**	$11,578	3%	—	—	3%

(In millions, except percentage figures)	Twelve Months Ended December 31, 2005	2004	%Change GAAP Revenue	Components of Revenue Change: Currency Impact	Acquisitions/ Dispositions Impact	Underlying Revenue
Risk and Insurance Services						
Insurance Services	$ 4,567	$ 5,166	(12)%	1%	—	(13)%
Reinsurance Services	836	859	(3)%	1%	—	(4)%
Risk Capital Holdings (a)	189	180	5%	—	(8)%	13%
Total Risk and Insurance Services	5,592	6,205	(10)%	1%	—	(11)%
Risk Consulting & Technology (b)	872	371	135%	(1)%	114%	22%
Consulting						
Human Resource Consulting	2,794	2,786	—	1%	—	(1)%
Specialty Consulting	1,008	851	19%	—	1%	18%
Total Consulting	3,802	3,637	4%	1%	—	3%
Investment Management	1,506	1,710	(12)%	—	—	(12)%
Total Operating Segments	$11,772	$11,923	(1)%	1%	4%	(6)%
Corporate/Eliminations	(194)	(196)				
Total Revenue	$11,578	$11,727	(1)%	1%	4%	(6)%

(a) Risk Capital Holdings owns MMC's investments in private equity funds, insurance and financial services firms.

(b) Certain reclassifications have been made to prior year amounts to conform with current presentation. The data presented excludes the KSI division, which is included in discontinued operations.

Revenue

In 2006, risk and insurance services revenue decreased 2% compared with 2005 and was flat on an underlying basis. A 5% increase in underlying revenue in reinsurance services was offset by a 2% decrease in insurance services, partly resulting from a $71 million decline in market service revenue. Risk consulting & technology revenue increased 12% due to growth in Kroll's corporate advisory and restructuring, technology services and security businesses. Consulting revenue increased 11%, resulting from a 19% increase in Mercer's specialty consulting businesses and an 8% increase in Mercer HR consulting. Investment management revenue declined 8%, primarily due to a decrease in assets under management, partly offset by higher investment gains.

During 2005, revenue in the risk and insurance services segment decreased 10% from 2004. Underlying revenue declined 11%, resulting from a $407 million decline in market services revenue, lower levels of new business and renewals and the impact of lower insurance premium rates. These declines were partly offset by the impact of foreign currency exchange rates. Risk consulting & technology revenue increased $501 million. Due to the acquisition of Kroll in July 2004, results in 2005 include a full year of revenue for Kroll, compared with six months of revenue in 2004. Underlying growth in risk consulting & technology was 22%, due to growth in technology services, corporate advisory and restructuring, and background screening. Consulting revenue increased 4%, resulting from a 19% increase in Mercer's specialty consulting businesses. Investment management revenue declined 12% as a result of the decrease in assets under management and lower investment income.

Operating Expenses

Consolidated operating expenses in 2006 decreased 2% from 2005. The decrease in operating expenses reflects cost savings from restructuring activities; a decrease in net restructuring and related charges; lower settlement, legal and regulatory costs related to proceedings involving MMC and certain of its subsidiaries; and lower costs related to employee retention awards, partly offset by higher compensation costs, primarily in the consulting segment due to increased headcount and higher incentive compensation. Expenses in 2006 also reflect lower amortization of prepaid dealer commissions and lower costs related to professional liability claims. Expenses in 2005 include a charge of $37 million for Putnam's estimate of costs to address issues relating to the calculation of certain amounts previously paid to Putnam by the Putnam mutual funds in the form of cost reimbursements to Putnam for transfer agency services relating to defined contribution operations. These decreases in 2006 were partly offset by higher expenses related to stock options. Due to the adoption of SFAS 123(R) on July 1, 2005, the prior year includes expenses related to stock options for only six months while 2006 includes stock option expense for the full year. In 2006, the costs related to stock options are included in segment results. In 2005, the costs related to stock options are included in Corporate.

Consolidated operating expenses in 2005 decreased 4% from 2004. This was primarily due to savings from restructuring initiatives and lower regulatory and other settlement expenses, partly offset by employee retention costs, the impact of acquisitions, higher benefits costs, and incremental costs, primarily related to stock options, resulting from the implementation of SFAS 123 (R). In addition, Putnam's expenses in 2005 include a charge of $37 million for the estimated cost necessary to address issues relating to the calculation of certain amounts previously paid to Putnam by the Putnam mutual funds in the form of cost reimbursements to Putnam for transfer agency services relating to defined contribution operations. Expenses in 2004 include an $850 million charge related to the NYAG/NYSID settlement, costs of $224 million related to Putnam's settlement and agreements with the SEC and Office of the Secretary of the Commonwealth of Massachusetts and restructuring costs of $337 million, partly offset by a $105 million credit from the final insurance settlement related to World Trade Center losses.

Restructuring and Related Activities

MMC initiated restructuring activities in the first quarter of 2005 (the "2005 Plan") and the third quarter of 2006 (the "2006 Plan"). In 2006 we incurred net restructuring costs of $87 million and related charges of $38 million from actions taken under these restructuring plans. The costs and annualized savings relating to the plans are discussed below.

2005 Plan

MMC's actions under the 2005 Plan are complete. MMC is currently realizing annualized savings of approximately $400 million attributable to the 2005 Plan relating primarily to the risk and insurance services segment. In early 2006, MMC began implementing its plan to eliminate excess space in its corporate headquarters building in mid-town New York ("headquarters building"). Costs related to its headquarters building incurred through June 30, 2006 (approximately $40 million) and savings generated from those actions (approximately $10 million) were recognized as part of the 2005 Plan.

2006 Plan

In September 2006, MMC announced cost savings initiatives related to firm-wide infrastructure, organization structure and operating company business processes which are expected to result in annualized savings of approximately $350 million when fully implemented by the end of 2008, and result in restructuring charges and related costs of approximately $225 million. The cost savings

initiatives are expected to be implemented in several phases – Phase 1 began in September 2006, with several additional phases to follow. The discussion below identifies the areas impacted and savings expected from various phases of the 2006 Plan.

Phase 1 of the 2006 Plan is expected to result in cost savings of $160 million. The expected savings from this phase comprise $70 million from operating company process improvements and $90 million from corporate infrastructure and process improvements in IT, real estate and corporate functions. Staff reductions of more than 750 are expected. During 2006, MMC recorded a net charge of $10 million in connection with actions taken under Phase 1 that includes a $74 million gain on the sale of five floors in MMC's headquarters building, more than offset by costs primarily related to severance and exit costs for facilities. Through December 2006, the actions under Phase 1 are expected to result in annualized savings of approximately $110 million beginning in the first quarter of 2007. These actions under Phase 1 are expected to be completed by the second quarter of 2007, except for certain actions related to MMC's headquarters building, discussed below.

As part of its ongoing review of operations, Marsh has identified additional actions that are expected to result in the reduction of 170 positions ("Phase 2"). These actions are expected to increase the expected annualized savings from the 2006 Plan by approximately $40 million and result in additional charges of approximately $40 million related to severance and exit costs for facilities. In the fourth quarter of 2006, MMC incurred costs of $14 million related to this second phase of the 2006 Plan.

MMC currently expects additional annualized savings of $190 million under one or more future phases of the 2006 Plan, resulting from infrastructure improvements in information technology, procurement, human resources, finance and real estate, as well as organizational structure and business process improvements. Detailed plans relating to these future phases are not yet complete, and may impact the amount of expected savings, expected costs or both that will result from these planned actions. Savings from these additional phases are expected to be realized as the actions are implemented through the end of 2008.

As noted above, MMC has been reducing its occupancy at its headquarters building in New York. Phase 1 of the 2006 Plan includes net costs of $8 million and expected annualized savings of approximately $25 million related to these actions. The expected net costs of $8 million comprise both gains on the sale of owned floors and losses on sub-leases of leased floors, which will be recognized at the earlier of when the floors are vacated or when sub-lease agreements are executed. During the fourth quarter of 2006, MMC sold its condominium interest in five floors of its headquarters building, realizing a gain of $74 million. The disposal of these floors is an integral part of MMC's overall restructuring plan and the gain from this disposal has been included as a reduction of other operating expenses, consistent with the classification of other costs for actions taken related to this and other facilities MMC has vacated. The sale of the five floors will reduce MMC's annual facilities costs by approximately $5 million, which is included in the $110 million of savings from Phase 1 of the 2006 Plan, as discussed above.

MMC expects to vacate an additional seven floors, five of which it leases and expects to sub-lease and two of which it owns and expects to lease to a third party. Additional costs of $60 million are expected from these remaining actions, which are expected to generate annualized savings of $20 million when completed over the next 12-18 months.

Businesses Exited in 2006 and 2005

In December 2006, Kroll completed the sale of KSI, its international security operation that provided high-risk asset and personal protection services. The financial results of KSI are included in discontinued operations.

In the first quarter of 2006, MMC determined that Price Forbes, its U.K.-based insurance wholesale operation, met the criteria for classification as a discontinued operation. The 2006 results of Price Forbes, which includes a charge to reduce the carrying amount of its assets to fair value less cost to

sell, are included in discontinued operations in the consolidated statement of income. The prior year's amounts have not been restated because the results of Price Forbes were insignificant to MMC's 2005 results. MMC completed the sale of Price Forbes in September 2006.

In October 2005, Marsh completed the sale of Crump Group, Inc., its U.S.-based wholesale insurance broker. The gain on the sale was recognized in the fourth quarter of 2005. In December 2005 MMC agreed to sell its majority interest in Sedgwick CMS Holdings ("SCMS"). The sale of SCMS was completed on January 31, 2006, and the associated gain on the sale was recognized in the first quarter of 2006. Crump and SCMS are classified as discontinued operations in the accompanying financial statements.

In May 2005, MMC sold the assets of MMC Capital, which had been MMC's private equity management subsidiary, to Stone Point Capital LLC ("Stone Point"), an entity controlled by the former managers of MMC Capital for approximately $3 million. At the time of the asset sale, Stone Point assumed responsibility for management of the Trident Funds and other private equity funds previously managed by MMC Capital. MMC does not participate in the investment decisions or management of Stone Point or the private equity funds managed by Stone Point. MMC, through its subsidiary Risk Capital Holdings, continues to own investments in firms such as Ace Ltd., XL Capital Ltd. and Axis Capital Holdings, Ltd., as well as its investments in the Trident II and other funds managed by Stone Point.

Subsequent Event

On January 31, 2007, MMC entered into a stock purchase agreement with Great-West Lifeco Inc. ("GWL"), a majority-owned subsidiary of Power Financial Corporation, pursuant to which GWL will purchase Putnam Investments Trust. The sale includes Putnam's interest in the T.H. Lee private equity business. The after-tax cash proceeds to MMC are expected to be approximately $2.5 billion, subject to possible adjustment based on (i) changes in Putnam's adjusted stockholders' equity between September 30, 2006 and closing and (ii) any decline below an agreed threshold in Putnam's adjusted asset management revenue between December 31, 2006 and closing. For further information and a copy of the stock purchase agreement, please see our Form 8-K filed on February 1, 2007. MMC expects the sale of Putnam to close in mid-2007. Putnam is classified as part of continuing operations in this annual report because the decision to sell Putnam was not made until after December 31, 2006 and Putnam did not meet the criteria to be classified as a discontinued operation in 2006. We expect to classify Putnam as a discontinued operation in the first quarter of 2007.

Risk and Insurance Services

In the Risk and Insurance Services segment, MMC's subsidiaries and other affiliated entities act as brokers, agents or consultants for insureds, insurance underwriters and other brokers in the areas of risk management, insurance broking and insurance program management services, primarily under the name of Marsh; and engage in reinsurance broking, catastrophe and financial modeling services and related advisory functions, primarily under the name of Guy Carpenter.

Marsh and Guy Carpenter are compensated for brokerage and consulting services primarily through fees paid by clients and/or commissions paid out of premiums charged by insurance and reinsurance companies. Commission rates vary in amount depending upon the type of insurance or reinsurance coverage provided, the particular insurer or reinsurer, the capacity in which the broker acts and negotiations with clients. Revenues are affected by premium rate levels in the insurance/reinsurance markets, since compensation is frequently related to the premiums paid by insureds/reinsureds. In many cases, compensation may be negotiated in advance on the basis of the estimated value of the services to be performed. Revenue is also affected by fluctuations in the amount of risk retained by insurance and reinsurance clients themselves and by increases or decreases in the value of the risks that have been insured, new and lost business, and the volume of business from new and existing clients.

Effective October 1, 2004, Marsh eliminated contingent compensation, or market services agreements with insurers, under which it had received revenues based upon such factors as the overall volume, growth and, in some cases, profitability, of the total business placed by Marsh with a given insurer.

For billing and other administrative services, Marsh and Guy Carpenter receive interest income on certain funds (such as premiums and claims proceeds) held in a fiduciary capacity for others. The investment of fiduciary funds is regulated by state and other insurance authorities. These regulations typically provide for segregation of fiduciary funds and limit the types of investments that may be made with them. Interest income from these investments varies depending on the amount of funds invested and applicable interest rates, both of which vary from time to time.

Following the sale of MMC Capital's business in May 2005, we no longer receive fees in connection with the private equity investments previously managed by MMC Capital, nor do we receive management fees or origination fees related to this business, except that MMC retained the right to receive certain performance fees relating to the Trident II private equity partnership. We continue to receive dividends and to recognize capital appreciation or depreciation on the investments held by Risk Capital Holdings, as well as revenue on Risk Capital Holdings' sales of investments from time to time.

The results of operations for the risk and insurance services segment are presented below:

(In millions of dollars)	**2006**	2005	2004
Revenue:			
Service Revenue	**$5,267**	$5,412	$6,056
Investment Income	**196**	180	149
Operating Revenue	**5,463**	5,592	6,205
Expense	**4,786**	5,287	6,121
Operating Income	**$ 677**	$ 305	$ 84
Operating Margin	**12.4%**	5.5%	1.4%

Revenue

Revenue in risk and insurance services decreased 2% in 2006 compared with 2005 and was flat on an underlying basis. Higher revenue in reinsurance services and Risk Capital Holdings was offset by a decrease in insurance services.

Underlying revenue at Marsh in 2006 was down 2% as compared to 2005. In 2006, Marsh's new business grew 10 percent globally with solid growth in all major geographies. However, new business growth was more than offset by decreased market service revenues, which declined to $43 million in 2006 from $114 million in the prior year, and the impact of a softer pricing environment in the property and casualty insurance markets.

Effective January 1, 2007, Marsh will manage certain businesses (formerly part of Risk Consulting & Technology) which had revenue of approximately $25 million in 2006.

Reinsurance services revenue increased 5%, primarily due to new business growth. Although U.S. property catastrophe reinsurance premium rates were higher, reinsurance premium rates for most other lines were stable to down and the market environment for property catastrophe reinsurance continued to be impacted by limited reinsurer capacity and higher risk retention by clients.

Risk Capital Holdings revenue in 2006 was 2% higher compared with 2005. Higher mark-to-market gains, primarily from MMC's investments in the Trident private equity funds were partly offset by lower realized gains from sales of directly held investments and the elimination of investment management fees following the sale of MMC Capital's business in May 2005. Revenue in 2006 increased 7% on an underlying basis due to higher investment gains. We expect revenues related to Risk Capital Holdings to decline in 2007.

In December 2006, MMC, through its subsidiary Risk Capital Holdings, contributed its limited partnership interest in Trident III, valued at $182 million, to the U.K. Pension Fund. The transaction was recorded at the estimated fair value of MMC's investment on the date of the contribution. Risk Capital Holdings' revenue in 2006 included $38 million of mark-to-market gains for Trident III recognized through the date of the contribution.

At December 31, 2006, the balance of accounts receivable related to accrued market services revenue earned prior to October 1, 2004 was approximately $43 million, compared with $132 million at December 31, 2005. MMC intends to collect the remaining MSA revenue earned prior to October 1, 2004, and is seeking to enforce its rights under the contracts to collect amounts due. However, there is no assurance that MMC will be successful in collecting all amounts due. To the extent such accrued amounts are not collected, a charge to earnings would result. In 2007, MMC collected an additional $23 million of accrued market service revenue.

Revenue in the risk and insurance services segment decreased 10% in 2005 compared with 2004, reflecting decreases in both insurance services and reinsurance services revenue. In insurance services, underlying revenue decreased 13%. Excluding the impact of decreased market services revenue, underlying revenue decreased 6%, reflecting lower new business volume and lower commercial premium rates. The decrease in underlying revenue was most significant in the United States; however, the percentage decline improved in the fourth quarter compared with earlier quarters in 2005 despite continued premium rate declines in the commercial insurance marketplace. Market services revenue declined from $521 million in 2004 to $114 million in 2005.

Expense

In 2006, expenses in the risk and insurance services segment decreased 9% compared to the prior year. The decrease reflects cost savings from restructuring; a decrease in restructuring charges from $257 million in 2005 to $100 million in 2006; a decrease of $45 million in settlement, legal and regulatory costs related to market services agreements and associated shareholder and policyholder litigation; and a decrease of $78 million related to employee retention awards. In addition, 2006 expenses reflect lower incentive compensation costs and lower costs related to professional liability claims. Partly offsetting these decreases were costs of $47 million in 2006 related to employee stock options. The operating margin for 2006 improved to 12.4% from 5.5% in 2005.

Expenses in the risk and insurance services segment decreased 14% in 2005, compared with the prior year. Expenses in 2004 included a $850 million charge related to the settlement with the NYAG and NYSID.

Risk Consulting & Technology

MMC's Risk Consulting & Technology segment primarily consists of Kroll and its subsidiaries, acquired by MMC in July 2004. Kroll services fall into two major product lines: consulting services which includes risk consulting, corporate advisory & restructuring and security; and technology enabled solutions.

Kroll receives compensation primarily in the form of fees paid by clients. These fees are typically earned on an hourly, project, fixed fee or per-unit basis. Kroll's revenue is subject to changes in international economic and regulatory conditions. Some of Kroll's revenue sources are counter-cyclical to the performance of the economy in general. These sources may include, for example, fees from restructuring, turnaround and forensic engagements relating to commercial bankruptcies and bond defaults. Kroll is also subject to normal competitive forces such as pricing pressures, demand for professional staff and new product development on the part of competitors, particularly in technology services.

The results of operations for the risk consulting & technology segment are presented below:

(In millions of dollars)	**2006**	2005	2004
Revenue	**$979**	$872	$371
Expense	**830**	751	326
Operating Income	**$149**	$121	$ 45
Operating Margin	**15.2%**	13.9%	12.1%

Revenue

Risk consulting & technology revenues increased 12% in 2006 compared with 2005, 9% on an underlying basis. The technology services group, Kroll's largest business unit, increased revenues by 12%. This unit's Kroll OnTrack electronic discovery business responded successfully to market conditions and continued its improvement from the first quarter of 2006. The consulting services group reported double-digit growth, primarily due to strong operations performance by corporate advisory and restructuring partially due to success fees on several large engagements. Background screening was driven by strong growth in the identity theft business.

In the fourth quarter of 2006, Kroll completed the sale of KSI, its international security operation that provides high-risk asset and personal protection services. The financial results of KSI are included in discontinued operations. Effective January 1, 2007, Kroll will transfer to Marsh certain businesses which had revenue of $25 million in 2006.

The year-to-year comparisons of the segment's revenue between 2005 and 2004 are significantly impacted by the fact that we acquired Kroll in July 2004. As a result, 2004 results include only six months of Kroll's operations. Underlying revenue growth in 2005 was 22% due to growth in the technology services, corporate advisory and restructuring and background screening practices.

Expense

Risk consulting & technology expenses increased 11% in 2006 compared with 2005. Approximately half of the increase results from acquisitions and the impact of foreign currency fluctuation. The remaining increase reflects higher compensation in the corporate advisory and restructuring and the background screening businesses, as well as increased costs for outside services in the background screening business due to a higher volume of business. Expenses in 2006 include amortization of identified intangibles of $57 million. In addition, expenses in 2006 include a credit related to the early termination of a licensing agreement.

The year-to-year comparisons of the segment's expenses between 2005 and 2004 are significantly impacted by the fact that we acquired Kroll in July 2004. As a result, 2004 results include only six months of Kroll's operations. Expenses include amortization of identified intangible assets of $58 million and $24 million in 2005 and 2004, respectively.

Consulting

MMC conducts business in its Consulting segment through Mercer Inc. and its subsidiaries and affiliates. Mercer operates through two main business groups. Mercer Human Resource Consulting ("Mercer HR") includes practice groups specializing in retirement and investments, outsourcing, health and benefits and talent. The Mercer Specialty Consulting Businesses focus on management consulting, organizational design and change management, and economic consulting.

The major component of Mercer's revenue, in both Mercer HR and the Mercer Specialty Consulting Companies, is fees paid by clients for advice and services. Mercer HR, principally through its health & benefits line of business, also earns significant revenue in the form of commissions received from insurance companies for the placement of group (and occasionally individual) insurance contracts,

primarily life, health and accident coverages. Revenue for Mercer global investment's discretionary investment management business and certain of Mercer HR's outsourcing business defined contribution administration services consists principally of fees based on assets under administration.

Revenue in the consulting business is affected by, among other things, global economic conditions, including changes in clients' particular industries and markets. Revenue is also subject to competition due to the introduction of new products and services, broad trends in employee demographics, the effect of government policies and regulations, and fluctuations in interest and foreign exchange rates. Revenues from the provision of discretionary investment management services and retirement trust and administrative services are significantly affected by securities market performance.

The results of operations for the consulting segment are presented below:

(In millions of dollars)	**2006**	2005	2004
Revenue:			
Service Revenue	**$4,224**	$3,802	$3,637
Investment Income	**1**	—	—
Operating Revenue	**4,225**	3,802	3,637
Expense	**3,759**	3,351	3,228
Operating Income	**$ 466**	$ 451	$ 409
Operating Margin	**11.0%**	11.9%	11.2%

Revenue

Consulting revenue in 2006 increased 11% compared with 2005. Revenue in Mercer HR increased 8%, or 7% on an underlying basis driven by strong growth in retirement and investments, and talent. Mercer Specialty Consulting revenues grew 19%, 16% on an underlying basis. Each of the Mercer Specialty companies contributed to this performance, led by Mercer Oliver Wyman which increased underlying revenues 22%.

Consulting revenue in 2005 increased 4% compared with 2004. On an underlying basis, revenue increased 3%, due to a 18% increase in Mercer Specialty Consulting, while Mercer HR decreased 1% versus prior year. The increase in underlying revenue in Mercer Specialty reflected increases of 24% in management consulting, reflecting a 25% increase in Mercer Oliver Wyman, and 6% in economic consulting. Within Mercer HR, underlying revenue decreased 1%, reflecting a decline in the revenue associated with defined contribution plan assets previously administered by Putnam and transferred to Mercer effective January 1, 2005, increased pricing competition on traditional actuarial valuation services, and a decline in the employee benefits business transferred from Marsh to Mercer. These declines were partly offset by strong growth in talent.

Expense

Consulting expenses increased 12% in 2006 compared with 2005. The expense increase reflects restructuring charges of $27 million, the impact of acquisitions and higher compensation costs due in part to increased staff levels. In addition, expenses in 2006 include costs of $41 million related to employee stock options.

Consulting expenses increased 4% in 2005 compared with 2004. On an underlying basis, expenses increased 3%, as savings from restructuring activity and lower costs for restructuring were offset by employee retention costs, increased benefits costs and higher expenses in Specialty Consulting due to a higher volume of business.

Investment Management

MMC conducts business in its Investment Management segment through Putnam. Putnam provides investment management and related services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds which are offered to individual and institutional investors. In support of the primary investment management business, Putnam subsidiaries provide other related services including transfer agency, underwriting, distribution, shareholder services, custodial, trustee and other fiduciary services. Putnam Fiduciary Trust Company ("PFTC") serves as transfer agent, dividend disbursing agent, registrar and custodian for the Putnam Funds and provides custody services to several external clients.

On January 31, 2007, MMC entered into a stock purchase agreement with Great-West Lifeco Inc. ("GWL"), a majority-owned subsidiary of Power Financial Corporation, pursuant to which GWL will purchase Putnam Investments Trust. MMC expects the sale of Putnam to close in mid-2007. Putnam is classified as part of continuing operations in this annual report because the decision to sell Putnam was not made until after December 31, 2006 and Putnam did not meet the criteria to be classified as a discontinued operation in 2006. We expect to classify Putnam as a discontinued operation in the first quarter of 2007.

Putnam's revenue is derived primarily from investment management and 12b-1 fees (described more fully below) received from the Putnam Funds and investment management fees for institutional accounts. Putnam also receives fees from the Putnam Funds for administrative services performed by PFTC.

Putnam companies receive fees for the investment management services provided to the Putnam Funds and institutional accounts pursuant to investment advisory contracts under which the mutual fund or institutional investor pays fees to the Putnam company that manages the fund or account. The amount of the fees varies depending on the individual mutual fund or institutional account. Fees are usually based on a sliding scale in relation to assets under management, and, in some cases are also based on investment performance. These advisory contracts generally may be terminated by either party without penalty, and contracts with the Putnam Funds must be approved annually by the fund's shareholders or trustees, including a majority who are not affiliated with Putnam. Putnam management and the fund trustees regularly review the Putnam Fund contract fee structures in light of fund performance, the level and range of services provided, and current industry conditions.

Investment management revenues depend largely on the total value and composition of Putnam's assets under management. Assets under management are particularly affected by fluctuations in domestic and international stock and bond market prices, and the net level of investments and withdrawals by current and new mutual fund shareholders and institutional clients. Items affecting revenue also include, but are not limited to, actual and relative investment performance, service to clients, the development and marketing of new investment products, the relative attractiveness of Putnam's investment styles under prevailing market conditions, changes in the investment patterns of fund shareholders and institutional clients and Putnam's ability to maintain investment management and administrative fees at current levels.

All open-end Putnam funds other than money market funds have adopted distribution plans pursuant to Rule 12b-1 under the Investment Company Act of 1940, commonly referred to as 12b-1 plans. Pursuant to these 12b-1 plans, the Putnam Funds make payments to Putnam Retail Management ("PRM") to cover costs relating to distribution of the Putnam Funds and services provided to shareholders, at rates that differ by class of fund shares. These payments, known as Rule 12b-1 fees, enable PRM to pay service fees and other continuing compensation to firms that distribute shares of the Putnam Funds and provide services to fund shareholders. PRM retains some Rule 12b-1 fees as compensation for the costs of distribution and other services provided by Putnam and its affiliates to shareholders and for commissions advanced by Putnam at the point of sale (and recovered through fees received over time)

to firms that distribute shares of the Putnam Funds. These 12b-1 plans, and Rule 12b-1 fees paid by the Putnam Funds thereunder, are subject to annual renewal by the fund trustees and to termination by vote of the fund shareholders or by vote of a majority of the trustees who are not affiliated with Putnam.

PFTC receives compensation from the Putnam Funds for its administrative (transfer agency and shareholder services) and custodial services pursuant to, respectively, investor servicing agreements which may be terminated by either party on 90 days' notice, and pursuant to written custody agreements which may be terminated by either party on 30 days' notice. These contracts generally provide for compensation on the basis of several factors which vary with the type of service being provided. The transfer agent servicing fee received by PFTC is a fixed rate per account for retail shareholders and a fixed rate service fee based on assets under management for mutual fund defined contribution shareholders.

The results of operations for the investment management segment are presented below:

(In millions of dollars)	**2006**	2005	2004
Revenue:			
Service Revenue	**$1,360**	$1,503	$1,659
Investment Income	**25**	3	51
Operating Revenue	**1,385**	1,506	1,710
Expense	**1,082**	1,243	1,612
Operating Income	**$ 303**	$ 263	$ 98
Operating Margin	**21.9%**	17.5%	5.7%

Revenue

Putnam's revenue declined 8% in 2006 compared to 2005 due to a decrease in management fees resulting from a decline in average assets under management, lower 12b-1 fee revenue and lower transfer agency fees, partly offset by higher investment income. Assets under management averaged $186 billion in 2006, a 5% decline from the $196 billion managed in the same period of 2005. Assets under management aggregated $192 billion at December 31, 2006. The increase in assets under management since December 31, 2005 results from a $19 billion positive impact of market and investment performance partly offset by net outflows of $16 billion. Net flows for the fourth quarter of 2006 were neutral. As of February 23, 2007, year-to-date net outflows were approximately $5 billion.

At December 31, 2006, assets held in equity securities represented 66% of assets under management compared with 68% in 2005 and 69% in 2004, while investments in fixed income products represented 34% compared with 32% in 2005 and 31% in 2004.

Putnam's revenue decreased 12% in 2005, reflecting a decrease in fees due to a decline in assets under management, lower 12b-1 fee revenue, and decreased investment gains. Assets under management averaged $196 billion in 2005, a 10% decline from the $217 billion managed in 2004. Assets under management aggregated $189 billion at December 31, 2005, compared with $213 billion at December 31, 2004. The change in assets under management from December 31, 2004 results primarily from net redemptions of $31 billion, partly offset by the positive impact of market performance.

Putnam receives service fees from the Putnam mutual funds for transfer agent, custody, and other administrative services, as contracted by the Trustees of the Putnam mutual funds. Effective January 2005, the transfer agent service fee agreement was converted to a fixed rate per retail shareholder account and a fixed rate service fee based on average assets under management for mutual fund assets in defined contribution plans. For the first six months of 2004, the transfer agent service fee agreement was based on the reimbursement of the cost of service. For the third and fourth quarters

of 2004, transfer agent service fees were based on a fixed fee and recorded as revenue. The change in the service fee agreement resulted in an increase in both service fee revenue and expense of approximately $32 million in 2005 compared with 2004.

Year-end and average assets under management are presented below:

(In billions of dollars)	**2006**	2005	2004
Mutual Funds			
Growth Equity	**$ 26**	$ 31	$ 38
Value Equity	**37**	37	41
Blend Equity	**28**	26	28
Fixed Income	**33**	32	36
	124	126	143
Institutional:			
Equity	**36**	34	40
Fixed Income	**32**	29	30
	68	63	70
Year-end Assets	**$192**	$189	$213
Assets from Non-US Investors	**$ 36**	$ 32	$ 38
Assets in Prime Money Market Funds	**$ 4**	$ 1	$ —
Average Assets	**$186**	$196	$217
Components of year-to-date change in ending assets under management:			
Net Redemptions including Dividends Reinvested	**$ (16)**	$ (31)	$ (51)
Impact of PanAgora Acquisition	**$ —**	$ —	$ 8
Impact of Market/Performance	**$ 19**	$ 7	$ 16

The categories of mutual fund assets reflect style designations aligned with each fund's prospectus.

Expense

Expenses in 2006 decreased $161 million from 2005, due to a decrease in amortization expense for prepaid dealer commissions and the year-over-year effect of a $37 million charge in 2005 relating to costs to address issues associated with the calculation of certain amounts previously paid to Putnam by Putnam mutual funds in the form of cost reimbursements to Putnam for transfer agency services relating to defined contribution operations. Partly offsetting these decreases were costs of $14 million related to employee stock options.

Expenses for 2005 decreased 23% from 2004. Expenses in 2005 include a $37 million charge, described above. Expenses in 2004 include a charge of $224 million related to Putnam's regulatory settlements with the SEC and the Secretary of the Commonwealth of Massachusetts on market-timing issues. Other expense reductions in 2005 include lower compensation and severance costs, reduced costs related to regulatory issues, a decrease in amortization expense for prepaid dealer commissions and a decrease in restructuring charges. These reductions were partially offset by an increase in expenses previously borne by the funds under the prior transfer agent service agreement. Putnam's expenses in 2004 include a $25 million credit to compensation expense associated with the settlement with Putnam's former chief executive officer.

Corporate Items

Corporate Expenses

Corporate expenses of $137 million in 2006 were $150 million lower than in 2005. The decrease is primarily due to the impact of stock option expense, which was recorded as a corporate charge in 2005 and was charged to the business segments in 2006, and lower net restructuring charges, largely resulting from a gain on the disposal of five floors in MMC's headquarters building, partly offset by higher professional services fees.

In 2006, MMC corporate recorded a net credit of $31 million for restructuring and related charges. A $74 million gain on the sale of five floors in MMC's headquarters building was partly offset by future rent on non-cancelable leases for floors vacated by MMC as well as accelerated amortization/depreciation related to floors that have been or will be vacated as part of the restructuring. The sale of these floors is an integral part of MMC's overall restructuring plan and the gain from this disposal has been included as a reduction of other operating expense, consistent with the classification of other actions taken related to facilities MMC has vacated. In 2005, MMC corporate recorded $72 million of restructuring and related charges, primarily related to the consolidation of office space in London.

Corporate expenses were $287 million in 2005 compared to $39 million in 2004. Expenses in 2005 included $64 million of incremental expenses, primarily related to stock options, resulting from the adoption of SFAS 123 (R) effective July 1, 2005. The incremental cost related to the implementation of SFAS 123 (R) was charged to corporate and not to the operating segments in 2005. In addition, $6 million was recorded for severance and other termination benefits related to the 2005 Plan, and a charge of $49 million was recorded related to the consolidation of office space in London. Because the office consolidation was initiated by MMC to benefit its London operations as a whole, the related charge was recorded in corporate. Corporate expenses also reflected $30 million of charges in connection with the resolution of certain litigation and related matters.

Corporate expenses in 2004 included $18 million of restructuring costs, including severance and other termination benefits, future rent under non-cancelable leases and lease termination costs. The impact of the final settlement for insured losses related to the WTC reduced Corporate expenses in 2004. The replacement value of the assets exceeded their book value by $105 million which was recorded as a reduction of other operating expenses.

Interest

Interest income earned on corporate funds amounted to $64 million in 2006, an increase of $17 million from 2005. The increase in interest income reflected the combination of higher average corporate cash balances and generally higher average interest rates in 2006 compared with the prior year. Interest expense of $303 million in 2006 decreased from $332 million in 2005. The decrease in interest expense is primarily due to $34 million recorded in the third quarter of 2005 for the prepayment charge incurred in connection with the refinancing of the mortgage on MMC's headquarters building in New York.

Interest income was $47 million for 2005, an increase of $26 million from 2004. The increase in interest income reflected the combination of higher average corporate cash balances and generally higher average interest rates in 2005 compared with 2004. Interest expense was $332 million in 2005 compared to $219 million in 2004. The increase in interest expense is due to an increase in the amount of average outstanding debt resulting from the acquisition of Kroll and a $34 million charge in 2005 for the prepayment of the $200 million mortgage on MMC's corporate headquarters in New York. In addition, interest expense in 2005 includes a write-off of $7 million of unamortized deferred financing costs related to MMC's prior revolving credit agreements which were refinanced in December 2005.

Income Taxes

MMC's consolidated effective tax rate was 31.8% in 2006 compared to 33.7% in 2005. The change primarily reflects the release of valuation allowances on certain deferred tax assets and the resolution of tax audit issues, partly offset by an adjustment of the 2005 tax provision estimates to the tax return amount.

MMC's consolidated effective tax rate was 33.7% in 2005, a decrease from 59.4% in 2004. The decrease in the rate was primarily due to the impact in 2004 of the non-deductibility of Putnam's $224 million in regulatory settlements and of a lower benefit related to Marsh's $850 million settlement of the NYAG lawsuit; partially offset in 2005 by an increase in valuation allowances provided on net operating losses in certain state and foreign jurisdictions.

The effective tax rate is sensitive to the geographic mix of MMC's earnings, which may have a favorable or unfavorable impact on the rate. Furthermore, losses in certain jurisdictions cannot be offset by earnings from other operations, and may require valuation allowances affecting the rate, depending on estimates of their realizability.

MMC establishes allowances for potential liabilities that may arise out of tax audits and litigation to the extent that such liabilities are probable and can be estimated in accordance with SFAS No. 5. Once established, allowances are evaluated based on the facts and circumstances that exist at each reporting period. Adjustments may result, for example, upon resolution of an issue with the taxing authorities, or expiration of a statute of limitations barring an assessment for an issue for which an allowance had previously been recorded. Such adjustments could have a material impact on MMC's effective tax rate, net income, and cash flows in a particular future period.

2005 Stock Option Exchanges

At the May 2005 Annual Meeting, MMC's shareholders approved a stock option exchange offer for MMC options. Under the exchange offer, eligible employees could exchange certain deeply underwater options for new options with an estimated fair value equal to 90% of the value of options surrendered in exchange, calculated using the Black-Scholes pricing model. Effective July 1, 2005, employees elected to exchange 42 million options for 16 million new options. The exchange resulted in the retirement of 26 million options and no incremental compensation expense was incurred in connection with the new option grants. The exercise price of the new options of $27.86 is equal to the market price of MMC's common stock as of the new grant date. The new options were unvested when granted and will vest on the later of the second anniversary of the new option grant or the vesting date of the tendered option. The other terms and conditions of the new options are substantially similar to those of the tendered options they replaced.

On September 29, 2005, certain eligible participants in the Putnam Investments Trust Equity Partnership Plan participated in a voluntary option exchange pursuant to the terms of the Offer to Exchange Certain Outstanding Options (the "Offer to Exchange"), dated August 30, 2005. Under the Offer to Exchange, holders of options on Class B shares meeting certain eligibility requirements could elect to exchange those options for restricted shares with the equivalent value of the exchanged options, as determined using the Black-Scholes valuation model. As a result of the Offer to Exchange, a total of 2,201,850 options were retired and 139,388 restricted shares were issued at a grant price of $28.26 per share.

Liquidity and Capital Resources

MMC's routine liquidity needs are primarily for servicing debt and paying dividends on outstanding stock. Our primary source for meeting these requirements is cash flows from our operations.

Cash on our consolidated balance sheets includes funds available for general corporate purposes. Funds held on behalf of clients in a fiduciary capacity are segregated and shown separately in the consolidated balance sheet as an offset to fiduciary liabilities.

Operating Cash Flows

MMC generated $878 million of cash from operations in 2006 compared with $399 million in 2005. These amounts reflect the net income earned by MMC during those periods, excluding gains or losses from the disposition of businesses, the gain on the sale of five floors from the MMC headquarters building and adjusted for non-cash charges and changes in working capital which relate, primarily, to the timing of payments for accrued liabilities or receipts of assets. These include payments in 2006 of approximately $270 million for regulatory settlements and tax payments of $136 million related to the disposition of businesses. Cash generated from the disposition of businesses is included in investing cash flows.

In January 2005 MMC reached a settlement with the NYAG and NYSID that resolved the actions commenced by them against MMC and Marsh. As a result of this agreement, MMC recorded a charge in 2004 for an $850 million policyholder fund. MMC paid the first $255 million to the fund on June 1, 2005. An additional $255 million was paid on June 1, 2006, and $170 million will be paid to the fund on or before each of June 1, 2007 and 2008, respectively. These amounts are included in Regulatory settlements in the consolidated balance sheets.

MMC has funding requirements for the U.S. non-qualified and non-U.S. pension plans in 2007 of approximately $19 million and $176 million, respectively. MMC's policy for funding its tax qualified defined benefit retirement plans is to contribute amounts at least sufficient to meet the funding requirements set forth in U.S. and applicable foreign law. There currently is no ERISA funding requirement for the U.S. qualified plan in 2006 or in 2007. Funding requirements for non-U.S. plans vary country by country. Contribution rates are determined by the local actuaries based on local funding practices and requirements. Funding amounts may be influenced by future asset performance, discount rates and other variables impacting the assets and/or liabilities of the plan. In addition, amounts funded in the future, to the extent not due under regulatory requirements, may be affected by alternative uses of MMC's cash flows, including dividends, investments, and share repurchases.

During 2006, MMC contributed approximately $20 million to the U.S. pension plans and $319 million to the significant non-U.S. pension plans, compared with $229 million for U.S. plans and $498 million for significant non-U.S. plans in 2005. The contribution to the non-U.S. plans in 2006 includes a non-cash contribution of MMC's investment in Trident III, a private equity limited partnership. The contribution was recorded based on the estimated fair value on the date of the contribution of $182 million.

Financing Cash Flows

Net cash used for financing activities was $759 million in 2006 compared with $128 million of net cash provided by financing activities in 2005. During 2006, MMC reduced outstanding debt by approximately $570 million.

In December 2005, MMC and certain of its foreign subsidiaries entered into a new $1.2 billion multi-currency revolving credit facility. Subsidiary borrowings under the facility are unconditionally guaranteed by MMC. The facility, which will expire in December 2010, replaced MMC's $1.0 billion and $700 million revolving credit facilities which were scheduled to expire in 2007 and 2009, respectively. In December 2005, certain of MMC's foreign subsidiaries borrowed approximately $510 million under the new facility, primarily to fund the repatriation of accumulated earnings pursuant to the American Jobs Creation Act of 2004. There was $94 million outstanding under this facility at December 31, 2006.

In September 2005, MMC issued $550 million of 5.15% senior notes due 2010 and $750 million of 5.75% senior notes due 2015 (the "2005 Notes"). The net proceeds from the 2005 Notes were used to pay down the $1.3 billion term loan facility established in late 2004.

Also in September 2005, MMC refinanced its headquarters building in New York City by entering into a 30-year, $475 million mortgage loan agreement at a fixed annual rate of 5.7%. This replaced the existing $200 million, 9.8% mortgage due in 2009. The incremental proceeds, net of a $34 million prepayment charge, were used to pay down outstanding short-term debt.

MMC's senior debt is currently rated Baa2 by Moody's and BBB by Standard & Poor's. MMC's short-term debt is currently rated P-2 by Moody's and A-2 by Standard & Poor's. MMC carries a negative outlook from both Moody's and Standard & Poor's.

MMC paid total dividends of $374 million in 2006 ($0.68 per share) and $363 million ($0.68 per share) in 2005. MMC made no share repurchases in 2006.

In January 2007, MMC announced that its board of directors had approved an increase to MMC's quarterly cash dividend to 19 cents per share from 17 cents previously.

MMC also maintains other credit facilities, guarantees and letters of credit with various banks, primarily related to operations located outside the United States, aggregating $270 million at December 31, 2006 and $354 million at December 31, 2005. There was $8 million outstanding under these facilities at December 31, 2006.

Investing Cash Flows

Net cash used for investing activities amounted to $136 million in 2006 compared with $153 million of net cash provided by investing activities in 2005. Cash generated by the sale of SCMS totaled $326 million in 2006, which was partly offset by net purchases of long term investments. Cash used for acquisitions totaled $221 million in 2006 versus $74 million in 2005. Remaining deferred cash payments of approximately $75 million related to acquisitions completed in 2006 and prior years are recorded in Accounts payable and accrued liabilities or in Other liabilities in the consolidated balance sheets at December 31, 2006. Proceeds from sales related to fixed assets and capitalized software includes $125 million of proceeds related to the sale of the floors from the MMC headquarters building. In addition, cash used to purchase investments of $193 million was partly offset by the sale of securities of $118 million in 2006. In 2005, cash generated by the sale of securities totaled $333 million.

MMC expects the after tax proceeds from the anticipated sale of Putnam in mid-2007 to approach $2.5 billion, subject to certain adjustments in the sale agreement. MMC will analyze various alternatives for use of the expected proceeds including acquisitions, adjustments to our capital structure, such as debt repayment and/or share repurchases, and investments in our existing businesses.

MMC's additions to fixed assets and capitalized software, which amounted to $307 million in 2006 and $345 million in 2005, primarily relate to computer equipment purchases, the refurbishing and modernizing of office facilities and software development costs.

MMC has committed to potential future investments of approximately $222 million in connection with various private equity funds and other MMC investments. The commitment comprises $82 million related to Trident II and other funds managed by Stone Point and $140 million related to possible investments by Putnam. At December 31, 2006, MMC has no future commitments related to Trident III, as those commitments were assumed by MMC's U.K. pension plan when the investment in Trident III was contributed to the plan in December 2006. The majority of MMC's other investment commitments for funds managed by Stone Point are related to Trident II, the investment period for which is now closed for new investments. Any remaining capital calls for Trident II would relate to follow-on investments in existing portfolio companies or for management fees or other partnership expenses. Significant future capital calls related to Trident II are not expected. Although it is anticipated that Trident II will be harvesting its remaining portfolio in 2007 and thereafter, the timing of any portfolio company sales and capital distributions is unknown and not controlled by MMC.

Putnam has investment commitments of $140 million for three active Thomas H. Lee ("THL") funds, of which Putnam believes approximately $42 million will not be called. Putnam is authorized to commit to invest up to $187 million in future THL investment funds, but is not required to do so. At December 31, 2006 none of that additional $187 million is committed. These commitments will remain with Putnam when the anticipated sale of Putnam closes.

Approximately $37 million was invested in 2006 related to all of the commitments discussed above (including investments in Trident III prior to its contribution to MMC's U.K. pension plan).

Commitments and Obligations

MMC's contractual obligations were comprised of the following as of December 31, 2006 (dollars in millions):

	Payment due by Period				
Contractual Obligations	Total	Within 1 Year	1-3 Years	4-5 Years	After 5 Years
Bank borrowings-international	$ 8	$ 8	$ —	$ —	$ —
Current portion of long-term debt	1,103	1,103	—	—	—
Long-term debt	3,865	—	669	566	2,630
NYAG/NYSID settlement	340	170	170	—	—
Net operating leases	3,472	462	762	566	1,682
Service agreements	451	129	182	99	41
Other long-term obligations	86	73	10	2	1
Total	$9,325	$1,945	$1,793	$1,233	$4,354

Market Risk

Certain of MMC's revenues, expenses, assets and liabilities are exposed to the impact of interest rate changes and fluctuations in foreign currency exchange rates and equity markets.

Interest Rate Risk

MMC manages its net exposure to interest rate changes by utilizing a mixture of variable and fixed rate borrowings to finance MMC's asset base. MMC uses interest rate swaps on a limited basis to manage exposure to interest rate movements on its cash and investments as well as interest expense on borrowings. Rate swaps are only executed with highly creditworthy counterparties.

MMC had the following investments and debt instruments subject to variable interest rates:

(In millions of dollars)	**December 31, 2006**
Cash and cash equivalents invested in certificates of deposit and time deposits (Note 1)	**$2,089**
Fiduciary cash and investments (Note 1)	**$3,704**
Variable rate debt outstanding (Note 11)	**$ 601**

These investments and debt instruments are discussed more fully in the above-indicated notes to the consolidated financial statements.

Based on the above balances, if short-term interest rates increase by 10% or 48 basis points over the course of the year, annual interest income, including interest earned on fiduciary funds, would increase by approximately $15 million. However, this would be partially offset by a $2 million increase in interest expense resulting in a net increase to income before income taxes and minority interest of $13 million.

Foreign Currency Risk
The translated values of revenue and expense from MMC's international risk and insurance services and consulting operations are subject to fluctuations due to changes in currency exchange rates. We periodically use forward contracts and options to limit foreign currency exchange rate exposure on net income and cash flows for specific, clearly defined transactions arising in the ordinary course of business.

Equity Price Risk
MMC holds investments in public and private companies, as well as in certain private equity funds managed by Stone Point. Publicly traded investments of $124 million are classified as available for sale under SFAS No. 115. Non-publicly traded investments of $75 million are accounted for using the cost method and $366 million are accounted for using the equity method under APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock". Changes in value of trading securities are recognized in income when they occur. The investments that are classified as available for sale or that are not publicly traded are subject to risk of changes in market value, which if determined to be other than temporary, could result in realized impairment losses. MMC periodically reviews the carrying value of such investments to determine if any valuation adjustments are appropriate under the applicable accounting pronouncements.

Other
A significant number of lawsuits and regulatory proceedings are pending. See Note 16 to the consolidated financial statements.

Management's Discussion of Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and judgments that affect reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingent assets and liabilities. Management considers the policies discussed below to be critical to understanding MMC's financial statements because their application places the most significant demands on management's judgment, and requires management to make estimates about the effect of matters that are inherently uncertain. Actual results may differ from those estimates.

Legal and Other Loss Contingencies
MMC and its subsidiaries are subject to numerous claims, lawsuits and proceedings. GAAP requires that liabilities for contingencies be recorded when it is probable that a liability has been incurred before the balance sheet date and the amount can be reasonably estimated. Significant management judgment is required to comply with this guidance. MMC analyzes its litigation exposure based on available information, including consultation with outside counsel handling the defense of these matters, to assess its potential liability.

In addition, to the extent that insurance coverage is available, significant management judgment is required to determine the amount of recoveries that are expected under MMC's various insurance programs.

Retirement Benefits
MMC maintains qualified and non-qualified defined benefit pension plans for its U.S. and a variety of defined benefit and defined contribution plans for eligible non-U.S. employees. MMC's policy for funding its tax qualified defined benefit retirement plans is to contribute amounts at least sufficient to meet the funding requirements set forth in U.S. and applicable foreign laws.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"). SFAS 158 requires that MMC

recognize the funded status of its overfunded defined benefit pension and retiree medical plans (the "Plans") as a net benefit plan asset and its unfunded and underfunded plans as a net benefit plan liability. The gains or losses and prior service costs or credits that have not been recognized as components of net periodic costs are recorded as a component of Accumulated Other Comprehensive Income ("AOCI"), net of tax, in MMC's balance sheet. MMC adopted the provisions of SFAS 158, prospectively, on December 31, 2006.

The determination of net periodic pension cost is based on a number of actuarial assumptions, including an expected long-term rate of return on plan assets, the discount rate and assumed rate of salary increase. Significant assumptions used in the calculation of net periodic pension costs and pension liabilities are disclosed in Note 8 to the consolidated financial statements. MMC believes the assumptions for each plan are reasonable and appropriate and will continue to evaluate actuarial assumptions at least annually and adjust them as appropriate. Based on its current assumptions, MMC expects pension expense to decrease by approximately $53 million in 2007 and currently expects to contribute approximately $195 million to the plans during 2007.

During 2005 MMC made changes to the U.S. pension plan that were designed to reduce MMC's benefits costs going forward. The changes, which were effective January 1, 2006, include changing the benefit formula from a final average salary to a career average salary as well as a change in the calculation for early retirement benefits. During 2006, MMC made similar changes to its U.K. pension plans.

Future pension expense or credits will depend on plan provisions, future investment performance, future assumptions, and various other factors related to the populations participating in the pension plans. Holding all other assumptions constant, a half-percentage point change in the rate of return and discount rate assumptions would affect net periodic pension cost for the U.S. and U.K. plans, which comprise approximately 84% of total pension plan liabilities, as follows:

	0.5 Percentage Point Increase		0.5 Percentage Point Decrease	
(In millions of dollars)	U.S.	U.K.	U.S.	U.K.
Assumed Rate of Return	$(14.4)	$(23.4)	$14.4	$23.4
Discount Rate	$(28.4)	$(51.5)	$30.4	$54.6

Changing the discount rate and leaving the other assumptions constant may not be representative of the impact on expense, because the long-term rates of inflation and salary increases are correlated with the discount rate.

MMC contributes to certain health care and life insurance benefits provided to its retired employees. The cost of these postretirement benefits for employees in the United States is accrued during the period up to the date employees are eligible to retire, but is funded by MMC as incurred. This postretirement liability is included in Other liabilities in the consolidated balance sheets. The key assumptions and sensitivity to changes in the assumed health care cost trend rate are discussed in Note 8 to the consolidated financial statements.

Income Taxes

MMC's tax rate reflects its income, statutory tax rates and tax planning in the various jurisdictions in which it operates. Significant judgment is required in determining the annual tax rate and in evaluating tax positions. Tax allowances are established when, despite the belief that the tax return positions are fully supportable, there is the potential that they may be successfully challenged. These allowances, as well as the related interest, are adjusted to reflect changing facts and circumstances.

Tax law requires items be included in MMC's tax returns at different times than the items are reflected in the financial statements. As a result, the annual tax expense reflected in the consolidated statements of income is different than that reported in the tax returns. Some of these differences are permanent, such as expenses that are not deductible in the returns, and some differences are temporary and reverse over time, such as depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in tax returns in future years for which benefit has already been recorded in the financial statements. Valuation allowances are established for deferred tax assets when it is estimated that future taxable income will be insufficient to use a deduction or credit in that jurisdiction. Deferred tax liabilities generally represent tax expense recognized in the financial statements for which payment has been deferred, or expense for which a deduction has been taken already in the tax return but the expense has not yet been recognized in the financial statements.

As discussed below, under New Accounting Pronouncements, MMC's accounting for income taxes will be impacted by the adoption of FASB Interpretation No. 48.

Share-based Payment

Effective July 1, 2005, MMC adopted SFAS 123(R) "Share-based Payment", which requires, among other things, that the estimated fair value of stock options be charged to earnings. Significant management judgment is required to determine the appropriate assumptions for inputs such as volatility and expected term necessary to estimate option values. In addition, management judgment is required to analyze the terms of the plans and awards granted thereunder to determine if awards will be treated as equity awards or liability awards, as defined by SFAS 123(R).

As of December 31, 2006, there was $84 million of unrecognized compensation cost related to MMC's option awards and $15 million of unrecognized compensation cost related to Putnam's option awards. The weighted-average periods over which the costs are expected to be recognized are 1.4 years for MMC and 1.7 years for Putnam. Also as of December 31, 2006, there was $203 million of unrecognized compensation cost related to MMC's restricted stock, restricted stock unit and deferred stock unit awards and $94 million of unrecognized compensation cost related to Putnam's restricted stock awards.

See Note 9 to the consolidated financial statements for additional information regarding the adoption of SFAS 123(R).

Investment Valuation

MMC holds investments in both public and private companies, as well as certain private equity funds managed by Stone Point and T.H. Lee. The majority of the public investments are accounted for as available for sale securities under SFAS No. 115. Where applicable, certain investments are accounted for under APB Opinion No. 18. MMC periodically reviews the carrying value of its investments to determine if any valuation adjustments are appropriate under the applicable accounting pronouncements. MMC bases its review on the facts and circumstances as they relate to each investment. Fair value of private equity investments is determined by the Funds' investment managers. Factors considered in determining the fair value of private equity investments include: implied valuation of recently completed financing rounds that included sophisticated outside investors; performance multiples of comparable public companies; restrictions on the sale or disposal of the investments; trading characteristics of the securities; and the relative size of the holdings in comparison to other private investors and the public market float. In those instances where quoted market prices are not available, particularly for equity holdings in private companies, or formal restrictions limit the sale of securities, significant management judgment is required to determine the appropriate value of MMC's investments. MMC reviews the appropriateness of valuation results for significant private equity investments with the fund manager.

New Accounting Pronouncements

New accounting pronouncements are discussed in Note 1 to MMC's consolidated financial statements.

In September 2006, the FASB issued SFAS 158 which requires that MMC recognize the funded status of its overfunded defined benefit pension and retiree medical plans (the "Plans") as a net benefit plan asset and its unfunded and underfunded plans as a net benefit plan liability. The gains or losses and prior service costs or credits that have not been recognized as components of net periodic costs are recorded as a component of AOCI, net of tax, in MMC's balance sheet. MMC adopted the provisions of SFAS 158, prospectively, on December 31, 2006. The impact of adopting SFAS 158 caused a reduction in assets of $660 million and an increase in liabilities of $245 million, including a related adjustment to tax benefits of $423 million. The net impact of adopting SFAS 158 was a reduction of MMC's stockholders' equity of $905 million, $804 million including an adjustment for the impact of recording a minimum pension credit prior to the adoption of SFAS 158. This adoption has no impact on MMC's consolidated statements of income or cash flows. The adoption of SFAS 158 does not impact any financial covenants in MMC's bank agreements, nor does MMC expect adoption to adversely impact its credit ratings. SFAS 158 also requires companies to measure the funded status of their plans as of their year-end balance sheet date no later than 2008. MMC's existing policy is to measure the funded status of its Plans as of its year-end balance sheet date and therefore is not impacted by this requirement.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands required disclosures about fair value measurements. The provisions of SFAS 157 are effective as of the beginning of MMC's 2008 fiscal year. MMC is currently evaluating the impact of adopting SFAS 157 on its consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions. This interpretation requires that MMC recognize in its consolidated financial statements the impact of a tax position when it is more likely than not that the tax position would be sustained upon examination by the tax authorities based on the technical merits of the position. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 will be effective for MMC beginning in the first quarter of 2007, with the cumulative effect of any change in accounting principle recorded as an adjustment to opening retained earnings. On February 27, 2007 the FASB issued draft implementation guidance in the form of a proposed FASB Staff Position subject to a thirty day comment period. Pending finalization of this guidance, MMC is evaluating the impact of adopting FIN 48 on its consolidated financial statements.

Marsh & McLennan Companies, Inc. and Subsidiaries

Consolidated Statements of Income

For the Years Ended December 31, *(In millions, except per share figures)*	**2006**	2005	2004
Revenue:			
Service revenue	**$11,699**	$11,395	$11,527
Investment income (loss)	**222**	183	200
Operating revenue	**11,921**	11,578	11,727
Expense:			
Compensation and benefits	**7,113**	6,897	6,685
Other operating expenses	**3,350**	3,788	3,476
Settlement and other costs	**—**	40	969
Operating expenses	**10,463**	10,725	11,130
Operating income	**1,458**	853	597
Interest income	**64**	47	21
Interest expense	**(303)**	(332)	(219)
Income before income taxes and minority interest	**1,219**	568	399
Income taxes	**388**	191	239
Minority interest, net of tax	**13**	10	8
Income from continuing operations	**818**	367	152
Discontinued operations, net of tax	**172**	37	24
Net income	**$ 990**	$ 404	$ 176
Basic net income per share — Continuing operations	**$ 1.49**	$ 0.68	$ 0.29
— Net income	**$ 1.80**	$ 0.75	$ 0.33
Diluted net income per share — Continuing operations	**$ 1.45**	$ 0.67	$ 0.29
— Net income	**$ 1.76**	$ 0.74	$ 0.33
Average number of shares outstanding — Basic	**549**	538	526
— Diluted	**557**	543	535

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

Marsh & McLennan Companies, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31, *(In millions of dollars)*	**2006**	2005
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 2,089**	$ 2,020
Receivables		
Commissions and fees	**2,615**	2,407
Advanced premiums and claims	**82**	117
Other	**467**	363
	3,164	2,887
Less — allowance for doubtful accounts and cancellations	**(156)**	(157)
Net receivables	**3,008**	2,730
Assets of discontinued operations	**—**	153
Other current assets	**737**	359
Total current assets	**5,834**	5,262
Goodwill and intangible assets	**7,775**	7,773
Fixed assets, net	**1,043**	1,178
Long-term investments	**597**	277
Pension related assets	**613**	1,596
Other assets	**2,275**	1,806
	$18,137	$17,892
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	**$ 1,111**	$ 498
Accounts payable and accrued liabilities	**2,477**	1,733
Regulatory settlements — current portion	**238**	333
Accrued compensation and employee benefits	**1,507**	1,413
Accrued income taxes	**216**	192
Dividends payable	**—**	93
Liabilities of discontinued operations	**—**	89
Total current liabilities	**5,549**	4,351
Fiduciary liabilities	**3,704**	3,795
Less — cash and investments held in a fiduciary capacity	**(3,704)**	(3,795)
	—	—
Long-term debt	**3,860**	5,044
Regulatory settlements	**173**	348
Pension, postretirement and postemployment benefits	**1,089**	1,180
Liability for errors and omissions	**629**	630
Other liabilities	**1,018**	979
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $1 par value, authorized 6,000,000 shares, none issued	**—**	—
Common stock, $1 par value, authorized 1,600,000,000 shares, issued 560,641,640 shares in 2006 and 2005	**561**	561
Additional paid-in capital	**1,138**	1,143
Retained earnings	**5,691**	4,989
Accumulated other comprehensive loss	**(1,272)**	(756)
	6,118	5,937
Less — treasury shares at cost, 8,727,764 in 2006 and 15,057,704 in 2005	**(299)**	(577)
Total stockholders' equity	**5,819**	5,360
	$18,137	$17,892

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

Marsh & McLennan Companies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

For the Years Ended December 31, *(In millions of dollars)*	**2006**	2005	2004
Operating cash flows:			
Net income	**$ 990**	$ 404	$ 176
Adjustments to reconcile net income to cash generated from operations:			
Depreciation of fixed assets and capitalized software	**391**	391	392
Amortization of intangible assets	**97**	99	64
Provision (benefit) for deferred income taxes	**60**	36	(71)
Net (gains) losses on investments	**(222)**	(183)	(200)
Disposition of assets	**(218)**	(19)	—
Accrual of stock-based compensation, resulting from adoption of SFAS 123(R)	**116**	64	—
Changes in assets and liabilities:			
Net receivables	**(157)**	57	(107)
Other current assets	**(651)**	122	60
Other assets	**19**	(229)	93
Accounts payable and accrued liabilities	**682**	(35)	858
Accrued compensation and employee benefits	**94**	(167)	328
Accrued income taxes	**(242)**	4	(39)
Other liabilities	**(184)**	(72)	446
Effect of exchange rate changes	**103**	(73)	69
Net cash provided by operations	**878**	399	2,069
Financing cash flows:			
Net decrease in commercial paper	**—**	(129)	(311)
Proceeds from issuance of debt	**322**	2,341	4,265
Other repayments of debt	**(888)**	(1,990)	(2,003)
Purchase of treasury shares	**—**	—	(536)
Issuance of common stock	**181**	269	456
Dividends paid	**(374)**	(363)	(681)
Net cash (used for) provided by financing activities	**(759)**	128	1,190
Investing cash flows:			
Capital expenditures	**(307)**	(345)	(376)
Net sales (purchases) of long-term investments	**(107)**	318	120
Proceeds from sales related to fixed assets	**136**	46	23
Dispositions	**375**	156	—
Acquisitions	**(221)**	(74)	(2,364)
Other, net	**(12)**	52	41
Net cash (used for) provided by investing activities	**(136)**	153	(2,556)
Effect of exchange rate changes on cash and cash equivalents	**73**	(43)	28
Increase in cash and cash equivalents	**56**	637	731
Cash and cash equivalents at beginning of period	**2,033**	1,396	665
Cash and cash equivalents at end of period	**2,089**	2,033	1,396
Cash and cash equivalents — reported as discontinued operations	**—**	(13)	(26)
Cash and cash equivalents — continuing operations	**$2,089**	$ 2,020	$ 1,370

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

Consolidated Statements of Stockholders' Equity and Comprehensive Income

For the Years Ended December 31, *(In millions, except per share figures)*	**2006**	2005	2004
COMMON STOCK			
Balance, beginning of year	**$ 561**	$ 561	$ 561
Issuance of shares under stock compensation plans and employee stock purchase plans	**—**	—	—
Balance, end of year	**$ 561**	$ 561	$ 561
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	**$ 1,143**	$ 1,316	$ 1,301
Acquisitions	**—**	(15)	1
SFAS 123(R) periodic compensation costs and implementation adjustment	**90**	202	—
Issuance of shares to MMC retirement plan	**—**	(160)	—
Issuance of shares under stock compensation plans and employee stock purchase plans and related tax benefits	**(95)**	(200)	14
Balance, end of year	**$ 1,138**	$ 1,143	$ 1,316
RETAINED EARNINGS			
Balance, beginning of year	**$ 4,989**	$ 5,044	$ 5,386
Net income (a)	**990**	404	176
Dividend equivalents paid	**(8)**	(2)	—
Dividends declared — (per share amounts: $.51 in 2006, $.85 in 2005, $.99 in 2004)	**(280)**	(457)	(518)
Balance, end of year	**$ 5,691**	$ 4,989	$ 5,044
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance, beginning of year	**$ (756)**	$ (370)	$ (279)
Foreign currency translation adjustments (b)	**305**	(271)	234
Unrealized investment holding losses, net of reclassification adjustments (c)	**(17)**	(85)	(58)
Initial adoption of SFAS 158, net of tax	**(905)**	—	—
Minimum pension liability adjustment (d)	**101**	(30)	(266)
Net deferred loss on cash flow hedges (e)	**—**	—	(1)
Balance, end of year	**$(1,272)**	$ (756)	$ (370)
TREASURY SHARES			
Balance, beginning of year	**$ (577)**	$(1,495)	$(1,518)
Purchase of treasury shares	**—**	—	(524)
Acquisitions	**2**	82	7
Issuance of shares to MMC retirement plan	**—**	365	—
Issuance of shares under stock compensation plans and employee stock purchase plans	**276**	471	540
Balance, end of year	**$ (299)**	$ (577)	$(1,495)
TOTAL STOCKHOLDERS' EQUITY	**$ 5,819**	$ 5,360	$ 5,056
TOTAL COMPREHENSIVE INCOME (a+b+c+d+e)	**$ 1,379**	$ 18	$ 85

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

1. Summary of Significant Accounting Policies

Nature of Operations: Marsh & McLennan Companies, Inc. ("MMC"), a global professional services firm, is organized based on the different services that it offers. Under this organizational structure, MMC operates in four principal business segments: risk and insurance services, risk consulting & technology, consulting and investment management.

As discussed in Note 5, MMC disposed of several businesses in 2006 and 2005, which are classified as discontinued operations in these financial statements.

The risk and insurance services segment provides risk management and insurance broking, reinsurance broking and insurance program management services for businesses, public entities, insurance companies, associations, professional services organizations, and private clients. Prior to the sale of MMC Capital's business to Stone Point Capital, LLC ("Stone Point") on May 31, 2005, the risk and insurance services segment also provided services principally in connection with originating, structuring and managing investments, primarily in the insurance and financial services industries. MMC no longer participates in the investment decisions or management of Stone Point or the Trident funds. However, MMC continues to own investments in the funds managed by Stone Point and directly owns investments in certain insurance and financial services entities through its subsidiary Marsh and McLennan Risk Capital Holdings ("Risk Capital Holdings").

The risk consulting & technology segment provides various risk consulting and related risk mitigation services to corporate, government, institutional and individual clients. These services fall into two main business groups: consulting, which includes corporate advisory & restructuring services, consulting services and security services; and technology-enabled solutions.

The consulting segment provides advice and services to the managements of organizations in the areas of Human Resource Consulting, comprising retirement and investments, health & benefits, outsourcing and talent; and Specialty Consulting, comprising management consulting, organization design and change management, and economic consulting.

The investment management segment primarily provides securities investment advisory distribution and administrative services for institutional accounts and a group of publicly held investment companies.

As discussed in Note 18, on February 1, 2007 MMC announced an agreement to sell Putnam, which comprises its entire investment management segment.

Principles of Consolidation: The accompanying consolidated financial statements include all wholly-owned and majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Fiduciary Assets and Liabilities: In its capacity as an insurance broker or agent, MMC collects premiums from insureds and, after deducting its commissions, remits the premiums to the respective insurance underwriters. MMC also collects claims or refunds from underwriters on behalf of insureds.

Unremitted insurance premiums and claims are held in a fiduciary capacity. Interest income on these fiduciary funds, included in service revenue, amounted to $180 million in 2006, $151 million in 2005, and $130 million in 2004. Since fiduciary assets are not available for corporate use, they are shown in the balance sheet as an offset to fiduciary liabilities. At December 31, 2006, Putnam managed the investment of approximately $1.4 billion of the fiduciary assets.

Net uncollected premiums and claims and the related payables were $8.7 billion and $10.4 billion at December 31, 2006 and 2005, respectively. MMC is not a principal to the contracts under which the right to receive premiums or the right to receive reimbursement of insured losses arises. Net uncollected premiums and claims and the related payables are, therefore, not assets and liabilities of MMC and are not included in the accompanying consolidated balance sheets.

In certain instances, MMC advances premiums, refunds or claims to insurance underwriters or insureds prior to collection. These advances are made from corporate funds and are reflected in the accompanying consolidated balance sheets as receivables.

Revenue: Risk and Insurance Services revenue includes insurance commissions, fees for services rendered, interest income on certain fiduciary funds and market service fees from insurers earned on placements made prior to October 2004. Effective October 1, 2004 Marsh agreed to eliminate contingent compensation agreements with insurers. Insurance commissions and fees for risk transfer services generally are recorded as of the effective date of the applicable policies or, in certain cases (primarily in MMC's reinsurance operations), as of the effective date or billing date, whichever is later. Commissions are net of policy cancellation reserves, which are estimated based on historic and current data on cancellations. Fees for non-risk transfer services provided to clients are recognized over the period in which the services are provided, using a proportional performance model. Fees resulting from achievement of certain performance thresholds are recorded when such levels are attained and such fees are not subject to forfeiture. Prior to 2006, revenue also includes compensation for services provided in connection with the organization, structuring and management of insurance, financial and other industry-focused investments, as well as appreciation or depreciation that has been recognized on holdings in such investments. MMC no longer receives management fees or origination fees related to Stone Point's business, except that MMC retained the right to receive certain performance fees related to the Trident II private equity partnership. MMC will continue to receive dividends and to recognize capital appreciation or depreciation on its investment holdings. In addition, Crump Group, Inc. and Sedgwick CMS Holdings and Price Forbes, which were previously part of this segment, are classified as discontinued operations.

Risk Consulting & Technology compensation consists of fees paid by clients. Such fees are typically charged on an hourly, project, or fixed fee basis, and sometimes on a per service or per unit basis. Revenue is recognized as the services are performed pursuant to the applicable contractual arrangements. Revenue related to time and materials arrangements is recognized in the period in which the services are performed. Revenue from hourly or daily rate engagements is recognized as hours are expended at the agreed-upon billing amounts. Revenue related to fixed price arrangements is recognized based upon a proportional performance model. Revenue provided from credit services is recognized when the information is delivered to the customer, either electronically or by other means. The impact of any revisions in estimated total revenue and direct contract costs is recognized in the period in which they become known. Expenses incurred by professional staff in the generation of revenue are billed to the client and included in revenue. Kroll records either billed or unbilled accounts receivable based on case-by-case invoicing determinations. Software revenue is recognized when the product is shipped, with the exception of royalty-based products, for which revenue is recognized as applicable royalty reports are received. Software revenue is recorded net of estimated customer returns and allowances. Contingent fees are recognized as earned and upon satisfaction of all conditions to their payment. Kroll Security International, which was previously part of this segment, is classified as a discontinued operation.

Consulting revenue includes fees paid by clients for advice and services and commissions from insurance companies for the placement of individual and group contracts. Fee revenue for engagements where Mercer is remunerated based on time plus out-of-pocket expenses is recognized based on the amount of time consulting professionals expend on the engagement. For fixed fee engagements, revenue is recognized using a proportional performance model. Revenue from insurance commissions not subject to a fee arrangement is recorded over the effective period of the applicable policies. Revenues for asset based fees are recognized on an accrual basis by applying the daily/monthly rate as contractually agreed with the client to the net asset value.

Investment Management revenue is derived primarily from investment management fees and 12b-1 fees. Investment management fees are recognized as services are provided. Such fees are based on the net assets of the funds and are collected directly from the applicable funds. Mutual fund distribution fees are recognized over the period in which the fees can be charged to the related funds, or when a contingent deferred sales charge is triggered by a redemption. Sales of mutual fund shares are recorded on a settlement date basis and commissions thereon are recorded on a trade date basis. Fees resulting from achievement of specified performance thresholds are recorded when such levels are attained and such fees are not subject to forfeiture.

MMC has deferred the recognition of performance fee revenue in connection with the management of certain private equity funds of $172 million at December 31, 2006. This revenue is based on the investment performance over the life of each private equity fund, and future underperformance may result in the forfeiture of such revenue. As noted above, MMC only recognizes performance fee revenue when such fees are no longer subject to forfeiture, which for the $172 million noted above, may take a number of years to resolve.

Cash and Cash Equivalents: Cash and cash equivalents primarily consist of certificates of deposit and time deposits, generally with original maturities of three months or less.

Fixed Assets: Fixed assets are stated at cost less accumulated depreciation and amortization. Expenditures for improvements are capitalized. Upon sale or retirement, the cost and related accumulated depreciation and amortization are removed from the accounts and any gain or loss is reflected in income. Expenditures for maintenance and repairs are charged to operations as incurred.

Depreciation of buildings, building improvements, furniture, and equipment is provided on a straight-line basis over the estimated useful lives of these assets. Leasehold improvements are amortized on a straight-line basis over the periods covered by the applicable leases or the estimated useful life of the improvement, whichever is less. MMC periodically reviews long-lived assets for impairment whenever events or changes indicate that the carrying value of assets may not be recoverable.

The components of fixed assets are as follows:

December 31, *(In millions of dollars)*	**2006**	2005
Furniture and equipment	**$ 1,365**	$ 1,557
Land and buildings	**397**	457
Leasehold and building improvements	**844**	888
	2,606	2,902
Less — accumulated depreciation and amortization	**(1,563)**	(1,724)
	$ 1,043	$ 1,178

Investment Securities: MMC holds investments in both public and private companies, as well as certain private equity funds (managed by Stone Point and T.H. Lee) and seed shares for mutual funds. Publicly traded investments are classified as available for sale or trading securities in accordance with SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities” (“SFAS 115”), and carried at market value. Non-publicly traded investments are carried at cost in accordance with APB Opinion No. 18 (“APB 18”). Changes in the fair value of trading securities are recorded in earnings when they occur. Changes in the fair value of available for sale securities are recorded in stockholders’ equity, net of applicable taxes, until realized. Securities classified as trading or available for sale under SFAS 115, or carried at cost under APB 18, are included in Long-term investments in the consolidated balance sheets.

Certain investments, primarily investments in private equity funds, are accounted for using the equity method under APB 18. The underlying private equity funds follow investment company accounting, where securities within the fund are carried at fair value. MMC records its proportionate share of the change in fair value of the funds in earnings. Securities recorded using the equity method are included in Other assets in the consolidated balance sheets.

Gains or losses recognized in earnings from the investment securities described above are included in Investment income (loss) in the consolidated statements of income. Costs related to management of MMC's investments, including incentive compensation partially derived from investment income and loss, are recorded in operating expenses.

Goodwill and Other Intangible Assets: Goodwill represents acquisition costs in excess of the fair value of net assets acquired. Goodwill is reviewed at least annually for impairment. MMC performs an annual impairment test for each of its reporting units during the third quarter of each year. Fair values of the reporting units are estimated using a market approach or a discounted cash flow model. Carrying values for the reporting units are based on balances at the prior quarter end and include directly identified assets and liabilities as well as an allocation of those assets and liabilities not recorded at the reporting unit level. Other intangible assets that are not deemed to have an indefinite life are amortized over their estimated lives and reviewed for impairment upon the occurrence of certain triggering events in accordance with applicable accounting literature.

Capitalized Software Costs: MMC capitalizes certain costs to develop, purchase, or modify software for the internal use of MMC. These costs are amortized on a straight-line basis over periods ranging from three to ten years. Costs incurred during the preliminary project stage and post implementation stage are expensed as incurred. Costs incurred during the application development stage are capitalized. Costs related to updates and enhancements are only capitalized if they will result in additional functionality. Computer software costs of $270 million and $284 million, net of accumulated amortization of $663 million and $524 million at December 31, 2006 and 2005, respectively, are included in Other assets in the consolidated balance sheets.

Legal and Other Loss Contingencies: MMC and its subsidiaries are subject to a significant number of claims, lawsuits and proceedings. MMC records liabilities for contingencies including legal costs when it is probable that a liability has been incurred before the balance sheet date and the amount can be reasonably estimated. To the extent such losses can be recovered under MMC's insurance programs, estimated recoveries are recorded when losses for insured events are recognized. Significant management judgment is required to estimate the amounts of such contingent liabilities and the related insurance recoveries. MMC analyzes its litigation exposure based on available information, including consultation with outside counsel handling the defense of these matters, to assess its potential liability. Contingent liabilities are not discounted.

Income Taxes: MMC's tax rate reflects its income, statutory tax rates and tax planning in the various jurisdictions in which it operates. Significant judgment is required in determining the annual tax rate and in evaluating tax positions. Tax allowances are established for uncertain tax positions when, despite the belief that the tax return positions are consistent with applicable law, there is the potential that they may be successfully challenged. The allowances, are established for all identified liabilities and related interest, that are probable and can be estimated in accordance with SFAS No. 5. The possibility that a taxing authority may not assert an issue is not taken into account. It is assumed that the taxing authority will become fully aware of all facts relating to an issue and propose adjustments as appropriate. Allowances are evaluated based upon the facts and circumstances that exist at each reporting period. Allowances for issues that have been asserted by tax authorities and resolved by agreement are adjusted in the quarter when agreement is reached. If the statute of limitations operates to bar assessment of an issue that has not been asserted by a taxing authority, the related allowance is reversed at that time.

Tax law requires items to be included in MMC's tax returns at different times than the items are reflected in the consolidated statements of income. As a result, the annual tax expense reflected in the consolidated statements of income is different than that reported in the tax returns. Some of these differences are permanent, such as expenses that are not deductible in the returns, and some differences are temporary and reverse over time, such as depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in tax returns in future years for which benefit has already been recorded in the financial statements. Valuation allowances are established for deferred tax assets when it is estimated that it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax liabilities generally represent tax expense recognized in the financial statements for which payment has been deferred, or expense for which a deduction has been taken already in the tax return but the expense has not yet been recognized in the financial statements.

U.S. Federal income taxes are provided on unremitted foreign earnings except those that are considered permanently reinvested, which at December 31, 2006 amounted to approximately $1.6 billion. However, if these earnings were not considered permanently reinvested, the incremental tax liability which otherwise might be due upon distribution, net of foreign tax credits, would be approximately $70 million.

Derivative Instruments: All derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

Variable Interest Entities: Through Putnam, MMC manages $4.8 billion in the form of Collateralized Debt Obligations ("CDOs"), Collateralized Bond Obligations ("CBOs") and Collateralized Loan Obligations ("CLOs"). Separate limited liability companies were established to issue the notes evidencing these obligations and to hold the underlying collateral, which consists of high-yield bonds and other securities. Putnam serves as the collateral manager for the CDOs, CBOs and CLOs. The maximum loss exposure related to the CDOs, CBOs and CLOs is limited to Putnam's investment totaling $4.6 million in certain of these CDOs and CLOs reflected in Long-term investments in the consolidated balance sheets at December 31, 2006. MMC has concluded it is not the primary beneficiary of these entities under FIN 46(R) "Consolidation of Variable Interest Entities."

Concentrations of Credit Risk: Financial instruments which potentially subject MMC to concentrations of credit risk consist primarily of cash and cash equivalents, commissions and fees receivable and insurance recoverables. MMC maintains a policy providing for the diversification of cash and cash equivalent investments and places its investments in an extensive number of high quality financial institutions to limit the amount of credit risk exposure. Concentrations of credit risk with respect to receivables are generally limited due to the large number of clients and markets in which MMC does business, as well as the dispersion across many geographic areas.

Per Share Data: Basic net income per share is calculated by dividing net income by the weighted average number of shares of MMC's common stock outstanding, excluding unvested restricted stock. Diluted net income per share is calculated by reducing net income for the potential minority interest expense associated with unvested shares under the Putnam Equity Partnership Plan, discussed further in Note 9, and adding back dividend equivalent expense related to common stock equivalents, to the extent recognized in earnings. This result is then divided by the weighted average common shares outstanding, which have been adjusted for the dilutive effect of potentially issuable common shares. The following reconciles income from continuing operations to income from continuing operations for diluted earnings per share and basic weighted average common shares outstanding to diluted weighted average common shares outstanding:

For the Years Ended December 31, *(In millions)*	**2006**	2005	2004
Income from continuing operations	**$ 818**	$ 367	$ 152
Less: Potential minority interest expense associated with Putnam Class B Common Shares	**(13)**	(5)	—
Add: Dividend equivalent expense related to common stock equivalents	**—**	1	2
Income from continuing operations for diluted earnings per share	**$ 805**	$ 363	$ 154
Basic weighted average common shares outstanding	**549**	538	526
Dilutive effect of potentially issuable common shares	**8**	5	9
Diluted weighted average common shares outstanding	**557**	543	535
Average stock price used to calculate common stock equivalents	**$29.06**	$29.65	$42.12

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from those estimates.

New Accounting Pronouncements: In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132 (R)" ("SFAS 158"). SFAS 158 requires that MMC recognize the funded status of its overfunded defined benefit pension and retiree medical plans (the "Plans") as a net benefit plan asset and its unfunded and underfunded plans as a net benefit plan liability. The gains or losses and prior service costs or credits that have not been recognized as components of net periodic costs are recorded as a component of Accumulated Other Comprehensive Income ("AOCI"), net of tax, in MMC's balance sheet. MMC adopted the provisions of SFAS 158, prospectively, on December 31, 2006. The impact of adopting SFAS 158 caused a reduction in assets of $660 million and an increase in liabilities of $245 million, including a related adjustment to tax benefits of $423 million. The net impact of adopting SFAS 158 was a reduction to MMC's stockholders' equity of $905 million, $804 million including the impact of recording a minimum pension credit prior to the adoption of SFAS 158. SFAS 158 also requires companies to measure the funded status of their plans as of their year-end balance sheet date no later than 2008. MMC's existing policy is to measure the funded status of its Plans as of its year-end balance sheet date and therefore, MMC is not impacted by this requirement.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands required disclosures about fair value measurements. The provisions of SFAS 157 are effective as of the beginning of MMC's 2008 fiscal year. MMC is currently evaluating the impact of adopting SFAS 157 on its consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions. This interpretation requires that MMC recognize in its consolidated financial statements the impact of a tax position when it is more likely than not that the tax position would be sustained upon examination by the tax authorities based on the technical merits of the position. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 will be effective for MMC beginning in the first quarter of 2007, with the cumulative effect of any change in

accounting principle recorded as an adjustment to opening retained earnings. On February 27, 2007 the FASB issued draft implementation guidance in the form of a proposed FASB Staff Position subject to a thirty day comment period. Pending finalization of this guidance, MMC is evaluating the impact of adopting FIN 48 on its consolidated financial statements.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS 159 on its consolidated financial position and results of operations.

Reclassifications: Certain reclassifications have been made to the prior year amounts to conform with current year presentation, in particular with regard to discontinued operations classification for Kroll Security International and certain balance sheet line items.

2. Supplemental Disclosures

The following schedule provides additional information concerning acquisitions, interest and income taxes paid:

For the Years Ended December 31, *(In millions of dollars)*	**2006**	2005	2004
Purchase acquisitions:			
Assets acquired, excluding cash	**$200**	$ 68	$2,353
Liabilities assumed	**—**	—	(17)
Issuance of debt and other obligations	**(32)**	(8)	(33)
Deferred purchase consideration	**53**	80	61
Shares issuable	**—**	(66)	—
Net cash outflow for acquisitions	**$221**	$ 74	$2,364
Interest paid	**$300**	$307	$ 198
Income taxes paid	**$597**	$156	$ 383

An analysis of the allowance for doubtful accounts for the three years ended December 31 follows:

(In millions of dollars)	**2006**	2005	2004
Balance at beginning of year	**$157**	$142	$115
Provision charged to operations	**11**	49	30
Accounts written-off, net of recoveries	**(23)**	(25)	(10)
Effect of exchange rate changes	**11**	(9)	7
Balance at end of year	**$156**	$157	$142

In December 2006, MMC contributed its limited partnership interest in Trident III, valued at $182 million, to its pension plan in the United Kingdom.

In September 2005, the Company contributed 8 million shares of MMC common stock, valued at $205 million, to the U.S. qualified retirement plan.

3. Other Comprehensive Income (Loss)

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

For the Years Ended December 31, *(In millions of dollars)*	**2006**	2005	2004
Foreign currency translation adjustments	**$305**	$(271)	$234
Unrealized investment holding gains, net of income tax liability of $2, $10 and $3 in 2006, 2005 and 2004, respectively	**7**	18	8
Less: Reclassification adjustment for realized gains included in net income, net of income tax liability of $14, $55 and $36 in 2006, 2005 and 2004, respectively	**(24)**	(103)	(66)
Minimum pension liability adjustment, net of income tax liability (benefit) of $51 in 2006, $(3) in 2005 and $(123) in 2004	**101**	(30)	(266)
Deferred loss on cash flow hedges, net of income tax benefit of $0, $0 and $(1) in 2006, 2005 and 2004, respectively	**—**	—	(1)
	$389	$(386)	$ (91)

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

December 31, *(In millions of dollars)*	**2006**	2005
Foreign currency translation adjustments	**$ 278**	$ (27)
Net unrealized investment gains	**36**	53
Minimum pension liability adjustment	**—**	(782)
Net changes under SFAS 158	**(1,586)**	—
	$(1,272)	$(756)

4. Acquisitions and Dispositions

During 2006, MMC made 16 acquisitions, for total purchase consideration of $200 million. The allocation of purchase consideration resulted in acquired goodwill of $132 million as of December 31, 2006. Estimated fair values of assets acquired and liabilities assumed are subject to adjustment when purchase accounting is finalized.

In December 2006, MMC sold its interest in Kroll Security International, which provided high risk asset and personal protection services. The gain on sale is included in discontinued operations.

In September 2006, MMC sold the assets of Price Forbes, its U.K.-based insurance wholesale operation. The loss on the sale, which included a charge in the first quarter of 2006 to reduce the carrying amount of its assets to fair value, is included in discontinued operations.

In January 2006, MMC sold its majority interest in Sedgwick CMS Holdings ("SCMS"), a provider of claims management and associated productivity services. The gain on sale, including the gain on MMC's indirect investment in SCMS through the Trident II private equity fund, is included in discontinued operations.

During 2005, MMC made nine acquisitions, for total purchase consideration of $68 million. The allocation of purchase consideration resulted in acquired goodwill of $45 million during 2005.

In May 2005, MMC sold the assets of MMC Capital, its private equity manager, to Stone Point Capital LLC, a company controlled by the former managers of MMC Capital, for approximately $3 million. Stone Point has assumed responsibility for management of the Trident Funds and other private equity funds previously managed by MMC Capital. MMC does not participate in the investment decisions or management of Stone Point or the private equity funds managed by Stone Point. MMC continues to

own direct investments in insurance and financial services companies, including Ace Ltd., XL Capital Ltd. and Axis Capital Holdings Ltd., as well as its investments in Trident II and other funds managed by Stone Point.

5. Discontinued Operations

In the fourth quarter of 2006, Kroll completed the sale of Kroll Security International ("KSI"), its international high-risk asset and personal protection division. The gain on the disposal of KSI and the financial results associated with 2006 and prior periods are included in discontinued operations.

In the first quarter of 2006, MMC determined that Price Forbes, its U.K.-based insurance wholesale operation, met the criteria for classification as a discontinued operation. The 2006 results of Price Forbes, which include a charge to reduce the carrying amount of its assets to fair value less cost to sell, are included in discontinued operations in the consolidated statement of income. The results of Price Forbes were insignificant to MMC's 2005 results and therefore, prior year amounts have not been restated. MMC completed the sale of Price Forbes in September 2006.

MMC sold Crump Group, Inc., its U.S.-based wholesale insurance broker, during the fourth quarter of 2005, and its majority interest in SCMS, a provider of claims management and associated productivity services, on January 31, 2006. The account balances and activities of these entities are presented as discontinued operations in the accompanying consolidated financial statements.

All of the entities classified as discontinued operations were part of MMC's risk and insurance services segment, except KSI, which was part of MMC's risk consulting & technology segment.

Summarized Statements of Income data for discontinued operations is as follows:

For the Years Ended December 31, *(In millions of dollars)*	**2006**	2005	2004
Revenue	**$148**	$531	$433
Income before provision for income tax	**$ 2**	$ 44	$ 44
Provision for income tax	**2**	21	20
Income from discontinued operations, net of tax	**—**	23	24
Gain on disposal of discontinued operations	**298**	55	—
Provision for income tax	**126**	41	—
Gain on disposal of discontinued operations, net of tax	**172**	14	—
Discontinued operations, net of tax	**$172**	$ 37	$ 24

Summarized Balance Sheet data for discontinued operations is as follows:

December 31, *(In millions of dollars)*	**2006**	2005
Assets of discontinued operations:		
Current assets	**$—**	$ 40
Fixed assets, net	**—**	31
Goodwill and intangible assets	**—**	78
Other assets	**—**	4
Total assets of discontinued operations	**$—**	$153
Liabilities of discontinued operations	**$—**	$ 89

6. Goodwill and Other Intangibles

MMC is required to assess goodwill and any indefinite-lived intangible assets for impairment annually or more frequently if circumstances indicate impairment may have occurred. MMC performs the annual impairment test for each of its reporting units during the third quarter of each year. MMC completed its annual impairment tests in the third quarter of 2006 and determined that such assets were not impaired.

Changes in the carrying amount of goodwill are as follows:

(In millions of dollars)	**2006**	2005
Balance as of January 1, 2006	**$7,246**	$7,459
Goodwill acquired	**132**	45
Disposals	**(29)**	(95)
Purchase accounting adjustments in accordance with SFAS No. 141	**(111)**	(38)
Other adjustments [(a)]	**90**	(125)
Balance as of December 31, 2006	**$7,328**	$7,246

[(a)] Primarily includes foreign exchange

Goodwill allocable to each of MMC's reportable segments is as follows: Risk and Insurance Services $3.7 billion; Risk Consulting & Technology $1.6 billion; Consulting $1.9 billion; and Investment Management $0.1 billion.

The goodwill balance at December 31, 2006 and 2005 includes approximately $115 million and $121 million, respectively, of equity method goodwill.

Amortized intangible assets consist of the cost of client lists, client relationships and trade names acquired, and the rights to future revenue streams from certain existing private equity funds. The gross cost and accumulated amortization by major intangible asset class is as follows:

	2006			2005		
December 31, *(In millions of dollars)*	**Gross Cost**	**Accumulated Amortization**	**Net Carrying Amount**	Gross Cost	Accumulated Amortization	Net Carrying Amount
Customer and marketing related	**$655**	**$266**	**$389**	$638	$191	$447
Future revenue streams related to existing private equity funds	**200**	**142**	**58**	200	125	75
Total amortized intangibles	**$855**	**$408**	**$447**	$838	$316	$522

Aggregate amortization expense for the years ended December 31, 2006 and 2005, was $97 million and $99 million, respectively, and the estimated future aggregate amortization expense is as follows:

For the Years Ending December 31, *(In millions of dollars)*	Estimated Expense
2007	$ 76
2008	70
2009	61
2010	45
2011	34
Subsequent years	161
	$447

7. Income Taxes

Income before income taxes and minority interest shown below is based on the geographic location to which such income is attributable. Although income taxes related to such income may be assessed in more than one jurisdiction, the income tax provision corresponds to the geographic location of the income.

For the Years Ended December 31, *(In millions of dollars)*	**2006**	2005	2004
Income before income taxes and minority interest:			
U.S.	**$ 536**	$142	$(111)
Other	**683**	426	510
	$1,219	$568	$ 399
Income taxes:			
Current—			
U.S. Federal	**$ 32**	$ (22)	$ 187
Other national governments	**226**	124	79
U.S. state and local	**70**	53	44
	328	155	310
Deferred—			
U.S. Federal	**146**	49	(118)
Other national governments	**(51)**	(5)	67
U.S. state and local	**(35)**	(8)	(20)
	60	36	(71)
Total income taxes	**$ 388**	$191	$ 239

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

December 31, *(In millions of dollars)*	**2006**	2005
Deferred tax assets:		
Accrued expenses not currently deductible [(a)]	**$ 649**	$ 742
Differences related to non-U.S. operations	**303**	164
Accrued retirement & postretirement benefits — non-U.S. operations	**239**	51
Net operating losses [(b)]	**96**	31
Income currently recognized for tax	**57**	51
Other	**57**	62
	$1,401	$1,101
Deferred tax liabilities:		
Unrealized investment holding gains	**$ 17**	$ 29
Differences related to non-U.S. operations	**143**	91
Depreciation and amortization	**162**	282
Accrued retirement benefits	**11**	107
Other	**100**	24
	$ 433	$ 533

(a) Net of valuation allowance of $2 million and $9 million, respectively.
(b) Net of valuation allowance of $14 million and $68 million, respectively.

December 31, *(In millions of dollars)*	**2006**	2005
Balance sheet classifications:		
Current assets	**$180**	$153
Other assets	**$799**	$415
Other liabilities	**$ 11**	$ —

A reconciliation from the U.S. Federal statutory income tax rate to MMC's effective income tax rate is shown below.

For the Years Ended December 31,	**2006**	2005	2004
	%	%	%
U.S. Federal statutory rate	**35.0**	35.0	35.0
U.S. state and local income taxes–net of U.S. Federal income tax benefit	**1.9**	5.1	1.6
Differences related to non-U.S. operations	**(5.3)**	(5.1)	(8.2)
NYAG lawsuit, including state taxes	**—**	—	12.9
Putnam regulatory settlements	**—**	—	19.4
Meals and entertainment	**.9**	1.5	2.9
Dividends paid to employees	**(.6)**	(1.4)	(3.3)
Other	**(.1)**	(1.4)	(.9)
Effective tax rate	**31.8**	33.7	59.4

Reversals of valuation allowances recorded in prior years reduced the tax provision by $29 million in 2006. The valuation allowances had a net decrease of $61 million in 2006 compared with a net increase of $26 million in 2005. Approximately $1 million of the cumulative valuation allowances relates to amounts which if realized would reduce goodwill or increase contributed capital in the future. Approximately 50% of the Company's net operating loss carryforwards expire over various periods from 2007 through 2025, and others are unlimited. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized and adjusts the valuation allowance accordingly. MMC evaluates all significant available positive and negative evidence, including the existence of losses in recent years and its forecast of future taxable income, in assessing the need for a valuation allowance. The underlying assumptions the Company uses in forecasting future taxable income require significant judgment and take into account the Company's recent performance. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which temporary differences are deductible. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, MMC believes it is more likely than not that it will realize the benefits of the deferred tax assets, net of existing valuation allowances at December 31, 2006. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

The American Jobs Creation Act (the "Act"), adopted on October 22, 2004, provided for a special one-time tax deduction, or dividend received deduction, of 85% of qualifying foreign earnings that are repatriated in either a company's last tax year that began before the enactment date or the first tax year that begins during the one-year period beginning on the enactment date. In the fourth quarter of 2005, MMC recorded an income tax benefit of $8 million, attributable to the repatriation of approximately $585 million of qualifying earnings under the provisions of the Act. The $8 million tax benefit resulted from the reversal of deferred tax liabilities previously provided under SFAS No. 109, which were in excess of the tax liabilities from repatriation of these qualifying earnings.

MMC is routinely examined by the Internal Revenue Service and tax authorities in the United Kingdom, as well as states in which it has significant business operations, such as California, Massachusetts and New York. The tax years under examination vary by jurisdiction. MMC regularly considers the likelihood of assessments in each of the taxing jurisdictions resulting from examinations. MMC has established tax allowances which it believes are adequate in relation to the potential assessments. MMC believes the resolution of tax matters will not have a material effect on the consolidated financial condition of MMC, although a resolution could have a material impact on MMC's net income or cash flows and on its effective tax rate in a particular future period.

8. Retirement Benefits

MMC maintains qualified and non-qualified defined benefit pension plans for its eligible U.S. employees and a variety of defined benefit and defined contribution plans for eligible non-U.S. employees. MMC's policy for funding its tax qualified defined benefit pension plans is to contribute amounts at least sufficient to meet the funding requirements set forth in U.S. and applicable foreign law.

Implementation of SFAS 158
In September 2006, the FASB issued SFAS 158 which requires that MMC recognize on a prospective basis the funded status of its overfunded defined benefit pension and retiree medical plans (the "Plans") as a net benefit plan asset and its unfunded and underfunded plans as a net benefit plan liability. The offsetting adjustment to the amount of assets and liabilities required to be recognized is recorded in AOCI, net of tax, in MMC's 2006 year-end balance sheet. Subsequent changes in the funded status will be recognized through the income statement and other comprehensive income in the year in which they occur as appropriate. The incremental effect of applying SFAS 158 on individual line items in MMC's consolidated balance sheet as of December 31, 2006 including tax effects is as follows:

(In millions of dollars)	Before Application of Statement 158	Adjustments	After Application of Statement 158
Goodwill and intangible assets	$ 7,777	$ (2)	$ 7,775
Pension related assets	1,694	(1,081)	613
Other assets	1,852	423	2,275
Total assets	18,797	(660)	18,137
Accounts payable and accrued liabilities	2,439	38	2,477
Pension, postretirement and postemployment benefits	882	207	1,089
Accumulated other comprehensive loss[a]	(367)	(905)	(1,272)
Total stockholders' equity	$ 6,724	$ (905)	$ 5,819

(a) The SFAS 158 implementation adjustment excludes a $101 million credit to the minimum pension liability.

Combined U.S. and non-U.S. Plans
The weighted average actuarial assumptions utilized for the U.S. and significant non-U.S. defined benefit plans as of the end of the year are as follows:

	Pension Benefits		Postretirement Benefits	
	2006	2005	**2006**	2005
Weighted average assumptions:				
Discount rate (for expense)	**5.1%**	5.5%	**5.6%**	5.9%
Expected return on plan assets	**8.2%**	8.4%	**—**	—
Rate of compensation increase (for expense)	**3.8%**	3.6%	**—**	—
Discount rate (for benefit obligation)	**5.4%**	5.1%	**5.8%**	5.6%
Rate of compensation increase (for benefit obligation)	**3.8%**	3.8%	**—**	—

The long-term rate of return assumption is selected for each plan based on the facts and circumstances that exist as of the measurement date, and the specific portfolio mix of each plan's assets. MMC uses Mercer actuaries to perform the valuations of its pension plans. MMC utilizes a model developed by its actuaries to assist in the setting of this assumption. The model takes into account several factors, including: actual and target portfolio allocation; investment, administrative and trading expenses incurred directly by the plan trust; historical portfolio performance; relevant forward-looking economic analysis; and expected returns, variances, and correlations for different asset classes. All returns utilized and produced by the model are geometric averages. These measures are used to determine probabilities using standard statistical techniques to calculate a range of expected returns on the portfolio. MMC generally does not adjust the rate of return assumption from year to year if, at the measurement date, it is within the best estimate range, defined as between the 25th and 75th percentile of the expected long-term annual returns in accordance with the "American Academy of Actuaries Pension Practice Council Note May 2001 Selecting and Documenting Investment Return Assumptions" and consistent with Actuarial Standards of Practice No. 27. The historical five- and ten-year average asset returns of each plan are also reviewed to ensure they are consistent and reasonable compared with the best estimate range. The expected return on plan assets is determined by applying the assumed long-term rate of return to the market-related value of plan assets as defined by SFAS No. 87. This market-related value recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the market value of assets. Since the market-related value of assets recognizes gains or losses over a five-year period, the future market-related value of the assets will be impacted as previously deferred gains or losses are recorded.

The target asset allocation for the U.S. plans is 70% equities and 30% fixed income, and for the U.K. plans, which comprise approximately 84% of non-U.S. plan assets, is 58% equities and 42% fixed income. As of the measurement date, the actual allocation of assets for the U.S. plan was 74% to equities and 26% to fixed income, and for the U.K. plans was 62% to equities and 38% to fixed income. The assets of the Company's defined benefit plans are well-diversified and are managed in accordance with applicable laws and with the goal of maximizing the plans' real return within acceptable risk parameters. MMC uses threshold-based portfolio rebalancing to ensure the actual portfolio remains consistent with target allocations.

The discount rate selected for each U.S. plan is based on a model bond portfolio with coupons and redemptions that closely match the expected liability cash flows from the plan. Discount rates for non-U.S. plans are based on appropriate bond indices such as the iBoxx £ Corporates 15-year index in the U.K. Projected compensation increases reflect current expectations as to future levels of inflation.

The components of the net periodic benefit cost for combined U.S. and non-U.S. defined benefit and other postretirement benefit plans are as follows:

For the Years Ended December 31,	Pension Benefits			Postretirement Benefits		
(In millions of dollars)	**2006**	2005	2004	**2006**	2005	2004
Service cost	**$ 235**	$ 245	$ 232	**$ 6**	$ 9	$ 11
Interest cost	**494**	472	422	**14**	18	20
Expected return on plan assets	**(695)**	(640)	(618)	**—**	—	—
Amortization of prior service credit	**(54)**	(41)	(38)	**(14)**	(3)	(2)
Amortization of transition asset	**—**	—	(5)	**—**	—	—
Recognized actuarial loss	**237**	177	90	**4**	1	3
Net Periodic Benefit Cost	**$ 217**	$ 213	$ 83	**$ 10**	$ 25	$ 32

U.S. Plans

The following schedules provide information concerning MMC's U.S. defined benefit pension plans and postretirement benefit plans:

December 31,	U.S. Pension Benefits		U.S. Postretirement Benefits	
(In millions of dollars)	**2006**	2005	**2006**	2005
Change in benefit obligation:				
Benefit obligation at beginning of year	**$3,094**	$3,013	**$ 194**	$ 309
Service cost	**83**	88	**4**	8
Interest cost	**182**	176	**11**	15
Amendments	**—**	(138)	**—**	(92)
Actuarial loss	**33**	80	**(5)**	(27)
Benefits paid	**(128)**	(125)	**(12)**	(19)
Benefit obligation at end of year	**$3,264**	$3,094	**$ 192**	$ 194
Change in plan assets:				
Fair value of plan assets at beginning of year	**$3,015**	$2,635	**$ —**	$ —
Actual return on plan assets	**475**	276	**—**	—
Employer contributions	**20**	229	**12**	19
Benefits paid	**(128)**	(125)	**(12)**	(19)
Fair value of plan assets at end of year	**$3,382**	$3,015	**$ —**	$ —
Funded status	**$ 118**	$ (79)	**$(192)**	$(194)
Unrecognized net actuarial loss	**N/A**	858	**N/A**	38
Unrecognized prior service credit	**N/A**	(282)	**N/A**	(93)
Net asset (liability) recognized	**$ 118**	$ 497	**$(192)**	$(249)

December 31, (In millions of dollars)	U.S. Pension Benefits		U.S. Postretirement Benefits	
	2006	2005	**2006**	2005
Amounts recognized in the Consolidated Balance Sheets under SFAS 158:				
Noncurrent assets	**$ 454**	N/A	**$ —**	N/A
Current liabilities	**(19)**	N/A	**(13)**	N/A
Noncurrent liabilities	**(317)**	N/A	**(179)**	N/A
	$ 118	N/A	**$(192)**	N/A
Amounts recognized in the Consolidated Balance Sheets under prior accounting rules:				
Prepaid benefit cost	**N/A**	$ 746	**N/A**	$ —
Accrued benefit liability	**N/A**	(314)	**N/A**	(249)
Accumulated other comprehensive loss	**N/A**	65	**N/A**	—
Net amount recognized	**N/A**	$ 497	**N/A**	$(249)
Amounts not yet recognized in net periodic cost and included in accumulated other comprehensive income:				
Unrecognized prior service credit	**$ 228**	N/A	**$ 78**	N/A
Unrecognized net actuarial loss	**(572)**	N/A	**(29)**	N/A
Total amounts included in AOCI	**$ (344)**	N/A	**$ 49**	N/A
Cumulative employer contributions in excess of net periodic cost	**462**	N/A	**(241)**	N/A
Net amount recognized in consolidated balance sheet	**$ 118**	N/A	**$(192)**	N/A
Accumulated benefit obligation at December 31	**$3,160**	$3,021	**$ —**	$ —
Estimated amounts that will be amortized from accumulated other comprehensive income in the next fiscal year:				
Prior service cost (credit)	**$ (54)**	N/A	$ (13)	N/A
Net loss	**79**	N/A	2	N/A
	$ 25	N/A	$ (11)	N/A

The weighted average actuarial assumptions utilized in determining the above amounts for the U.S. defined benefit and other U.S. postretirement plans as of the end of the year are as follows:

	U.S. Pension Benefits		U.S. Postretirement Benefits	
	2006	2005	**2006**	2005
Weighted average assumptions:				
Discount rate (for expense)	**5.9%**	6.0%	**5.9%**	6.0%
Expected return on plan assets	**8.75%**	8.75%	**—**	—
Rate of compensation increase (for expense)	**3.4%**	3.0%	**—**	—
Discount rate (for benefit obligation)	**6.1%**	5.9%	**6.1%**	5.9%
Rate of compensation increase (for benefit obligation)	**3.4%**	3.4%	**—**	—

In September 2005, the Company contributed 8 million shares of MMC common stock, valued at $205 million, to the U.S. qualified plan. Prior to this contribution, the U.S. qualified plan held no MMC securities. Plan assets of approximately $1.9 billion and $2.0 billion at December 31, 2006 and 2005, respectively, were managed by Putnam, which includes both separately managed and publicly available investment funds.

The assets and liabilities of the U.S. defined benefit pension plans were re-measured at October 31, 2005 to reflect a change in substantive plan as defined by SFAS No. 87, "Employer's Accounting for Pensions" ("SFAS 87"). The changes include changing the benefit formula from a final average salary to a career average salary as well as a change in the calculation for early retirement benefits. The change in substantive plans reduced the projected benefit obligation by approximately $138 million.

The projected benefit obligation, accumulated benefit obligation and aggregate fair value of plan assets for U.S. pension plans with accumulated benefit obligations in excess of plan assets were $337 million, $322 million and $0, respectively, as of December 31, 2006 and $326 million, $315 million and $0, respectively, as of December 31, 2005.

The components of the net periodic benefit cost for the U.S. defined benefit and other postretirement benefit plans are as follows:

For the Years Ended December 31,	U.S. Pension Benefits			U.S. Postretirement Benefits		
(In millions of dollars)	**2006**	2005	2004	**2006**	2005	2004
Service cost	**$ 83**	$ 88	$ 78	**$ 4**	$ 8	$10
Interest cost	**182**	176	164	**11**	15	17
Expected return on plan assets	**(252)**	(233)	(230)	**—**	—	—
Amortization of prior service credit	**(54)**	(40)	(38)	**(14)**	(3)	(2)
Amortization of transition asset	**—**	—	(5)	**—**	—	—
Recognized actuarial loss	**96**	78	46	**3**	1	3
Net Periodic Benefit Cost	**55**	69	15	**4**	21	28
Curtailment gain	**—**	—	—	**—**	(1)	—
Total Expense	**$ 55**	$ 69	$ 15	**$ 4**	$20	$28

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 became law. The net periodic benefit cost for 2006 and 2005 shown above includes the subsidy.

The assumed health care cost trend rate for Medicare eligibles was approximately 11.5% in 2006, gradually declining to 5% in 2019, and the rate for non-Medicare eligibles was 10% in 2006, gradually declining to 5% in 2016. Assumed health care cost trend rates have a significant effect on the amounts reported for the U.S. health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

(In millions of dollars)	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost components	$—	$—
Effect on postretirement benefit obligation	$—	$(4)

Non-U.S. Plans
MMC's financial statements have always reflected pension expense and additional minimum liabilities for its non-U.S. plans based on the provisions of SFAS 87 and SFAS 132(R). Prior period pension disclosures reflect information for the material pension plans only. In 2006, all plans for which valuations were made under SFAS 87 have been included in the disclosures.

The following schedules provide information concerning MMC's non-U.S. defined benefit pension plans and non-U.S. postretirement benefit plans.

December 31,	Non-U.S. Pension Benefits		Non-U.S. Postretirement Benefits	
(In millions of dollars)	**2006**	2005	**2006**	2005
Change in benefit obligation:				
Benefit obligation at beginning of year	**$6,288**	$5,936	**$ 70**	$ 62
Newly disclosed plans	**142**	—	**—**	—
Service cost	**152**	157	**2**	1
Interest cost	**312**	296	**3**	3
Employee contributions	**33**	37	**—**	—
Actuarial loss (gain)	**(238)**	648	**—**	9
Effect of settlement	**(5)**	(14)	**—**	—
Effect of curtailment	**(35)**	(40)	**—**	—
Special termination benefits	**5**	17	**—**	—
Benefits paid	**(223)**	(210)	**(3)**	(3)
Foreign currency changes	**752**	(539)	**6**	(2)
Other	**11**	—	**—**	—
Benefit obligation at end of year	**$7,194**	$6,288	**$ 78**	$ 70
Change in plan assets:				
Fair value of plan assets at beginning of year	**$5,470**	$4,815	**$ —**	$ —
Newly disclosed plans	**83**	—	**—**	—
Actual return on plan assets	**534**	785	**—**	—
Effect of settlement	**(5)**	(12)	**—**	—
Company contributions	**319**	498	**3**	3
Employee contributions	**33**	37	**—**	—
Benefits paid	**(223)**	(210)	**(3)**	(3)
Foreign currency changes	**684**	(443)	**—**	—
Fair value of plan assets at end of year	**$6,895**	$5,470	**$ —**	$ —
Funded status	**$ (299)**	$ (818)	**$(78)**	$(70)
Unrecognized net actuarial loss	**N/A**	2,251	**N/A**	17
Unrecognized prior service cost	**N/A**	(24)	**N/A**	(2)
Net asset (liability) recognized	**$ (299)**	$1,409	**$(78)**	$(55)

December 31, *(In millions of dollars)*	Non-U.S. Pension Benefits **2006**	Non-U.S. Pension Benefits 2005	Non-U.S. Postretirement Benefits **2006**	Non-U.S. Postretirement Benefits 2005
Amounts recognized in the Consolidated Balance Sheets under SFAS 158:				
Noncurrent assets	**$ 158**	N/A	**$ —**	N/A
Current liabilities	**(3)**	N/A	**(3)**	N/A
Noncurrent liabilities	**(454)**	N/A	**(75)**	N/A
	$ (299)	N/A	**$ (78)**	N/A
Amounts recognized in the Consolidated Balance Sheets under prior accounting rules:				
Prepaid benefit cost	**N/A**	$ 827	**N/A**	$ —
Accrued benefit liability	**N/A**	(452)	**N/A**	(55)
Intangible asset	**N/A**	6	**N/A**	—
Accumulated other comprehensive loss	**N/A**	1,028	**N/A**	—
Net amount recognized	**N/A**	$1,409	**N/A**	$(55)
Amounts not yet recognized in net periodic cost and included in accumulated other comprehensive income:				
Unrecognized prior service benefit	**$ 26**	N/A	**$ 2**	N/A
Unrecognized net actuarial loss	**(2,020)**	N/A	**(18)**	N/A
Total amounts included in AOCI	**$(1,994)**	N/A	**$ (16)**	N/A
Cumulative employer contributions in excess of net periodic cost	**1,695**	N/A	**(62)**	N/A
Net amount recognized in consolidated balance sheet	**$ (299)**	N/A	**$ (78)**	N/A
Accumulated benefit obligation at December 31	**$ 6,507**	$5,680	**$ —**	$ —
Estimated amounts that will be amortized from accumulated other comprehensive income in the next fiscal year:				
Prior service cost (credit)	**$ (2)**	N/A	**$ —**	N/A
Net loss	**120**	N/A	**1**	N/A
	$ 118	N/A	**$ 1**	N/A

The weighted average actuarial assumptions utilized in determining the above amounts for the non-U.S. defined benefit and other non-U.S. postretirement plans as of the end of the year are as follows:

	Non-U.S. Pension Benefits **2006**	Non-U.S. Pension Benefits 2005	Non-U.S. Postretirement Benefits **2006**	Non-U.S. Postretirement Benefits 2005
Weighted average assumptions:				
Discount rate (for expense)	**4.7%**	5.3%	**4.8%**	5.6%
Expected return on plan assets	**7.9%**	8.2%	**—**	—
Rate of compensation increase (for expense)	**4.0%**	4.0%	**—**	—
Discount rate (for benefit obligation)	**5.1%**	4.7%	**5.2%**	4.8%
Rate of compensation increase (for benefit obligation)	**4.0%**	4.0%	**—**	—

In December 2006, MMC contributed its limited partnership interest in Trident III, valued at $182 million to its pension plan in the United Kingdom.

The assets and liabilities of the U.K. defined benefit pension plan were re-measured at March 31, 2005 to reflect a plan curtailment as defined by SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." Restructuring activities led to a reduction in force which resulted in the elimination of the accrual for defined benefits for a significant number of employees.

The non-U.S. defined benefit plans do not have any direct or indirect ownership of MMC stock.

The benefit obligation, accumulated benefit obligation and fair value of plan assets for the non-U.S. pension plans with accumulated benefit obligations in excess of plan assets were $3.6 billion, $3.4 billion and $3.2 billion, respectively, as of December 31, 2006 and $3.5 billion, $3.3 billion and $2.8 billion, respectively, as of December 31, 2005.

The components of the net periodic benefit cost for the non-U.S. defined benefit and other postretirement benefit plans and the curtailment, settlement and termination expenses under SFAS 88 are as follows:

For the Years Ended December 31,	Non-U.S. Pension Benefits			Non-U.S. Postretirement Benefits		
(In millions of dollars)	**2006**	2005	2004	**2006**	2005	2004
Service cost	**$ 152**	$ 157	$ 154	**$2**	$1	$1
Interest cost	**312**	296	258	**3**	3	3
Expected return on plan assets	**(443)**	(407)	(388)	**—**	—	—
Amortization of prior service credit	**—**	(1)	—	**—**	—	—
Recognized actuarial loss	**141**	99	44	**1**	—	—
Net periodic benefit cost	**$ 162**	$ 144	$ 68	**$6**	$4	$4
Settlement loss	**4**	(1)	3	**—**	—	—
Curtailment loss	**3**	—	—	**—**	—	—
Special termination benefits	**5**	17	6	**—**	—	—
Total expense	**$ 174**	$ 160	$ 77	**$6**	$4	$4

The assumed health care cost trend rate was approximately 7.3% in 2006, gradually declining to 4.0% in 2015. Assumed health care cost trend rates have a significant effect on the amounts reported for the non-U.S. health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

(In millions of dollars)	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost components	$ 1	$ (1)
Effect on postretirement benefit obligation	$ 12	$ (9)

Estimated Future Benefits Payments

MMC's estimated future benefit payments for its pension and postretirement benefits (without reduction for Medicare subsidy receipts) at December 31, 2006 are as follows:

December 31,	Pension Benefits		Postretirement Benefits	
(In millions of dollars)	U.S.	Non-U.S.	U.S.	Non-U.S.
2007	$ 147	$ 387	$13	$ 3
2008	155	240	13	4
2009	165	263	14	4
2010	175	282	14	4
2011	187	310	15	4
2012-2016	$1,131	$1,602	$85	$24

Contribution Plans

MMC maintains certain defined contribution plans for its employees, including the Marsh & McLennan Companies Stock Investment Plan ("SIP") and the Putnam Investments, LLC Profit Sharing Retirement Plan (the "Putnam Plan") that are qualified under U.S. tax law. Under these plans, eligible employees may contribute a percentage of their base salary, subject to certain limitations. For the SIP, MMC matches a fixed portion of the employees' contributions and may also make additional discretionary contributions, while under the Putnam Plan the contributions are at the discretion of MMC subject to

IRS limitations. The SIP contains an Employee Stock Ownership Plan under U.S. tax law and plan assets of approximately $483 million at December 31, 2006 and $572 million at December 31, 2005 were invested in MMC stock. Effective October 25, 2004, all participants became eligible to direct their Company matching contributions and all of their employee contribution account balances to any of the available investment options. If a participant does not choose an investment direction for his or her future Company matching contributions, they are automatically invested in the Putnam Fixed Income Fund. SIP plan assets of approximately $1,052 million and $1,028 million at December 31, 2006 and 2005, respectively, were managed by Putnam. The cost of these defined contribution plans was $70 million, $90 million, and $97 million for 2006, 2005 and 2004, respectively.

9. Stock Benefit Plans

MMC maintains multiple share-based payment arrangements under which employees are awarded grants of restricted stock, stock options and other forms of stock-based payment arrangements. Prior to July 1, 2005, MMC accounted for these awards under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), as permitted under SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Accordingly, compensation cost for stock options was not recognized as long as the stock options granted had an exercise price equal to the market price of MMC's common stock on the date of grant, the effect of forfeitures on restricted stock, restricted stock units and deferred stock units was recognized when such forfeitures occurred and dividend equivalents on restricted stock units and deferred stock units were expensed in the period incurred. In addition, MMC's stock purchase plan was not considered compensatory under APB 25, therefore, no expense was required to be recognized. Effective July 1, 2005, MMC adopted the recognition and measurement provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123 (R)"), using the modified-prospective transition method. Under this transition method, compensation cost recognized beginning July 1, 2005 includes compensation cost for all share-based payment arrangements granted prior to but not yet vested as of July 1, 2005, based on the grant date fair value and expense attribution methodology determined in accordance with the original provisions of SFAS 123, and compensation cost for all share-based payment arrangements granted subsequent to June 30, 2005, based on the grant-date fair value and expense attribution methodology determined in accordance with the provisions of SFAS 123 (R). In addition, MMC's stock purchase plan was considered compensatory during the third quarter of 2005, the effect of forfeitures on restricted stock, restricted stock units and deferred stock units is required to be estimated when recognizing compensation cost and dividend equivalents on restricted stock units and deferred stock units expected to vest are required to be classified as dividends. Results for periods prior to July 1, 2005 have not been restated.

As a result of adopting SFAS 123 (R) on July 1, 2005, MMC's income before income taxes and minority interest for the years ended December 31, 2006 and 2005 is $116 million and $64 million lower, respectively, than if it had continued to account for share-based payment arrangements under APB 25 ($78 million after-tax, or $0.14 per share and $44 million after-tax, or $0.08 per share for the 2006 and 2005 periods, respectively). The cumulative effect of the change in accounting upon adoption of SFAS 123 (R) on July 1, 2005 was not material.

Prior to the adoption of SFAS 123 (R), restricted stock units and deferred stock units were classified as liabilities and measured at their respective grant date fair values. Prepaid compensation cost was recognized for the unearned portion of such awards. Upon implementation of SFAS 123 (R), such awards were adjusted to their respective accrued grant date fair values totaling approximately $110 million and were reclassified to equity.

Effective October 1, 2005, certain features in the MMC stock purchase plan were changed so that shares of MMC common stock will be purchased at a price that is 95% of the average market price of the stock on each quarterly purchase date. In accordance with SFAS 123 (R), the stock purchase plan is no longer compensatory beginning October 1, 2005.

If compensation cost for all MMC's share-based payment arrangements had been recognized based on the fair value method prescribed by SFAS 123 for the periods prior to the adoption of SFAS 123 (R) on July 1, 2005, MMC's net income and net income per share in 2005 and 2004 would have been reduced to the pro forma amounts indicated in the table below.

(In millions of dollars, except per share figures)	2005	2004
Net Income:		
As reported	$ 404	$ 176
Adjustment for fair value method, net of tax	(69)	(146)
Pro forma net income	$ 335	$ 30
Net Income Per Share:		
Basic:		
As reported	$0.75	$0.33
Pro forma	$0.62	$0.06
Diluted:		
As reported	$0.74	$0.33
Pro forma	$0.61	$0.06

The pro forma information reflected above includes stock options issued under MMC's incentive and stock award plans and the Putnam Investments Equity Partnership Plan and stock issued under MMC's stock purchase plan. In addition, the pro forma information reflected above is based on recognizing the costs of employee stock option awards granted prior to July 1, 2005 to retiree-eligible individuals over the full vesting term of the award. Effective July 1, 2005, MMC began recognizing new employee stock option awards granted to retiree-eligible individuals over a shorter period, consistent with the retirement vesting acceleration provisions of these grants. If the costs of employee stock option awards granted prior to July 1, 2005 to retiree-eligible individuals had been recognized for these individuals under this accelerated method, pro forma net income for the years ended 2005 and 2004 would have amounted to $340 million and $44 million.

MMC Incentive and Stock Award Plans

In 2000, the Marsh & McLennan Companies, Inc. 2000 Employee Incentive and Stock Award Plan (the "2000 Employee Plan") and the Marsh & McLennan Companies, Inc. 2000 Senior Executive Incentive and Stock Award Plan (the "2000 Executive Plan") were adopted. The types of awards permitted under these plans include stock options, restricted stock, stock bonus units, restricted and deferred stock units payable in MMC common stock or cash, and other stock-based and performance-based awards. The Compensation Committee of the Board of Directors (the "Compensation Committee") determines, at its discretion, which affiliates may participate in the plans, which eligible employees will receive awards, the types of awards to be received, and the terms and conditions thereof. The right of an employee to receive an award may be subject to performance conditions as specified by the Compensation Committee. The 2000 Plans contain provisions which, in the event of a change in control of MMC, may accelerate the vesting of the awards. Awards relating to not more than 80,000,000 shares of common stock may be made over the life of the 2000 Employee Plan plus shares remaining unused under pre-existing employee stock plans. Awards relating to not more than 8,000,000 shares of common stock may be made over the life of the 2000 Executive Plan plus shares remaining unused under pre-existing executive stock plans.

Stock Options: Options granted under the 2000 Plans may be designated as either incentive stock options or non-qualified stock options. The Compensation Committee determines the terms and conditions of the option, including the time or times at which an option may be exercised, the methods by which such exercise price may be paid, and the form of such payment. Options are generally granted with an exercise price equal to the market value of MMC's stock at the date of grant. These option awards generally vest 25% per annum and have a contractual term of 10 years. On March 16, 2005, MMC began granting options that provide for a market-based triggering event before a vested

option can be exercised. The terms and conditions of these stock option awards provide that (i) options will vest at a rate of 25% a year beginning one year from the date of grant and (ii) each vested tranche will only become exercisable if the market price of MMC's stock appreciates to a level of 15% above the exercise price of the option and maintains that level for at least ten (10) consecutive trading days after the award has vested. MMC accounts for these awards under SFAS 123(R) as market-condition options. The effect of the market condition is reflected in the grant-date fair value of such awards. Compensation cost is recognized over the requisite service period and is not subsequently adjusted if the market condition is not met. For awards without a market-based triggering event, compensation cost is generally recognized on a straight-line basis over the requisite service period which is normally the vesting period.

At the May 2005 Annual Meeting, MMC's shareholders approved a stock option exchange offer. Under the exchange offer, eligible employees could exchange certain deeply underwater options for new options with an estimated fair value equal to 90% of the value of options surrendered in exchange, calculated using the Black-Scholes pricing model. Effective July 1, 2005, employees elected to exchange 42 million options for 16 million new options. The exchange resulted in the retirement of 26 million options and no incremental compensation expense was incurred in connection with the new option grants. The exercise price of the new options of $27.86 is equal to the market price of MMC's common stock as of the new grant date. The new options were unvested when granted and will vest on the later of the second anniversary of the new option grant or the vesting date of the tendered option. The other terms and conditions of the new options are substantially similar to those of the tendered options they replaced.

The estimated fair value of options granted without a market-based triggering event is calculated using the Black-Scholes option pricing valuation model. This model takes into account several factors and assumptions. The risk-free interest rate is based on the yield on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumption at the time of grant. The expected life (estimated period of time outstanding) is estimated using the contractual term of the option and the effects of employees' expected exercise and post-vesting employment termination behavior. Expected volatility prior to July 1, 2005 was calculated based on historical volatility for a period equal to the stock option's expected life, calculated on a monthly basis. Subsequent to June 30, 2005, MMC began using a blended volatility rate based on the following: (i) volatility derived from daily closing price observations for the 10-year period ended on the valuation date, (ii) implied volatility derived from traded options for the period one week before and one week after the valuation date and (iii) average volatility for the 10-year periods ended on 15 anniversaries prior to the valuation date, using daily closing price observations. The expected dividend yield is based on expected dividends for the expected term of the stock options.

The assumptions used in the Black-Scholes option pricing valuation model for options granted by MMC in 2006, 2005 and 2004 are as follows:

		2005		
	2006	Post 6/30/05	Pre 7/1/05	2004
Risk-free interest rate	**4.2%-5.0%**	3.9%-4.3%	3.7%	2.8%
Expected life (in years)	**5.0**	5.0	5.0	5.0
Expected volatility	**29.0%-30.0%**	29.0%	18.5%	19.6%
Expected dividend yield	**2.1%-2.7%**	2.3%	2.2%	2.3%

The estimated fair value of options granted with a market-based triggering event was calculated using a binomial valuation model. The factors and assumptions used in this model are similar to those utilized in the Black-Scholes option pricing valuation model except that the risk-free interest rate is based on the U.S. Treasury zero-coupon yield curve over the contractual term of the option, and the expected life is calculated by the model.

The assumptions used in the binomial option pricing valuation model for options granted during 2006 and 2005 are as follows:

	2006	2005	
		Post 6/30/05	Pre 7/1/05
Risk-free interest rate	**4.7%-5.3%**	4.0%-4.1%	4.1%-4.5%
Expected life (in years)	**5.0-7.1**	5.2-6.5	6.7-6.8
Expected volatility	**29.0%**	29.0%	17.9%
Expected dividend yield	**2.3%**	2.3%	2.2%

A summary of the status of MMC's stock option awards as of December 31, 2006 and changes during the year then ended is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Balance at January 1, 2006	**66,295,396**	**$34.33**		
Granted	**6,500,438**	**$30.19**		
Exercised	**(2,677,038)**	**$19.46**		
Canceled or exchanged	**—**	**—**		
Forfeited	**(5,749,912)**	**$36.72**		
Expired	**—**	**—**		
Balance at December 31, 2006	**64,368,884**	**$34.30**	**5.4 years**	**$77,219**
Options vested or expected to vest at December 31, 2006	**63,022,417**	**$34.39**	**5.3 years**	**$75,778**
Options exercisable at December 31, 2006	**28,153,184**	**$40.35**	**3.2 years**	**$20,071**

The weighted-average grant-date fair value of MMC's option awards granted during the years ended December 31, 2006, 2005 and 2004 was $8.55, $6.51 and $7.51, respectively. The total intrinsic value of options exercised during the same periods was $31 million, $36 million and $46 million, respectively.

As of December 31, 2006, there was $84 million of unrecognized compensation cost related to MMC's option awards. The weighted-average period over which that cost is expected to be recognized is 1.4 years. Cash received from the exercise of stock options for the years ended December 31, 2006, 2005 and 2004 was $52 million, $45 million, and $111 million, respectively.

MMC's policy is to issue treasury shares upon option exercises or share unit conversion. MMC intends to issue treasury shares as long as an adequate number of those shares is available.

Restricted Stock: Restricted shares of MMC's common stock may be awarded under MMC's incentive and stock award plans and are subject to restrictions on transferability and other restrictions, if any, as the Compensation Committee may impose. The Compensation Committee may also determine when and under what circumstances the restrictions may lapse and whether the participant receives the rights of a stockholder, including, without limitation, the right to vote and receive dividends. Unless the Compensation Committee determines otherwise, restricted stock that is still subject to restrictions is forfeited upon termination of employment. Shares granted generally become unrestricted at the earlier of: (1) January 1 of the year following the vesting grant date anniversary or (2) the later of the recipient's normal or actual retirement date. For shares granted prior to 2004, the grant date anniversary is ten years. For shares granted during 2004 and 2005, the grant date anniversary is 7 years and 5 years, respectively. However, certain restricted shares granted in 2005 vest on the third anniversary of the grant date. There were no restricted shares granted in 2006.

A summary of the status of MMC's restricted stock awards as of December 31, 2006 and changes during the period then ended is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested balance at January 1, 2006	**1,020,055**	**$ 37.73**
Granted	**—**	**—**
Vested	**(61,428)**	**$ 38.97**
Forfeited	**(180,972)**	**$ 39.96**
Non-vested balance at December 31, 2006	**777,655**	**$ 37.12**

The weighted-average grant-date fair value of MMC's restricted stock awards granted during the years ended December 31, 2005 and 2004 was $28.87 and $46.12, respectively. The total fair value of MMC's restricted stock distributed during the years ended December 31, 2006, 2005 and 2004 was $1.8 million, $9.9 million, and $5.1 million, respectively.

Restricted Stock Units: Restricted stock units may be awarded under MMC's Incentive and Stock Award plans. The Compensation Committee determines the restrictions on such units, when the restrictions lapse, when the units vest and are paid, and upon what terms the units are forfeited. The cost of these awards is amortized over the vesting period, which is generally three years. Beginning with awards granted in 2006, awards to senior executives and other employees may include three-year performance-based restricted stock units and three-year service-based restricted stock units. The payout of performance-based restricted stock units (payable in shares of MMC common stock) may range from 0–200% of the number of units granted, based on the achievement of objective, pre-determined MMC or operating company performance measures over a three-year performance period. MMC accounts for these awards as performance condition restricted stock units. The performance condition is not considered in the determination of grant date fair value of such awards. Compensation cost is recognized over the performance period based on management's estimate of the number of units expected to vest. Compensation cost will be adjusted to reflect the actual number of shares paid out at the end of the three-year performance period. Dividend equivalents are paid on both performance-based and service-based restricted stock units prior to payout, based on the initial grant amount.

A summary of the status of MMC's restricted stock unit awards as of December 31, 2006 and changes during the period then ended is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested balance at January 1, 2006	**783,585**	**$40.74**
Granted	**1,330,656**	**$30.30**
Vested	**(240,221)**	**$41.23**
Forfeited	**(158,543)**	**$34.72**
Non-vested balance at December 31, 2006	**1,715,477**	**$33.14**

The weighted-average grant-date fair value of MMC's restricted stock units granted during the years ended December 31, 2005 and 2004 was $29.43 and $42.96, respectively. The total fair value of MMC's restricted stock units distributed during the years ended December 31, 2006, 2005 and 2004 was $5.8 million, $18.0 million and $27.5 million, respectively.

Deferred Stock Units: Deferred stock units may be awarded under MMC's incentive and stock award plans. The Compensation Committee determines the restrictions on such units, when the restrictions lapse, when the units vest and are paid, and upon what terms the units are forfeited. The cost of these awards is amortized over the vesting period, which is generally three years.

A summary of the status of MMC's deferred stock unit awards as of December 31, 2006 and changes during the period then ended is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested balance at January 1, 2006	**9,067,871**	**$37.14**
Granted	**1,585,828**	**$29.36**
Vested	**(1,823,156)**	**$42.87**
Forfeited	**(616,705)**	**$34.51**
Non-vested balance at December 31, 2006	**8,213,838**	**$34.55**

The weighted-average grant-date fair value of MMC's deferred stock units granted during the years ended December 31, 2005 and 2004 was $29.88 and $44.08, respectively. The total fair value of MMC's deferred stock units distributed during the years ended December 31, 2006, 2005, and 2004 was $53.5 million, $48.2 million and $57.5 million, respectively.

As of December 31, 2006, there was $203 million of unrecognized compensation cost related to MMC's restricted stock, restricted stock unit and deferred stock unit awards.

MMC Stock Purchase Plans

In May 1999, MMC's stockholders approved an employee stock purchase plan (the "1999 Plan") to replace the 1994 Employee Stock Purchase Plan (the "1994 Plan"), which terminated on September 30, 1999 following its fifth annual offering. Effective October 1, 2004, certain features in these plans were changed. Under these new features, shares are purchased four times during the plan year (instead of one annual purchase on the last business day of the plan year as was done previously). Beginning October 1, 2005, shares are purchased at a price that is 95% of the average market price on each quarterly purchase date. Under the 1999 Plan, no more than 40,000,000 shares of MMC's common stock plus the remaining unissued shares in the 1994 Plan may be sold. Employees purchased 2,073,818 shares during the year ended December 31, 2006. At December 31, 2006, 22,106,328 shares were available for issuance under the 1999 Plan. In July 2002, the MMC Board of Directors approved an additional 5,000,000 shares of common stock for issuance under the 1995 MMC Stock Purchase Plan for International Employees (the "International Plan"). With the additional shares under the International Plan, no more than 8,000,000 shares of MMC's common stock may be sold. Employees purchased 400,026 shares during the year ended December 31, 2006. At December 31, 2006, 279,550 shares were available for issuance under the International Plan. Based on the terms in effect as of October 1, 2005, the plan is considered non-compensatory under SFAS 123(R).

Putnam Investments Equity Partnership Plan

Under the Putnam Investments Equity Partnership Plan, as amended (the "Equity Plan"), Putnam is authorized to grant or sell shares to certain employees of Putnam or its subsidiaries restricted common shares of Putnam Investments Trust, the parent of Putnam Investments, LLC ("Class B Common Shares") and grant options to acquire the Class B Common Shares. Such awards or options generally vest over a period of two to four years. Holders of Putnam Class B Common Shares are not entitled to vote and have no rights to convert their shares into any other securities of Putnam. Awards of restricted stock and/or options may be made under the Equity Plan with respect to a maximum of 16,500,000 shares of Class B Common Shares, which would represent approximately 16% of the outstanding shares on a fully diluted basis, as increased for certain issuances of Putnam Class A Common Stock to MMC.

Options on Class B Shares: Options on Class B shares of Putnam's common stock, which may be awarded under the Equity Plan, are subject to restrictions on transferability and other restrictions, if any, as the Compensation Committee may impose. Unless the Compensation Committee determines otherwise, the exercise price for each option is the fair market value of a Class B share on the date of the option grant. All options granted to a participant become exercisable in accordance with the vesting schedule set forth in the applicable award agreement, provided that the Compensation Committee has the right to accelerate the exercisability of any option. Notwithstanding any other provision of the Equity Plan, each option shall terminate on and shall not be exercisable after the tenth or sixth anniversary of the grant date of such option, as applicable.

On September 29, 2005, certain eligible participants in the Equity Plan participated in a voluntary option exchange pursuant to the terms of the Offer to Exchange Certain Outstanding Options (the "Offer to Exchange"), dated August 30, 2005. Under the Offer to Exchange, holders of options on Class B shares meeting certain eligibility requirements could elect to exchange those options for restricted shares with the equivalent value of the exchanged options, as determined using the Black-Scholes valuation model. As a result of the Offer to Exchange, a total of 2,201,850 options were retired and 139,388 restricted shares were issued at a grant price of $28.26 per share, which vest on September 1, 2007.

The assumptions used in the Black-Scholes option pricing valuation model for options granted by Putnam in 2006, 2005 and 2004 are as follows:

	2006	2005	2004
Risk-free interest rate	**4.7%**	4.1%	3.5%
Expected life (in years)	**3.5**	4.5	5.0
Expected volatility	**28.3%**	27.9%	26.8%
Expected dividend yield	**5.0%**	5.0%	5.0%

A summary of the status of Putnam's stock option awards as of December 31, 2006 and changes during the period then ended is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Balance at January 1, 2006	**6,824,630**	**$35.83**		
Granted	**510,638**	**$28.65**		
Exercised	**—**	**—**		
Canceled	**—**	**—**		
Forfeited or exchanged	**(909,425)**	**$51.51**		
Expired	**—**	**—**		
Balance at December 31, 2006	**6,425,843**	**$33.04**	**6.3 years**	**$9,042,002**
Options vested or expected to vest at December 31, 2006	**6,090,870**	**$33.29**	**6.3 years**	**$8,443,053**
Options exercisable at December 31, 2006	**1,801,019**	**$41.98**	**5.5 years**	**$1,421,680**

The weighted-average grant-date fair value of Putnam's option awards granted for the years ended December 31, 2006, 2005 and 2004 was $4.82, $4.88 and $4.87, respectively. No options were exercised in 2006 or 2005.

As of December 31, 2006, there was $15 million of unrecognized compensation cost related to Putnam's option awards. The weighted-average period over which that cost is expected to be recognized is 1.7 years.

Restricted Stock: Restricted shares of Putnam's common stock which may be awarded or sold under the Equity Plan are subject to restrictions on transferability and other restrictions, if any, as the Compensation Committee may impose. Unless the Compensation Committee determines otherwise, restricted stock that is still subject to restrictions is forfeited upon termination of employment. All restricted stock granted or sold to a participant vests in accordance with the vesting schedule set forth in the applicable award agreement, provided that the Compensation Committee has the right to accelerate the vesting of any restricted stock.

A summary of the status of Putnam's restricted stock awards as of December 31, 2006 and changes during the period then ended is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested balance at January 1, 2006	**5,210,046**	**$30.50**
Granted	**1,112,888**	**$28.66**
Vested	**(774,613)**	**$33.61**
Forfeited	**(317,207)**	**$29.88**
Non-vested balance at December 31, 2006	**5,231,114**	**$29.68**

The weighted-average grant-date fair value of Putnam's restricted stock awards granted during the years ended December 31, 2005 and 2004 was $28.38 and $33.48, respectively. The total fair value of Putnam's restricted stock vested during the years ended December 31, 2006, 2005 and 2004 was $22 million, $19 million and $22 million, respectively.

As of December 31, 2006, there was $94 million of unrecognized compensation cost related to Putnam's restricted stock awards.

10. Long-term Commitments

MMC leases office facilities, equipment and automobiles under noncancelable operating leases. These leases expire on varying dates; in some instances contain renewal and expansion options; do not restrict the payment of dividends or the incurrence of debt or additional lease obligations; and contain no significant purchase options. In addition to the base rental costs, occupancy lease agreements generally provide for rent escalations resulting from increased assessments for real estate taxes and other charges. Approximately 97% of MMC's lease obligations are for the use of office space.

The consolidated statements of income include net rental costs of $529 million, $470 million and $485 million for 2006, 2005 and 2004, respectively, after deducting rentals from subleases ($28 million in 2006, $22 million in 2005 and $20 million in 2004).

At December 31, 2006, the aggregate future minimum rental commitments under all noncancelable operating lease agreements are as follows:

For the Years Ending December 31, *(In millions of dollars)*	Gross Rental Commitments	Rentals from Subleases	Net Rental Commitments
2007	$ 505	$ 43	$ 462
2008	455	41	414
2009	387	39	348
2010	338	36	302
2011	299	35	264
Subsequent years	1,962	280	1,682
	$ 3,946	$ 474	$ 3,472

MMC has entered into agreements with various service companies to outsource certain information systems activities and responsibilities and processing activities. Under these agreements, MMC is required to pay minimum annual service charges. Additional fees may be payable depending upon the volume of transactions processed with all future payments subject to increases for inflation. At December 31, 2006, the aggregate fixed future minimum commitments under these agreements are as follows:

For the Years Ending December 31, *(In millions of dollars)*	Future Minimum Commitments
2007	$129
2008	106
2009	76
Subsequent years	140
	$451

11. Debt

MMC's outstanding debt is as follows:

December 31, *(In millions of dollars)*	**2006**	2005
Short-term:		
Bank borrowings — International	**$ 8**	$ 429
Current portion of long-term debt	**1,103**	69
	$ 1,111	$ 498
Long-term:		
Senior notes — 7.125% due 2009	**$ 399**	$ 399
Senior notes — 5.375% due 2007 (4.0% effective interest rate)	**501**	508
Senior notes — 6.25% due 2012 (5.1% effective interest rate)	**262**	264
Senior notes — 3.625% due 2008	**250**	249
Senior notes — 4.850% due 2013	**249**	249
Senior notes — 5.875% due 2033	**295**	295
Senior notes — 5.375% due 2014	**647**	647
Senior notes — 3 year floating rate note due 2007 (5.51% at December 31, 2006)	**500**	499
Senior notes — 5.15% due 2010	**548**	547
Senior notes — 5.75% due 2015	**746**	745
Mortgage — 5.70% due 2035	**467**	473
Notes payable — 7.68% due 2006	**—**	60
Bank borrowings — International	**94**	168
Other	**5**	10
	4,963	5,113
Less current portion	**1,103**	69
	$ 3,860	$ 5,044

The weighted average interest rates on MMC's outstanding short-term debt (excluding current portion of long-term debt) at December 31, 2006 and 2005 are 6.2% and 6.0%, respectively.

In December 2005, MMC and certain of its foreign subsidiaries entered into a new $1.2 billion multi-currency revolving credit facility. Subsidiary borrowings under the facility are unconditionally guaranteed by MMC. The facility expires in December 2010. It replaces MMC's $1.0 billion and $700 million revolving credit facilities, which were scheduled to expire in 2007 and 2009, respectively. The interest rate on this facility varies based upon the level of usage of the facility and MMC's credit ratings. The facility requires MMC to maintain certain coverage and leverage ratios tested quarterly. There was approximately $94 million outstanding at December 31, 2006 and $510 million outstanding under this facility at December 31, 2005. Proceeds from the borrowings were used primarily to fund the repatriation of accumulated earnings pursuant to the American Jobs Creation Act of 2004.

In September 2005, MMC entered into a 30-year $475 million fixed rate non-recourse mortgage loan agreement due 2035, bearing an interest rate of 5.7%, in connection with its interest in its worldwide headquarters building in New York City. MMC prepaid its existing $200 million 9.8% mortgage due 2009.

The incremental proceeds from the refinancing, net of mortgage prepayment costs were used to repay outstanding short-term debt. In the event the mortgage is foreclosed following a default, MMC would be entitled to remain in the space and would be obligated to pay rent sufficient to cover interest on the notes or at fair market value if greater. Mortgage prepayment costs of $34 million related to this transaction are included in interest expense in the consolidated statement of income for the year ended December 31, 2005.

In September 2005, MMC issued $550 million of 5.15% Senior Notes due 2010 and $750 million of 5.75% Senior Notes due 2015 (the "2005 Notes"). The net proceeds from the 2005 Notes were used to pay down the $1.3 billion term loan facility.

Additional credit facilities, guarantees and letters of credit are maintained with various banks, primarily related to operations located outside the United States, aggregating $270 million at December 31, 2006 and $354 million at December 31, 2005. There was $8 million outstanding at December 31, 2006 and there was $83 million outstanding under these facilities at December 31, 2005.

Scheduled repayments of long-term debt in 2007 and in the four succeeding years are $1.1 billion, $258 million, $408 million, $559 million and $9 million, respectively.

12. Financial Instruments

The estimated fair value of MMC's significant financial instruments is provided below. Certain estimates and judgments were required to develop the fair value amounts. The fair value amounts shown below are not necessarily indicative of the amounts that MMC would realize upon disposition nor do they indicate MMC's intent or ability to dispose of the financial instrument.

December 31, *(In millions of dollars)*	**2006** **Carrying Amount**	**2006** **Fair Value**	2005 Carrying Amount	2005 Fair Value
Cash and cash equivalents	**$ 2,089**	**$2,089**	$2,020	$2,020
Long-term investments	**$ 597**	**$ 597**	$ 277	$ 277
Short-term debt	**$ 1,111**	**$1,111**	$ 498	$ 498
Long-term debt	**$ 3,860**	**$3,810**	$5,044	$5,062

Cash and Cash Equivalents: The estimated fair value of MMC's cash and cash equivalents approximates their carrying value.

Long-term Investments: Long-term investments include available for sale and trading securities recorded at quoted market prices as discussed below. MMC also has certain additional long-term investments, for which there are no readily available market prices, amounting to $75 million and $54 million at December 31, 2006 and 2005, respectively, which are carried on a cost basis. MMC monitors these investments for impairment and makes appropriate reductions in carrying values when necessary.

MMC had available for sale securities and trading investments with an aggregate fair value of $523 million and $223 million at December 31, 2006 and 2005, respectively, which are carried at market value under SFAS 115. Gross unrealized gains amounting to $53 million and $82 million at December 31, 2006 and 2005, respectively, have been excluded from earnings and reported, net of deferred income taxes, in accumulated other comprehensive loss, which is a component of stockholders' equity.

MMC recorded net gains associated with its available for sale securities of $39 million, $158 million and $102 million, in 2006, 2005 and 2004, respectively. Proceeds from the sale of available for sale securities for the years ended December 31, 2006, 2005 and 2004 were $66 million, $293 million and $170 million, respectively. Gross realized gains on available for sale securities sold during 2006, 2005 and 2004 amounted to $41 million, $158 million and $107 million, respectively. In 2006, 2005 and 2004, MMC recorded losses of $2 million, $0 million and $5 million, respectively, related to the decline in value of certain available for sale securities that were other than temporary. The cost of securities sold is determined using the average cost method for equity securities. The gains and losses described above are included in Investment income (loss) in the consolidated statements of income.

MMC also holds investments in certain private equity fund partnerships which are accounted for using the equity method. MMC's share of gains from such investments, and from trading securities and investments held at cost, of $187 million, $29 million and $98 million in 2006, 2005 and 2004, respectively, is included in Investment income (loss) in the consolidated statements of income.

A portion of insurance fiduciary funds which MMC holds to satisfy fiduciary obligations is invested in high quality debt securities which are generally held to maturity. The difference between cost and fair value of these investments is not material.

Short-term and Long-term Debt: The fair value of MMC's short-term debt which consists of bank loans approximates its carrying value. The estimated fair value of MMC's long-term debt is based on discounted future cash flows using current interest rates available for debt with similar terms and remaining maturities.

13. Integration and Restructuring Costs

2006 Plan

In September 2006, MMC announced that it would undertake restructuring activities designed to enhance operational efficiencies and improve profitability (the "2006 Plan"). The restructuring activities are expected to be implemented in several phases – the first phase which began in September and is expected to be completed over the next two quarters, and one or more additional phases. In connection with Phase 1 of the 2006 Plan, MMC incurred net restructuring charges of $10 million during the third and fourth quarter of 2006, as follows: risk and insurance services - $49 million, risk consulting & technology - $1 million, consulting - $28 million and corporate - $(68) million. The corporate amount includes a $74 million gain on the sale of five (5) floors in MMC's headquarters building. Utilization of the 2006 Plan charges for Phase 1 is summarized as follows:

(In millions of dollars)	**Accrued in 2006**	**Utilized in 2006**	**Remaining Liability at 12/31/06**
Severance and benefits	**$ 59**	**$(21)**	**$38**
Future rent on non-cancelable leases	**6**	**(6)**	**—**
Other exit costs (credits)	**(55)**	**58**	**3**
	$ 10	**$ 31**	**$41**

As part of its ongoing review of operations, Marsh has identified additional actions that are expected to result in the reduction of 170 positions ("Phase 2"). These actions are expected to result in additional charges of approximately $40 million related to severance and exit costs for facilities. In the fourth quarter of 2006, MMC incurred costs of $14 million related to Phase 2 of the 2006 Plan, primarily related to severance and exit costs for facilities. Utilization of the plan charges for Phase 2 of the 2006 Plan is as follows:

(In millions of dollars)	**Accrued in 2006**	**Utilized in 2006**	**Remaining Liability at 12/31/06**
Severance and benefits	**$ 7**	**$—**	**$ 7**
Future rent on non-cancelable leases	**7**	**(2)**	**5**
	$14	**$(2)**	**$12**

2005 Plan

In March 2005, MMC announced that it would undertake restructuring activities involving staff reductions and consolidations of facilities in response to MMC's business environment (the "2005 Plan"). In connection with the 2005 Plan, MMC incurred restructuring charges of $66 million in the twelve-months ended December 31, 2006, as follows: risk and insurance services - $39 million and corporate - $27 million. Utilization of the 2005 Plan charges is summarized as follows:

(In millions of dollars)	Accrued in 2005	Utilized in 2005	**Utilized in 2006**	**Additions/ Changes in Estimates 2006**	**Remaining Liability at 12/31/06**
Severance and benefits	$197	$(128)	**$ (87)**	**$31**	**$13**
Future rent on non-cancelable leases	114	(37)	**(43)**	**31**	**65**
Other exit costs (credits)	(1)	12 [(a)]	**(6) [(b)]**	**4**	**9**
	$310	$(153)	**$(136)**	**$66**	**$87**

(a) Reflects approximately $36 million of payments received on the disposals of small commercial accounts and other dispositions.

(b) Includes approximately $7 million of payments on the disposals of small commercial accounts and other dispositions.

2004 Plan

In November 2004, MMC announced that it would undertake restructuring initiatives involving staff reductions and consolidations of facilities in response to MMC's business environment (the "2004 Plan"). In connection with the 2004 Plan, MMC incurred restructuring charges (credits) of $(3) million in the twelve months ended December 31, 2006 as follows: risk and insurance services - $(2) million and consulting - $(1) million. Utilization of the 2004 Plan charges is summarized as follows:

(In millions of dollars)	Accrued in 2004 and 2005	Utilized in 2004 and 2005	**Utilized in 2006**	**Additions/ Changes in Estimates 2006**	**Remaining Liability at 12/31/06**
Severance and benefits	$272	$(242)	**$(26)**	**$(2)**	**$2**
Future rent on non-cancelable leases	26	(18)	**(3)**	**(1)**	**4**
Lease termination costs	19	(2)	**(17)**	**—**	**—**
Other exit costs (credits)	23	(18)	**(4)**	**—**	**1**
	$340	$(280)	**$(50)**	**$(3)**	**$7**

Actions under the 2004 and 2005 Plans are completed.

The expenses associated with the restructuring plans are included in Compensation and benefits or in Other operating expenses in the consolidated statements of income, and liabilities associated with these initiatives are classified on the consolidated balance sheets as Accounts payable, Other liabilities, or Accrued salaries, depending on the nature of the items.

14. Common Stock

MMC did not repurchase common stock in 2006 and 2005.

15. Stockholder Rights Plan

On September 18, 1997, MMC's Board of Directors approved the extension of the benefits afforded by MMC's previously existing rights plan by adopting a new stockholder rights plan, which was amended and restated as of January 20, 2000 and further amended on June 7, 2002. Under the current plan, Rights to purchase stock, at a rate of one Right for each common share held, were distributed to shareholders of record on September 29, 1997 and automatically attach to shares issued thereafter. Under the plan, the Rights generally become exercisable after a person or group (i) acquires 15% or more of MMC's outstanding common stock or (ii) commences a tender offer that would result in such a person or group owning 15% or more of MMC's common stock. When the Rights first become exercisable, a holder will be entitled to buy from MMC a unit consisting of one six-hundredth of a share of Series A Junior Participating Preferred Stock of MMC at a purchase price of $200. If any person acquires 15% or more of MMC's common stock or if a 15% holder acquires MMC by means of a reverse merger in which MMC and its stock survive, each Right not owned by a 15% or more shareholder would become exercisable for common stock of MMC (or in certain circumstances, other consideration) having a market value equal to twice the exercise price of the Right. The Rights expire on September 29, 2007, except as otherwise provided in the plan.

16. Claims, Lawsuits and Other Contingencies

Claims, Lawsuits and Other Contingencies

MMC and Marsh Litigation and Regulatory Matters

Brokerage Compensation Practices Settlement

In January 2005, MMC and its subsidiary Marsh Inc. ("Marsh") entered into an agreement (the "Settlement Agreement") with the New York State Attorney General ("NYAG") and the New York State Insurance Department ("NYSID") to settle a civil complaint filed in New York State court by NYAG in October 2004 (the "NYAG Lawsuit") and a related citation (the "Citation") issued by NYSID at approximately the same time. Among other things, the NYAG Lawsuit and the Citation had alleged that Marsh's use of market service agreements with various insurance companies entailed fraudulent business practices, bid-rigging, illegal restraint of trade and other violations of the New York business and insurance statutes, and was not adequately disclosed to Marsh's clients or MMC's investors. Following the announcement of the NYAG Lawsuit and related actions taken by MMC, MMC's stock price dropped from approximately $45 per share to a low of approximately $22.75 per share.

Pursuant to the Settlement Agreement, MMC established a fund of $850 million (the "Fund"), payable over four years, for policyholder clients in the U.S who placed insurance through Marsh between 2001 and 2004. Approximately 70,000 eligible policyholders have elected to receive an aggregate distribution of approximately $750 million under the Fund. Clients who elected to participate in the Fund tendered a release relating to the matters alleged in the NYAG Lawsuit and the Citation, except for claims that are based upon, arise out of or relate to the purchase or sale of MMC securities. No portion of the Fund represents a fine or penalty against MMC or Marsh and no portion of the Fund will revert to MMC or Marsh.

The Settlement Agreement does not relate to any former or current employees of Marsh. Since the filing of the NYAG Lawsuit, 12 former Marsh employees have pleaded guilty to New York criminal charges relating to the matters described therein. In September 2005, eight former Marsh employees (including one individual who has since pleaded guilty) were indicted on various counts relating to these same matters. Trials are scheduled to begin in April 2007.

Related Litigation

Numerous lawsuits have been commenced against MMC, one or more of its subsidiaries, and their current and former directors and officers, relating to matters alleged in the NYAG Lawsuit, including the following:

- Various putative class actions purportedly brought on behalf of policyholders were filed in or removed to several federal courts across the country. All of these federal putative class actions were transferred to the District of New Jersey for consolidated pretrial proceedings (the "MDL Cases").

  In August 2005, two consolidated amended complaints were filed in the MDL Cases (one on behalf of a purported class of "commercial" policyholders and the second on behalf of a purported class of "employee benefit" policyholders), which as against MMC and certain affiliates allege statutory claims for violations of the Racketeering Influenced and Corrupt Organizations ("RICO") Act and federal and state antitrust laws, together with common law claims for breach of fiduciary duty and unjust enrichment. The complaints seek a variety of remedies, including unspecified monetary damages, treble damages, disgorgement, restitution, punitive damages, declaratory and injunctive relief, and attorneys' fees and costs. The class periods alleged in the MDL Cases begin on August 26, 1994 and purport to continue to the date of any class certification. MMC and the other defendants have moved to dismiss the two consolidated amended complaints, and the plaintiffs have moved for class certification. A hearing on the motions to dismiss has been scheduled for March 1, 2007. No hearing on the plaintiffs' motion for class certification has been scheduled.

  Four class or representative actions on behalf of policyholders are pending in state courts. There are also 23 actions brought by individual policyholders and others in federal and state courts relating to matters alleged in the NYAG Lawsuit. MMC expects that all policyholder actions filed in the U.S. federal courts will be transferred to the District of New Jersey as described above. In addition, two putative class actions and one individual policyholder action are pending in Canada.

- In January 2005, the State of Connecticut brought an action against MMC, Marsh and certain Marsh subsidiaries in Connecticut Superior Court. As subsequently amended, the State's complaint alleges that the defendants violated Connecticut's Unfair Trade Practices Act by accepting $50,000 from an insurer in connection with a placement Marsh made for the State; violated Connecticut's antitrust and unfair trade practices acts by engaging in bid rigging and other improper conduct that purportedly damaged particular customers and inflated insurance premiums; improperly accepted contingent commissions and concealed these commissions from their clients; and engaged in negligent misrepresentation and breach of fiduciary duty. The State seeks various monetary damages and injunctive relief. Discovery has been stayed pending motions on the pleadings.

- On March 14, 2006, the State of Florida brought an action against MMC, Marsh and certain Marsh subsidiaries in Florida state court, alleging that the defendants violated Florida's RICO and antitrust laws by engaging in bid rigging and other improper conduct which inflated insurance premiums, and by receiving undisclosed additional compensation. The complaint alleges that these actions caused damage to the State, Florida governmental entities and Florida businesses and residents, and seeks the forfeiture of all undisclosed compensation, treble damages, civil penalties, attorneys' fees and costs and injunctive and other equitable relief. Discovery has commenced in this action.

- A consolidated purported class action is pending in the United States District Court for the Southern District of New York on behalf of individuals and entities who purchased or acquired MMC's publicly-traded securities during the purported class period of October 14, 1999 to October 13, 2004 (the "MMC SDNY Securities Case"). The pending complaint of the lead

plaintiffs in this action names MMC, Marsh, MMC's former CEO and one former Marsh officer as defendants. The plaintiffs allege, among other things, that MMC artificially inflated its share price by making misrepresentations and omissions relating to Marsh's market service agreements and business practices. Plaintiffs allege that MMC also failed to disclose alleged anti-competitive and illegal practices at Marsh, such as "bid rigging" and soliciting fictitious quotes.

The complaint includes factual allegations similar to those asserted in the NYAG Lawsuit, as well as factual allegations concerning alleged misconduct at MMC's subsidiaries Mercer and Putnam, and alleged conflicts of interest associated with MMC's former private equity subsidiary, MMC Capital. The complaint includes claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Sections 11 of the Securities Act of 1933, based on MMC's allegedly false or incomplete disclosures. MMC has responded to the complaint and formal discovery will soon commence in this matter. The federal securities claims in a separate shareholder action were transferred for consideration in connection with the federal securities claims asserted in the MMC SDNY Securities Case. The plaintiff in this separate action has purported to add a claim under Section 14(a) of the Securities Exchange Act of 1934.

- A number of individual shareholder actions against MMC and others are pending in various state courts. One such action filed in California state court has been removed and transferred for inclusion in the MMC SDNY Securities case. A number of related actions that were commenced in New York state court have been removed and transferred for inclusion in the MMC SDNY Securities Case; plaintiffs have moved to remand the actions back to state court.

- Several shareholder derivative actions are pending against MMC's current and former directors and officers. Six have been consolidated as a single action in the Court of Chancery of the State of Delaware (the "Delaware Derivative Action"), and five have been consolidated as a single action in the United States District Court for the Southern District of New York (the "Federal Derivative Action"). One action is pending in the New York Supreme Court for New York County. These shareholder derivative actions allege, among other things, that current and former directors and officers of MMC breached their fiduciary duties with respect to the alleged misconduct described in the NYAG Lawsuit, are liable to MMC for damages arising from their alleged breaches of fiduciary duty, and must contribute to or indemnify MMC for any damages MMC has suffered. The derivative action pending in the New York Supreme Court has been stayed pending resolution of the Federal Derivative Action. The Federal Derivative Action has been stayed in favor of the Delaware Derivative Action, which remains in its preliminary stages.

  MMC has also received six demand letters from stockholders asking the MMC Board of Directors to take appropriate legal action against those directors and officers who are alleged to have caused damages to MMC based on the facts alleged in the NYAG Lawsuit. MMC has advised the stockholders making demands that their demands are under consideration by the MMC Board of Directors.

- A proceeding consolidating twenty purported class actions alleging violations of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), is pending in the United States District Court for the Southern District of New York on behalf of participants and beneficiaries of the Marsh & McLennan Companies Stock Investment Plan (the "Plan"). The consolidated class action complaint names MMC and various current and former employees, officers and directors as defendants and alleges, among other things, that in view of the purportedly fraudulent bidding activity and the receipt of contingent commissions pursuant to the market service agreements referred to above, the defendants knew or should have known that the investment of the Plan's assets in MMC stock was imprudent. The consolidated complaint also asserts that certain defendants failed to provide the Plan's participants with complete and accurate information about MMC stock, that certain defendants responsible

for selecting, removing and monitoring other fiduciaries did not comply with ERISA, and that MMC knowingly participated in other defendants' breaches of fiduciary duties. The consolidated complaint seeks, among other things, unspecified compensatory damages, injunctive relief and attorneys' fees and costs. The amount of Plan assets invested in MMC stock at October 13, 2004 (immediately prior to the announcement of the NYAG Lawsuit) was approximately $1.2 billion. The consolidated complaint alleges that during the purported class period, which extends from July 1, 2000 until January 31, 2005, MMC's stock price fell from $52.22 to $32.50. In December 2006, the court granted in part and denied in part the motions to dismiss filed by MMC and the other defendants. Discovery is commencing in this matter.

- In February 2005, the plaintiffs in a shareholder derivative suit pending in the Delaware Court of Chancery (the "AIG Delaware Suit") against the directors and officers of American International Group, Inc. ("AIG") filed a consolidated complaint which, as subsequently amended, names as additional defendants MMC, Marsh, Marsh USA Inc., Marsh Global Broking Inc. (collectively, the "MMC Corporate Defendants"), MMC's former CEO, and five former Marsh employees who have pleaded guilty to certain criminal charges (the former CEO and former employees, together with the MMC Corporate Defendants, the "MMC Defendants"). The AIG Delaware Suit alleges, among other things, that the MMC Defendants, certain AIG employees and others engaged in conspiracy and common law fraud with respect to the alleged misconduct described in the NYAG Lawsuit, including, but not limited to, illegal bid rigging and kickback schemes, and that AIG was harmed thereby. This action further alleges that the MMC Corporate Defendants aided and abetted the current and former directors and officers of AIG in breaching their fiduciary duties to AIG with respect to AIG's participation in the alleged misconduct and that the MMC Corporate Defendants were unjustly enriched. The consolidated complaint asserts that the MMC Defendants are liable to AIG for damages and also seeks the return of all contingent commission payments made by AIG to the MMC Corporate Defendants.

  In May 2005, the plaintiffs in a shareholder derivative suit pending in the United States District Court for the Southern District of New York (the "AIG Federal Suit") against the directors and officers of AIG filed a consolidated complaint naming MMC, Marsh USA, Inc., Marsh Global Broking, Inc. and MMC's former CEO as additional defendants. Based on similar factual allegations as in the AIG Delaware Suit, the plaintiffs assert claims against MMC and the former CEO for allegedly aiding and abetting breaches of fiduciary duties by AIG's directors and officers and for unjust enrichment, and seek damages and the disgorgement of contingent commissions. Both the AIG Delaware Suit and the AIG Federal Suit are stayed by orders of the respective courts pending review by a special litigation committee formed by the AIG board of directors. In addition, plaintiffs' counsel in a federal securities fraud purported class action against AIG and others (to which MMC is not a party) relating to price declines in AIG's stock has indicated that plaintiffs may assert claims against MMC in that action.

- In May 2005, the plaintiffs in a purported securities fraud class action suit pending in the United States District Court for the Southern District of New York against Axis Capital Holdings Limited ("Axis") and certain of its officers filed a consolidated complaint that named MMC, among others, as an additional defendant. On October 17, 2006, the court granted all defendants' motions to dismiss without prejudice. Plaintiffs have since advised the court that no amended complaint will be filed and the case has been closed.

Related Regulatory Matters

- Following the filing of the NYAG Lawsuit, MMC and certain of its subsidiaries received notices of investigations and inquiries, together with requests for documents and information, from attorneys general, departments of insurance and other state and federal governmental entities in a number of jurisdictions (other than New York) that relate to the allegations in

the NYAG Lawsuit. MMC and its subsidiaries have cooperated with these requests from regulators. MMC has been contacted by certain of the above state entities indicating that they may file civil actions or otherwise seek additional monetary or other remedies from MMC.

- In September 2005, the National Association of Insurance Commissioners (the "NAIC") issued a press release indicating that over 30 state insurance regulators (including several referred to in the preceding paragraph) working collaboratively through the NAIC had reached a multi-state regulatory settlement with MMC and Marsh. The NAIC settlement agreement reaffirms MMC's commitment, under the Settlement Agreement with NYAG and the NYSID, to establish a no-fault compensation fund for policyholder clients across the United States, and provides for state-by-state enforcement of the business reforms agreed to be implemented pursuant to the Settlement Agreement. The NAIC settlement agreement has been executed by MMC and Marsh, and the NAIC has advised that the agreement has been adopted by insurance commissioners in 33 states, the District of Columbia and Guam.

Putnam-Related Matters

On January 31, 2007, MMC entered into a stock purchase agreement (the "Putnam Sale Agreement") with Great-West Lifeco Inc. ("GWL"), a majority-owned subsidiary of Power Financial Corporation, pursuant to which GWL has agreed to purchase Putnam Investments Trust. The Putnam Sale Agreement provides that MMC will indemnify GWL with respect to certain Putnam-related litigation and regulatory matters following the closing of this transaction, as indicated below. MMC expects the sale of Putnam to close in mid-2007.

Regulatory Matters

- In 2003 and 2004, Putnam entered into settlements (the "Putnam Trading Settlements") with the Securities and Exchange Commission (the "SEC") and the Commonwealth of Massachusetts (the "Massachusetts Securities Division") with respect to excessive short-term trading by certain former Putnam employees in shares of the Putnam mutual funds (the "Putnam Funds"). Under the Putnam Trading Settlements, Putnam agreed to pay a total of $193.5 million ($108.5 million in restitution and $85 million in civil fines and penalties). In addition to the $108.5 million in restitution, Putnam Funds shareholders will receive a distribution of $45 million from the civil penalty Putnam previously paid to the SEC. An independent distribution consultant has developed a proposed plan that provides for the distribution of the restitution amounts to Putnam Funds shareholders. The proposed plan is currently being reviewed by the staffs of the SEC and the Massachusetts Securities Division. Putnam will incur additional costs in connection with implementing the distribution plan.
- Commencing in July 2004, the Enforcement Staff of the SEC's Boston Office inquired into the calculation of certain cost reimbursements paid by the Putnam Funds to Putnam for transfer agent services relating to defined contribution operations within Putnam Fiduciary Trust Company ("PFTC"). Following review by Putnam and the Trustees of the Putnam Funds, Putnam paid the Putnam Funds approximately $37 million to resolve these issues.
- In October 2004, the Department of Labor ("DOL") indicated its preliminary belief that Putnam may have violated certain provisions of ERISA related to investments by the Putnam Profit Sharing Retirement Plan and certain discretionary ERISA accounts in Putnam Funds that pay 12b-1 fees. In December 2004, Putnam made a written submission to the DOL addressing these issues. Putnam and the DOL have entered into a tolling agreement and are exchanging further information pertaining to this issue.
- Since January 2004, the NASD made several requests to Putnam for information relating to reimbursement of expenses to participants at certain sales meetings during the period from 2001 to 2004. In December 2006, Putnam entered into an acceptance, waiver and consent with the NASD and paid $175,000 to resolve this matter.

"Market-Timing"-Related Litigation

MMC and Putnam have received a substantial number of civil complaints, filed in various state and federal courts, based on allegations of "market-timing" and, in some cases, "late trading" activities. All of the actions filed in federal court have been transferred, along with actions against other mutual fund complexes, to the United States District Court for the District of Maryland for coordinated or consolidated pretrial proceedings. The lead plaintiffs in those cases filed consolidated amended complaints in September 2004. MMC and Putnam moved to dismiss the various complaints pending in federal court in Maryland, which are described below:

- MMC and Putnam, along with certain of their former officers and directors, were named in a consolidated amended class action complaint (the "MMC Class Action") purportedly brought on behalf of all purchasers of the publicly-traded securities of MMC between January 3, 2000 and November 3, 2003 (the "Class Period"). In general, the MMC Class Action alleges that the defendants, including MMC, allowed certain mutual fund investors and fund managers to engage in market-timing in the Putnam Funds. The complaint further alleges that this conduct was not disclosed until late 2003, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The complaint alleges that, as a result of defendants' purportedly misleading statements or omissions, MMC's stock traded at inflated levels during the Class Period. The suit seeks unspecified damages and equitable relief. In an order entered October 13, 2006, the district court dismissed all claims against all defendants in the MMC Class Action.
- Putnam is a defendant in a second consolidated amended complaint filed on behalf of a putative class of investors in certain Putnam Funds (the "Putnam Class Action"). A separate consolidated amended complaint filed by certain fund investors purporting to assert derivative claims on behalf of all Putnam Funds (the "Putnam Derivative Action") named as defendants MMC, Putnam, various Putnam affiliates, certain trustees of the Putnam Funds, certain present and former Putnam officers and employees, and persons and entities that allegedly engaged in or facilitated market-timing or late trading activities in the Putnam Funds. Both suits seek to recover unspecified damages allegedly suffered by the funds and their shareholders as a result of purported market-timing and late trading activity that allegedly occurred in certain Putnam Funds. The Putnam Derivative Action seeks additional relief, including termination of the investment advisory contracts between Putnam and the Funds, cancellation of the Funds' 12b-1 plans and the return of all advisory and 12b-1 fees paid by the Funds over a certain period of time. In the Putnam Derivative Action, the court has dismissed all claims against MMC and all claims against Putnam except a claim under Section 36(b) of the Investment Company Act. The second consolidated amended complaint in the Putnam Class Action, filed after the court dismissed certain other claims in the first consolidated amended complaint, asserts against Putnam claims under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, Section 20(a) of the Exchange Act, and Section 36(b) of the Investment Company Act of 1940. Putnam has answered this second consolidated amended complaint and the parties are engaged in fact discovery in this matter.
- A consolidated amended complaint asserting shareholder derivative claims has been filed, purportedly on behalf of MMC, against current and former members of MMC's Board of Directors, two of Putnam's former officers, and MMC as a nominal defendant (the "MMC Derivative Action"). The MMC Derivative Action generally alleges that the members of MMC's Board of Directors violated the fiduciary duties they owed to MMC and its shareholders by failing to provide oversight regarding market-timing in the Putnam Funds, as a result of which MMC suffered damages. The suit seeks unspecified damages and equitable relief. Pursuant to an agreement of the parties, the MMC Derivative Action was stayed in May 2005.

- MMC, Putnam, and various of their current and former officers, directors and employees have been named as defendants in two consolidated amended complaints that purportedly assert class action claims under ERISA (the "ERISA Actions"). The ERISA Actions, which have been brought by participants in MMC's Stock Investment Plan and Putnam's Profit Sharing Retirement Plan, allege, among other things, that, in view of the market-timing trading activity that was allegedly allowed to occur at Putnam, the defendants knew or should have known that the investment of the plans' funds in MMC stock and the Putnam Funds was imprudent and that the defendants breached their fiduciary duties to the plan participants in making these investments. The ERISA Actions seek unspecified damages and equitable relief, including the restoration to the plans of all profits the defendants allegedly made through the use of the plans' assets, an order compelling the defendants to make good to the plans all losses to the plans allegedly resulting from defendants' alleged breaches of their fiduciary duties, and the imposition of a constructive trust on any amounts by which any defendant allegedly was unjustly enriched at the expense of the plans. On September 15, 2006, the ERISA Action regarding the Putnam Profit Sharing Retirement Plan was dismissed against all defendants; the plaintiff has appealed that decision. In November 2006 the parties agreed to stay the ERISA Action regarding the MMC Stock Investment Plan.
- A number of the Putnam Funds have been named as defendants in a purported class action brought on behalf of certain holders of the funds' Class B shares who either (i) held such shares and were subject to certain contingent deferred sales charges ("CDSCs") as of October 28, 2003, or (ii) were assessed a CDSC for redeeming such shares on or after October 28, 2003. Plaintiff alleges that Putnam engaged in misconduct constituting a breach of contract and breach of the covenant of good faith and fair dealing with purported class members by allowing market-timing. Plaintiff seeks, among other things, actual damages or statutory damages of $25 for each class member (whichever is greater) and relief from paying a CDSC for redeeming Class B shares. In August 2005, this action was transferred to the consolidated proceedings in the United States District Court for the District of Maryland, described above.

Putnam has agreed to indemnify the Putnam Funds for any liabilities arising from market-timing activities, including those that could arise in the above securities litigations, and MMC has agreed to guarantee Putnam's obligations in that regard.

As discussed more fully in Article 11.02(a)(iii) of the Putnam Sale Agreement, MMC will indemnify GWL for any Damages (as defined in the Putnam Sale Agreement) arising from any claim, action, suit, investigation, proceeding or inquiry currently pending or arising before December 31, 2008, that results from any alleged "market timing" activity in trading by any person in the Putnam Funds (including frequent trading and late trading), as that term was used in the proceedings brought by the SEC and the Massachusetts Securities Division that were the subject of the Putnam Trading Settlements, to the extent the alleged activity occurs before the closing of the sale of Putnam.

Other Putnam Litigation

- Putnam and Putnam Retail Management Limited Partnership have been sued in the United States District Court for the District of Massachusetts for alleged violations of Section 36(b) of the Investment Company Act of 1940 in connection with the receipt of purportedly excessive advisory and distribution fees paid by certain Putnam Funds in which plaintiffs purportedly owned shares (the "Putnam Excessive Fee Litigation"). Plaintiffs seek, among other things, to recover certain advisory and distribution fees paid to defendants by those funds beginning one year prior to the filing of the complaint, rescission of the management and distribution agreements between defendants and the funds, and a prospective reduction in fees. In January 2006, the court granted defendants' motion for partial summary judgment, limiting the scope of the suit to the fees paid by five Putnam Funds. Plaintiffs filed a new complaint which seeks the same form of relief as the original complaint, is limited to the fees paid by

the five funds at issue, and seeks relief for a period after the filing of the original complaint. In February 2007, the Court denied defendants' motion to stay the new complaint and granted plaintiffs' motion to consolidate the two cases. The parties are engaged in fact discovery.

As described more fully in Section 11.02(a)(iii) of the Putnam Sale Agreement, MMC will indemnify GWL for any Damages (as defined in the Putnam Sale Agreement) arising under (i) the Putnam Excessive Fee Litigation and (ii) any further claim, action, suit, investigation, proceeding or inquiry arising before the third anniversary of the closing of the sale of Putnam that results from the same specific conduct (i.e., the same particular actions or conduct at the same particular time and involving the same mutual funds) involving "excessive fees" purportedly violating Section 36(b) of the Investment Company Act that is the subject of the Putnam Excessive Fee Litigation.

- Certain Putnam entities have been named as defendants in a suit brought in the District Court of Travis County, Texas by a former institutional client, the Employee Retirement System of Texas. Plaintiff alleges that Putnam breached its investment management advisory agreement and did not make appropriate disclosures at the time the investment management advisory agreement was executed.

Other Governmental Inquiries Relating to MMC and its Subsidiaries

- Since early 2003, the SEC has issued two subpoenas to MMC or its affiliates and has made additional requests for information relating to the SEC's investigation of loss mitigation products. MMC and its subsidiaries have received similar inquiries from regulators and other authorities in several states. In April 2005, the Office of Insurance Regulation in the State of Florida issued a subpoena to MMC's subsidiary Guy Carpenter & Company, Inc. concerning certain reinsurance products. In May 2005, the Office of Insurance and Fire Safety Commissioner in the State of Georgia issued a subpoena to MMC that requested, among other things, information relating to finite insurance placements. In May 2005, the Office of the Attorney General in the State of Connecticut issued a subpoena to MMC concerning finite insurance. MMC and its subsidiaries are cooperating with these and other informal inquiries relating to loss mitigation products.
- In February 2005, the DOL served a subpoena on MMC seeking documents pertaining to services provided by MMC subsidiaries to employee benefit plans, including documents relating to how such subsidiaries have been compensated for such services. The request also sought information concerning market service agreements and the solicitation of bids from insurance companies in connection with services to employee benefit plans. MMC is cooperating with the DOL.
- In December 2004, MMC received a request for information pursuant to a formal investigation commenced by the SEC. The request for information seeks documents concerning related-party transactions of MMC or MMC subsidiaries in which transactions a director, executive officer or 5% stockholder of MMC had a direct or indirect material interest. In April 2005, MMC received a subpoena from the SEC broadening the scope of the original request. MMC is cooperating in the investigation. Certain current and former employees of MMC have testified in connection with this matter.

Other Matters Relating to MMC and its Subsidiaries

- The governor of Alaska has introduced a bill in the state legislature seeking funding to institute a lawsuit against Mercer HR. We understand that the lawsuit, if instituted, would seek potentially significant damages relating to Mercer HR's performance of consulting services for Alaska's public employee pension fund.

- MMC and its subsidiaries are subject to a significant number of other claims, lawsuits and proceedings in the ordinary course of business. Such claims and lawsuits consist principally of alleged errors and omissions (known as E&O's) in connection with the performance of professional services. Some of these claims seek damages, including punitive damages, in amounts that could, if awarded, be significant. MMC provides for these exposures by a combination of third-party insurance and self-insurance. For policy years 2000-2001 and prior, substantial third-party insurance is in place above the annual aggregate limit of MMC's self-insured retention, which was $50 million annually for policy years 1998-1999, 1999-2000 and 2000-2001. To the extent that expected losses exceed MMC's self-insured retention in any policy year, MMC records an asset for the amount that MMC expects to recover under its third-party insurance programs. The policy limits and coverage terms of the third-party insurance vary to some extent by policy year, but MMC is not aware of coverage defenses or other obstacles to coverage that would limit recoveries in those years in a material amount. In policy years subsequent to 2000-2001, the availability of third-party insurance has declined substantially, which has caused MMC to assume increasing levels of self-insurance. MMC utilizes internal actuarial and other estimates, and case level reviews by inside and outside counsel, to establish loss reserves which it believes are adequate to provide for this self-insured retention. These reserves are reviewed quarterly and adjusted as developments warrant.
- In connection with its acquisition of U.K.-based Sedgwick Group in 1998, MMC acquired several insurance underwriting businesses that were already in run-off, including River Thames Insurance Company Limited ("River Thames"), which MMC sold in 2001. Sedgwick guaranteed payment of claims on certain policies underwritten through the Institute of London Underwriters (the "ILU") by River Thames (such guarantee being hereinafter referred to as the "ILU Guarantee"). The policies covered by the ILU Guarantee are reinsured up to £40 million by a related party of River Thames. Payment of claims under the reinsurance agreement is collateralized by segregated assets held in a trust. As of December 31, 2006, the reinsurance coverage exceeded the best estimate of the projected liability of the policies covered by the ILU Guarantee. To the extent River Thames or the reinsurer is unable to meet its obligations under those policies, a claimant may seek to recover from MMC under the ILU Guarantee.
- From 1980 to 1983, MMC owned indirectly the English & American Insurance Company ("E&A"), which was a member of the ILU. The ILU required MMC to guarantee a portion of E&A's obligations. After E&A became insolvent in 1993, the ILU agreed to discharge the guarantee in exchange for MMC's agreement to post an evergreen letter of credit that is available to pay claims by policyholders on certain E&A policies issued through the ILU and incepting between July 3, 1980 and October 6, 1983. In April, 2006, a lawsuit was commenced in the Commercial Court in London against MMC and the ILU by an assignee of an E&A policyholder that purports to have a claim against the MMC letter of credit in the amount of approximately $8.5 million and seeks a judicial declaration of its rights as an assignee of a policyholder claim. MMC is contesting the claim. MMC anticipates that additional claimants may seek to recover against the letter of credit.

The proceedings and other matters described in this Note 16 on Claims, Lawsuits and Other Contingencies may expose MMC to liability for significant monetary damages and other forms of relief. Where a loss is both probable and reasonably estimable, MMC has established reserves in accordance with SFAS No. 5, "Accounting for Contingencies". Except as specifically set forth above, MMC's management is unable, at the present time, to provide a reasonable estimate of the range of possible loss attributable to the foregoing matters or the impact they may have on MMC's consolidated results of operations or financial position (over and above MMC's existing loss reserves) or MMC's cash flows (to the extent not covered by insurance). The principal reasons for this are that many of these cases, particularly the matters related to "market service agreements" and "market-timing", remain in their early stages and only limited discovery, if any, has taken place. Thus, at this time, it

is not possible to reasonably estimate the possible loss or range of loss on these matters. Adverse determinations in one or more of the matters discussed above could have a material impact on MMC's financial condition or the results of MMC's operations in a future period.

17. Segment Information

MMC's organization structure and segment reporting is based on the types of services provided.

Results are reported in four segments:

- **Risk and Insurance Services**, comprising insurance services (Marsh), reinsurance services (Guy Carpenter), and Risk Capital Holdings;
- **Risk Consulting & Technology** (Kroll);
- **Consulting**, including Mercer Human Resource Consulting and Mercer's Specialty Consulting businesses; and
- **Investment Management** (Putnam).

MMC has reclassified prior year amounts to reflect Kroll Securities International as a discontinued operation.

The accounting policies of the segments are the same as those used for the consolidated financial statements described in Note 1. The information in the following table excludes the results of Kroll Securities International, Crump, Price Forbes and SCMS, which are classified as discontinued operations. Revenues are attributed to geographic areas on the basis of where the services are performed. Segment performance is evaluated based on segment operating income, which includes investment income and losses attributable to each segment, directly related expenses, and charges or credits related to integration and restructuring but not MMC corporate-level expenses. Starting in the first quarter of 2006 segment results also include stock option expense, described in more detail below.

Change in Segment Measurement

MMC adopted SFAS 123(R), "Share-Based Payment" effective July 1, 2005. As a result, MMC incurred incremental costs, primarily related to stock options, of $64 million for the third and fourth quarters of 2005. These costs are recorded in Corporate. Starting in the first quarter of 2006, MMC changed the measurement of its segment results to include the cost of stock options. For the twelve months ended December 31, 2006, expenses related to stock options was $116 million: Risk and Insurance Services - $47 million, Risk Consulting & Technology - $2 million, Consulting - $41 million, Investment Management - $14 million and Corporate - $12 million.

Selected information about MMC's operating segments and geographic areas of operation follow:

For the Years Ended December 31, *(In millions of dollars)*	Revenue	Operating Income	Total Assets	Depreciation and Amortization	Capital Expenditures
2006–					
Risk and Insurance Services	**$ 5,463(a)**	**$ 677**	**$ 9,651**	**$230**	**$133**
Risk Consulting & Technology	**979(b)**	**149**	**2,363**	**90**	**46**
Consulting	**4,225(c)**	**466**	**3,804**	**92**	**88**
Investment Management	**1,385(d)**	**303**	**2,950**	**64**	**34**
Total Operating Segments	**$12,052**	**$1,595**	**$18,768**	**$476**	**$301**
Corporate/Eliminations	**(131)**	**(137)(e)**	**(631)(f)**	**11**	**6**
Assets of Discontinued Operations	**—**	**—**	**—**	**—**	**—**
Total Consolidated	**$11,921**	**$1,458**	**$18,137**	**$487**	**$307**
2005–					
Risk and Insurance Services	$ 5,592(a)	$ 305	$11,465	$221	$153
Risk Consulting & Technology	872(b)	121	2,524	84	54
Consulting	3,802(c)	451	3,595	96	83
Investment Management	1,506(d)	263	1,882	69	36
Total Operating Segments	$11,772	$1,140	$19,466	$470	$326
Corporate/Eliminations	(194)	(287)(e)	(1,727)(f)	11	2
Assets of Discontinued Operations	—	—	153	—	17
Total Consolidated	$11,578	$ 853	$17,892	$481	$345
2004–					
Risk and Insurance Services	$ 6,205(a)	$ 84	$ 9,428	$225	$223
Risk Consulting & Technology	371(b)	45	2,284	33	21
Consulting	3,637(c)	409	3,858	99	55
Investment Management	1,710(d)	98	2,038	79	49
Total Operating Segments	$11,923	$ 636	$17,608	$436	$348
Corporate/Eliminations	(196)	(39)(e)	717(f)	14	14
Assets of Discontinued Operations	—	—	173	—	14
Total Consolidated	$11,727	$ 597	$18,498	$450	$376

(a) Includes interest income on fiduciary funds ($180 million in 2006, $151 million in 2005 and $130 million in 2004).

(b) Includes inter-segment revenue ($12 million in 2006, $27 million in 2005 and $2 million in 2004).

(c) Includes inter-segment revenue ($108 million in 2006, $154 million in 2005 and $173 million in 2004).

(d) Includes inter-segment revenue ($11 million in 2006, and $10 million in 2005 and 2004).

(e) Corporate expenses in 2006 include a $74 million credit for the gain from the sale of five (5) floors of MMC's New York headquarters building. Corporate expenses in 2005 include $64 million of incremental expense, primarily related to stock options, resulting from the implementation of SFAS 123(R) effective July 1, 2005. Corporate expenses in 2004 include a credit of $105 million related to an insurance settlement.

(f) Corporate assets primarily include unallocated goodwill, insurance recoverables, pension related assets, a portion of MMC's headquarters building and intercompany eliminations.

Operating Segment Revenue by Product is as follows:

For the Years Ended December 31, *(In millions of dollars)*	**2006**	2005	2004
Risk & Insurance Services			
Insurance Services	**$ 4,390**	$ 4,567	$ 5,166
Reinsurance Services	**880**	836	859
Risk Capital Holdings	**193**	189	180
Total Risk & Insurance Services	**5,463**	5,592	6,205
Risk Consulting & Technology	**979**	872	371
Consulting			
Human Resource Consulting	**3,021**	2,794	2,786
Specialty Consulting	**1,204**	1,008	851
Total Consulting	**4,225**	3,802	3,637
Investment Management	**1,385**	1,506	1,710
Total Operating Segments	**$12,052**	$11,772	$11,923
Corporate/Eliminations	**(131)**	(194)	(196)
Total	**$11,921**	$11,578	$11,727

Information by geographic area is as follows:

For the Years Ended December 31, *(In millions of dollars)*	**2006**	2005	2004
Geographic Area:			
External Revenue —			
United States	**$ 6,772**	$ 6,818	$ 7,033
United Kingdom	**2,029**	1,969	2,049
Continental Europe	**1,547**	1,461	1,456
Other	**1,704**	1,524	1,385
	$12,052	$11,772	$11,923
Corporate/Eliminations	**(131)**	(194)	(196)
	$11,921	$11,578	$11,727

December 31, *(In millions of dollars)*	**2006**	2005	2004
Fixed Assets —			
United States	**$ 644**	$ 782	$ 882
United Kingdom	**226**	232	308
Continental Europe	**80**	74	85
Other	**93**	90	88
	$ 1,043	$ 1,178	$ 1,363

Segment Reclassifications for Discontinued Operations

The following table provides reclassified prior period reported amounts to reflect discontinued operations classification for Kroll Security International, which was sold in December 2006.

	Three Months Ended (Unaudited)				Twelve Months Ended
2006	March 31,	June 30,	Sept. 30,	Dec. 31,	Dec. 31,
Operating Income (Loss):					
Risk and Insurance Services	$ 268	$ 139	$ 143	$ 127	$ 677
Risk Consulting & Technology	24	42	38	45	149
Consulting	113	124	112	117	466
Investment Management	64	76	77	86	303
Corporate	(68)	(42)	(49)	22	(137)
	401	339	321	397	1,458
Interest Income	16	13	16	19	64
Interest Expense	(78)	(78)	(75)	(72)	(303)
Income Before Income Taxes and Minority Interest, Net of Tax	339	274	262	344	1,219
Income Taxes	96	97	78	117	388
Minority Interest Expense, Net of Tax	2	3	4	4	13
Income From Continuing Operations	241	174	180	223	818
Discontinued Operations, Net of Tax	175	(2)	(4)	3	172
Net Income	$ 416	$ 172	$ 176	$ 226	$ 990
Basic Income Per Share — Continuing Operations	$0.44	$0.32	$0.33	$0.41	$ 1.49
Diluted Income Per Share — Continuing Operations	$0.43	$0.31	$0.32	$0.39	$ 1.45

2005	Three Months Ended (Unaudited) March 31,	June 30,	Sept. 30,	Dec. 31,	Twelve Months Ended Dec. 31,
Operating Income (Loss):					
Risk and Insurance Services	$ 137	$ 86	$ 20	$ 62	$ 305
Risk Consulting & Technology	37	34	34	16	121
Consulting	110	130	117	94	451
Investment Management	50	71	83	59	263
Corporate	(73)	(30)	(69)	(115)	(287)
	261	291	185	116	853
Interest Income	9	11	13	14	47
Interest Expense	(69)	(73)	(111)	(79)	(332)
Income Before Income Taxes and Minority Interest, Net of Tax	201	229	87	51	568
Income Taxes	70	68	23	30	191
Minority Interest Expense, Net of Tax	2	2	2	4	10
Income From Continuing Operations	129	159	62	17	367
Discontinued Operations, Net of Tax	5	7	7	18	37
Net Income	$ 134	$ 166	$ 69	$ 35	$ 404
Basic Income Per Share — Continuing Operations	$0.24	$0.30	$0.11	$0.03	$0.68
Diluted Income Per Share — Continuing Operations	$0.24	$0.29	$0.11	$0.03	$0.67

18. Subsequent Event

On January 31, 2007, MMC entered into a stock purchase agreement with Great-West Lifeco Inc. ("GWL"), a majority-owned subsidiary of Power Financial Corporation, pursuant to which GWL will purchase Putnam Investments Trust for $3.9 billion in cash. The sale includes Putnam's interest in the T.H. Lee private equity business. The purchase price is subject to possible adjustments based on (i) changes in Putnam's adjusted stockholders' equity between September 30, 2006 and closing and (ii) any decline below an agreed threshold in Putnam's adjusted asset management revenue between December 31, 2006 and closing. MMC expects the sale of Putnam to close in mid-2007.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Marsh & McLennan Companies, Inc.:
New York, New York

We have audited the accompanying consolidated balance sheets of Marsh & McLennan Companies, Inc. and subsidiaries (the “Company”) as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders’ equity and comprehensive income, and of cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Marsh & McLennan Companies, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards (“SFAS”) No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R),” effective December 31, 2006 and SFAS No. 123(R), “Share-Based Payment,” effective July 1, 2005.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company’s internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2007 expressed an unqualified opinion on management’s assessment of the effectiveness of the Company’s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

New York, New York
February 28, 2007

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Marsh & McLennan Companies, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. MMC's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

MMC's internal control over financial reporting includes those policies and procedures relating to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of MMC; the recording of all necessary transactions to permit the preparation of MMC's consolidated financial statements in accordance with generally accepted accounting principles; the proper authorization of receipts and expenditures in accordance with authorizations of MMC's management and directors; and the prevention or timely detection of the unauthorized acquisition, use or disposition of assets that could have a material effect on MMC's consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluated the effectiveness of MMC's internal control over financial reporting as of December 31, 2006. In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on its evaluation, management determined that MMC maintained effective internal control over financial reporting as of December 31, 2006.

Deloitte & Touche LLP, the Independent Registered Public Accounting Firm that audited and reported on MMC's consolidated financial statements included in this annual report, also issued an attestation report on management's evaluation of the effectiveness of MMC's internal control over financial reporting as of December 31, 2006.

Michael G. Cherkasky
President and
Chief Executive Officer
February 28, 2007

Matthew B. Bartley
Chief Financial Officer
February 28, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Marsh & McLennan Companies, Inc.:
New York, New York

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Marsh & McLennan Companies, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006 of the Company and our report dated February 28, 2007 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's changes in accounting for pension and postretirement benefits and share-based payments.

Deloitte & Touche LLP

New York, New York
February 28, 2007

Marsh & McLennan Companies, Inc. and Subsidiaries

SELECTED QUARTERLY FINANCIAL DATA AND SUPPLEMENTAL INFORMATION (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In millions of dollars, except per share figures)			
2006:				
Revenue	**$3,016**	**$2,970**	**$2,872**	**$3,063**
Operating income	**$ 401**	**$ 339**	**$ 321**	**$ 397**
Income from continuing operations	**$ 241**	**$ 174**	**$ 180**	**$ 223**
Income (loss) from discontinued operations	**$ 175**	**$ (2)**	**$ (4)**	**$ 3**
Net income	**$ 416**	**$ 172**	**$ 176**	**$ 226**
Basic Per Share Data:				
Income from continuing operations	**$ 0.44**	**$ 0.32**	**$ 0.33**	**$ 0.41**
Income (loss) from discontinued operations	**$ 0.32**	**$ (0.01)**	**$ (0.01)**	**$ —**
Net income	**$ 0.76**	**$ 0.31**	**$ 0.32**	**$ 0.41**
Diluted Per Share Data:				
Income from continuing operations	**$ 0.43**	**$ 0.31**	**$ 0.32**	**$ 0.39**
Income (loss) from discontinued operations	**$ 0.32**	**$ —**	**$ (0.01)**	**$ 0.01**
Net income	**$ 0.75**	**$ 0.31**	**$ 0.31**	**$ 0.40**
Dividends Paid Per Share	**$ 0.17**	**$ 0.17**	**$ 0.17**	**$ 0.17**
2005:				
Revenue	$3,053	$2,955	$2,759	$2,811
Operating income	$ 261	$ 291	$ 185	$ 116
Income from continuing operations	$ 129	$ 159	$ 62	$ 17
Income from discontinued operations	$ 5	$ 7	$ 7	$ 18
Net income	$ 134	$ 166	$ 69	$ 35
Basic Per Share Data:				
Income from continuing operations	$ 0.24	$ 0.30	$ 0.11	$ 0.03
Income from discontinued operations	$ 0.01	$ 0.01	$ 0.02	$ 0.03
Net income	$ 0.25	$ 0.31	$ 0.13	$ 0.06
Diluted Per Share Data:				
Income from continuing operations	$ 0.24	$ 0.29	$ 0.11	$ 0.03
Income from discontinued operations	$ 0.01	$ 0.02	$ 0.01	$ 0.03
Net income	$ 0.25	$ 0.31	$ 0.12	$ 0.06
Dividends Paid Per Share	$ 0.17	$ 0.17	$ 0.17	$ 0.17

As of February 20, 2007, there were 9,468 stockholders of record.

The table above reflects the reclassification of Kroll Security International as a discontinued operation.

Marsh & McLennan Companies, Inc. and Subsidiaries
FIVE-YEAR STATISTICAL SUMMARY OF OPERATIONS

For the Years Ended December 31, *(In millions, except per share figures)*	**2006**	2005[b]	2004[b]	2003	2002	Compound Growth Rate 2001-2006
Revenue:						
Service Revenue	**$11,699**	$11,395	$11,527	$11,100	$10,039	4%
Investment Income (Loss)	**222**	183	200	100	67	
Total Revenue	**11,921**	11,578	11,727	11,200	10,106	4%
Expenses:						
Compensation and Benefits	**7,113**	6,897	6,685	5,710	5,025	9%
Other Operating Expenses	**3,350**	3,788	3,476	3,032	2,845	1%
Regulatory and Other Settlements	**—**	40	969	10	—	
Total Expenses	**10,463**	10,725	11,130	8,752	7,870	6%
Operating Income	**1,458**[a]	853[a]	597[a]	2,448	2,236	(3)%
Interest Income	**64**	47	21	24	19	
Interest Expense	**(303)**	(332)	(219)	(185)	(160)	
Income Before Income Taxes and Minority Interest	**1,219**	568	399	2,287	2,095	(5)%
Income Taxes	**388**	191	239	751	731	
Minority Interest, Net of Tax	**13**	10	8	20	18	
Income From Continuing Operations	**818**	367	152	1,516	1,346	(3)%
Discontinued Operations, Net of Tax	**172**	37	24	24	19	70%
Net Income	**$ 990**	$ 404	$ 176	$ 1,540	$ 1,365	—
Basic Income Per Share Information:						
Income From Continuing Operations	**$ 1.49**	$ 0.68	$ 0.29	$ 2.85	$ 2.49	(3)%
Income From Discontinued Operations	**$ 0.31**	$ 0.07	$ 0.04	$ 0.04	$ 0.03	73%
Net Income	**$ 1.80**	$ 0.75	$ 0.33	$ 2.89	$ 2.52	—
Average Number of Shares Outstanding	**549**	538	526	533	541	
Diluted Income Per Share Information:						
Income From Continuing Operations	**$ 1.45**	$ 0.67	$ 0.29	$ 2.77	$ 2.42	(3)%
Income From Discontinued Operations	**$ 0.31**	$ 0.07	$ 0.04	$ 0.04	$ 0.03	60%
Net Income	**$ 1.76**	$ 0.74	$ 0.33	$ 2.81	$ 2.45	1%
Average Number of Shares Outstanding	**557**	543	535	548	557	
Dividends Paid Per Share	**$ 0.68**	$ 0.68	$ 1.30	$ 1.18	$ 1.09	(8)%
Return on Average Stockholders' Equity	**18%**	8%	3%	29%	27%	
Year-end Financial Position:						
Working capital	**$ 285**	$ 911	$ 256	$ 189	$ (199)	
Total assets	**$18,137**	$17,892	$18,498	$15,053	$13,855	
Long-term debt	**$ 3,860**	$ 5,044	$ 4,691	$ 2,910	$ 2,891	
Stockholders' equity	**$ 5,819**	$ 5,360	$ 5,056	$ 5,451	$ 5,018	
Total shares outstanding (net of treasury shares)	**552**	546	527	527	538	
Other Information:						
Number of employees	**55,500**	54,900	63,900	60,400	59,400	
Stock price ranges —						
U.S. exchanges — High	**$ 32.73**	$ 34.25	$ 49.69	$ 54.97	$ 57.30	
— Low	**$ 24.00**	$ 26.67	$ 22.75	$ 38.27	$ 34.61	

[a] Includes net restructuring costs of $87 million, $317 million and $337 million in 2006, 2005 and 2004, respectively.

[b] Certain balances have been reclassified to conform with current presentation. See Note 1 to the Consolidated Financial Statements.

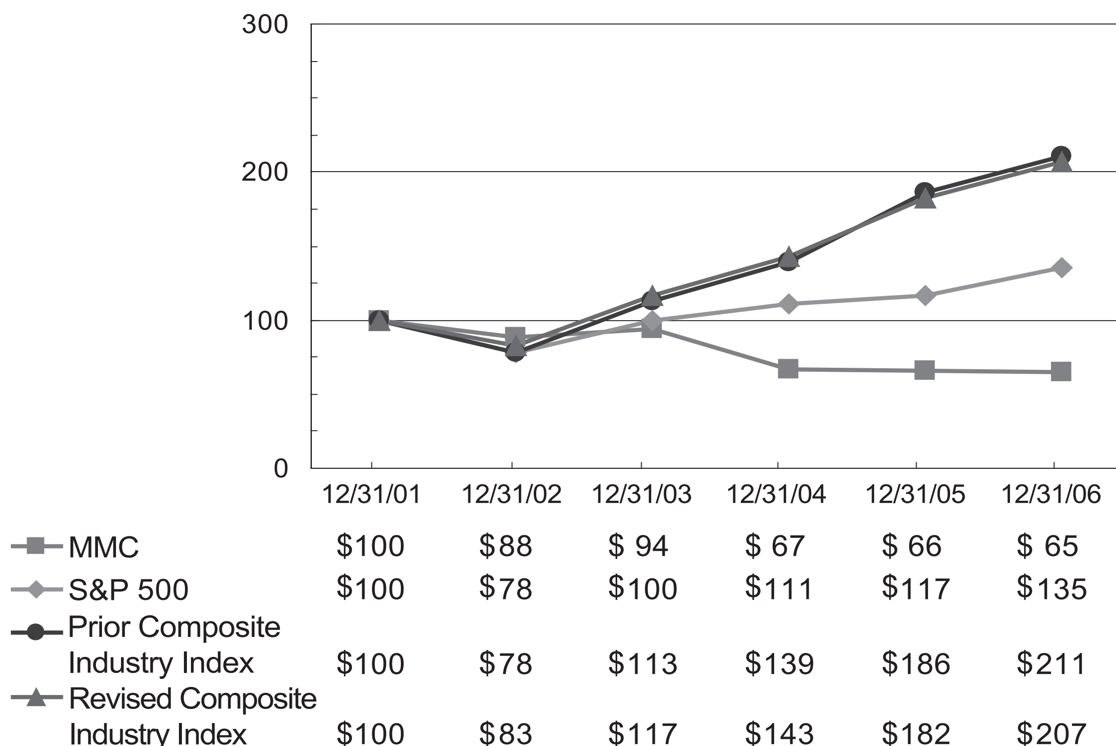
See Management's Discussion and Analysis of Financial Condition and Results of Operations for discussion of significant items affecting our results of operations in 2006 and 2005.

STOCK PERFORMANCE GRAPH

The following graph compares the annual cumulative stockholder return for the five-year period ended December 31, 2006 on: MMC common stock; the Standard & Poor's 500 Stock Index; and two management-constructed composite industry indices. The graph assumes an investment of $100 on December 31, 2001 in MMC common stock and each of the three indices, with dividends reinvested. Returns on each industry index reflect allocation of the total amount invested among the constituent stocks on a pro rata basis according to each issuer's start-of-year market capitalization.

The members of the industry indices are companies that participate in one or more MMC line of business and that have been publicly traded throughout the five-year period portrayed in the graph. The Prior Composite Industry Index, which MMC has previously used in constructing the stock performance graph, consists of Aon Corporation, Arthur J. Gallagher & Co., Franklin Resources, Inc. and T. Rowe Price Group, Inc. The Revised Composite Industry Index, which we are introducing this year, adds Watson Wyatt Worldwide, Inc. and Willis Group Holdings Limited, each of which has now been public for five years.

COMPARISON OF CUMULATIVE TOTAL STOCKHOLDER RETURN
($100 invested 12/31/01 with dividends reinvested)



INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

This Annual Report contains "forward-looking statements," as defined in the Private Securities Litigation Reform Act of 1995. These statements, which express management's current views concerning future events or results, use words like "anticipate," "assume," "believe," "continue," "estimate," "expect," "intend," "plan," "project" and similar terms, and future or conditional tense verbs like "could," "should," "will" and "would." For example, we may use forward-looking statements when addressing topics such as: the impact of acquisitions and dispositions; future actions by our management or regulators; the outcome of contingencies; changes in our business strategy; changes in our business practices and methods of generating revenue; the development and performance of our services and products; market and industry conditions, including competitive and pricing trends; changes in the composition or level of MMC's revenues; our cost structure and the outcome of restructuring and other cost-saving initiatives; and MMC's cash flow and liquidity.

Forward-looking statements are subject to inherent risks and uncertainties. Factors that could cause actual results to differ materially from those expressed or implied in our forward-looking statements include:

- the economic and reputational impact of litigation and regulatory proceedings concerning our insurance and reinsurance brokerage and investment management operations;
- the fact that MMC's agreement to sell Putnam, announced on February 1, 2007, is subject to a number of closing conditions, some of which are outside of MMC's control, and we cannot be certain that the transaction will close as planned or that the announced sale price will not be adjusted pursuant to the terms of the sale agreement;
- Putnam's performance between now and the closing of the announced sale later in 2007, including the actual and relative investment performance of Putnam's mutual funds and institutional and other advisory accounts, Putnam's net fund flows and the level of Putnam's assets under management;
- our ability to effectively deploy MMC's proceeds from the sale of Putnam, and the timing of our use of those proceeds;
- the fact that our estimate of the dilutive impact of the sale of Putnam on MMC's future earnings per share is necessarily based on a set of current management assumptions, including assumptions about MMC's use of sale proceeds and the operating results of Putnam and MMC's other subsidiaries;
- our ability to achieve profitable revenue growth in our risk and insurance services segment by providing both traditional insurance brokerage services and additional risk advisory services;
- our ability to retain existing clients and attract new business, and our ability to retain key employees;
- revenue fluctuations in risk and insurance services relating to the net effect of new and lost business production and the timing of policy inception dates;
- the impact on risk and insurance services commission revenues of changes in the availability of, and the premiums insurance carriers charge for, insurance and reinsurance products, including the impact on premium rates and market capacity attributable to catastrophic events such as hurricanes;
- the impact on renewals in our risk and insurance services segment of pricing trends in particular insurance markets, fluctuations in the general level of economic activity and decisions by insureds with respect to the level of risk they will self-insure;
- the impact on our consulting segment of pricing trends, utilization rates, legislative changes affecting client demand, and the general economic environment;

- our ability to implement our restructuring initiatives and otherwise reduce or control expenses and achieve operating efficiencies, including our ability to generate anticipated savings and operational improvements from the actions we announced in September 2006;
- the impact of competition, including with respect to pricing and the emergence of new competitors;
- fluctuations in the value of Risk Capital Holdings' investments;
- our ability to make strategic acquisitions and dispositions and to integrate, and realize expected synergies, savings or strategic benefits from, the businesses we acquire;
- our exposure to potential liabilities arising from errors and omissions claims against us;
- our ability to meet our financing needs by generating cash from operations and accessing external financing sources, including the potential impact of rating agency actions on our cost of financing or ability to borrow;
- the impact on our operating results of foreign exchange fluctuations;
- potential costs and difficulties in complying with a wide variety of foreign laws and regulations, particularly given the global scope of our operations; and
- changes in the tax or accounting treatment of our operations, and the impact of other legislation and regulation, including as to licensing matters, in the jurisdictions in which we operate.

The factors identified above are not exhaustive. MMC and its subsidiaries operate in a dynamic business environment in which new risks may emerge frequently. Accordingly, MMC cautions readers not to place undue reliance on its forward-looking statements, which speak only as of the dates on which they are made. MMC undertakes no obligation to update any such statement to reflect events or circumstances after the date on which it is made. Further information concerning MMC and its businesses, including information about factors that could materially affect our results of operations and financial condition, is contained in MMC's filings with the Securities and Exchange Commission.

BOARD OF DIRECTORS AND CORPORATE OFFICERS

BOARD OF DIRECTORS

Leslie M. Baker, Jr.
Former Chairman, Wachovia Corporation

Lewis W. Bernard
Chairman, Classroom, Inc.
Former Chief of Finance, Administration, and Operations, Morgan Stanley & Co., Inc.

Zachary W. Carter
Partner, Dorsey & Whitney LLP

Michael G. Cherkasky
President and Chief Executive Officer

Oscar Fanjul
Vice Chairman, Omega Capital

Stephen R. Hardis
Non-Executive Chairman
Former Chairman,
Axcelis Technologies, Inc.
Former Chairman and
Chief Executive Officer, Eaton Corporation

Gwendolyn S. King
President, Podium Prose
Former Commissioner,
Social Security Administration

The Rt. Hon. Lord Lang of Monkton, DL
Former Member of British Parliament
Former British Secretary of State for
Trade and Industry

Marc D. Oken
Managing Partner,
Falfurrias Capital Partners
Former Chief Financial Officer,
Bank of America Corporation

David A. Olsen
Former Chairman, Johnson & Higgins

Morton O. Schapiro
President, Williams College

Adele Simmons
Vice Chair, Chicago Metropolis 2020
President, Global Philanthropy Partnership

COMMITTEES OF THE BOARD

Audit
Marc D. Oken, *Chair*
Leslie M. Baker, Jr.
Zachary W. Carter
Oscar Fanjul
David A. Olsen

Compensation
Lewis W. Bernard, *Chair*
Oscar Fanjul
Stephen R. Hardis
The Rt. Hon. Lord Lang of Monkton, DL
Morton O. Schapiro

Compliance
Zachary W. Carter, *Chair*
Leslie M. Baker, Jr.
David A. Olsen

Directors and Governance
Gwendolyn S. King, *Chair*
Stephen R. Hardis
The Rt. Hon. Lord Lang of Monkton, DL
Morton O. Schapiro
Adele Simmons

Executive
Stephen R. Hardis, *Chair*
Lewis W. Bernard
Zachary W. Carter
Michael G. Cherkasky
Gwendolyn S. King
Marc D. Oken

OTHER CORPORATE OFFICERS

Matthew B. Bartley
Chief Financial Officer

Michael A. Beber
Senior Vice President and
Chief Strategic Development Officer

Peter J. Beshar
Executive Vice President and
General Counsel

M. Michele Burns
Chairwoman and Chief Executive Officer,
Mercer Human Resource Consulting

Mathis Cabiallavetta
Vice Chairman, Office of the CEO
Chairman, MMC International

John P. Drzik
President and Chief Executive Officer,
Mercer Specialty Consulting

David W. Fike
Senior Vice President and
Chief Technology Officer

Simon Freakley
President and
Chief Executive Officer, Kroll

E. Scott Gilbert
Senior Vice President and
Chief Compliance Officer

Charles E. Haldeman, Jr.
President and Chief Executive Officer,
Putnam Investments

David A. Nadler
Vice Chairman, Office of the CEO

Michael A. Petrullo
Senior Vice President and
Chief Administrative Officer

Joyce M. Phillips
Senior Vice President,
Worldwide Human Resources

James D. Speros
Senior Vice President and
Chief Marketing Officer

David Spiller
President and
Chief Executive Officer,
Guy Carpenter

Brian M. Storms
Chairman and
Chief Executive Officer, Marsh

INTERNATIONAL ADVISORY BOARD

Michael G. Cherkasky
International Advisory Board Chairman
President and Chief Executive Officer

Abdlatif Y. Al-Hamad (Middle East)
Chairman, Arab Fund for Economic
and Social Development

Rolf-E. Breuer (Germany)
Former Chairman, Deutsche Bank AG

The Rt. Hon. Lord Butler of Brockwell, KG, GCB, CVO (United Kingdom)
Master, University College, Oxford
Former Secretary of the Cabinet and Head
of the Home Civil Service

Mathis Cabiallavetta (Switzerland)
Vice Chairman, Office of the CEO
Chairman, MMC International

Keki Dadiseth (India)
Former Director, Unilever PLC
Former Director, Unilever N.V.

John R. Evans (Canada)
Chairman, MaRS Discovery District
Former Chairman, Torstar Corporation

Oscar Fanjul (Spain)
Vice Chairman, Omega Capital

Toyoo Gyohten (Japan)
President, Institute for International
Monetary Affairs
Former Chairman, The Bank of Tokyo

Jules Kroll (United States)
Chairman and
Founder of Kroll

Marcilio Marques Moreira (Brazil)
Former Finance Minister and
Former Ambassador to the United States

Francis Mer (France)
Former Finance Minister

Sir Peter Middleton, GCB (United Kingdom)
Chairman, Camelot Group PLC
Chairman, Marsh Ltd.
Former Chairman, Barclays Group
Former Permanent Secretary to HM Treasury

David A. Nadler (United States)
Vice Chairman, Office of the CEO

Paul F. Oreffice (United States)
Former Chairman and
Chief Executive Officer,
The Dow Chemical Company

Jesús Silva-Herzog (Mexico)
Former Finance Minister and
Former Ambassador to the United States

SHAREHOLDER INFORMATION

Annual Meeting
The 2007 annual meeting of shareholders will be held at 10 a.m., Thursday, May 17, in the 2nd floor auditorium of the McGraw-Hill Building, 1221 Avenue of the Americas, New York City.

Financial and Investor Information
Shareholders and prospective investors inquiring about reinvestment and payment of dividends, consolidation of accounts, and stock certificate holdings should contact:

The Bank of New York
Shareholder Relations Department
P.O. Box 11258
Church Street Station
New York, NY 10286
Telephone: 800 457 8968
212 815 3700

The Bank of New York's website: www.stockbny.com
E-mail: shareowners@bankofny.com

Requests for and inquiries about stock certificate transfers and address changes should be directed to:

The Bank of New York
Receive and Deliver Department
P.O. Box 11002
Church Street Station
New York, NY 10286
Telephone: 800 457 8968
E-mail: shareowners@bankofny.com

For these services, shareholders in the United Kingdom and Europe should contact:

Computershare Investor Services
Overseas Team
P.O. Box 82, The Pavilions
Bridgwater Road, Bristol BS99 7NH
England
Telephone: 0870 7020003
E-mail: web.queries@computershare.co.uk

Copies of MMC's annual reports and Forms 10-K and 10-Q are available on the MMC website. These documents also may be requested by contacting:

Investor Relations
Marsh & McLennan Companies, Inc.
1166 Avenue of the Americas
New York, NY 10036
Telephone: 212 345 5475
MMC's website: www.mmc.com

Stock Listings
MMC's common stock (ticker symbol: MMC) is listed on the New York, Chicago, and London stock exchanges.

Officer Certifications
The company has filed the certifications required under Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibit 31 to MMC's Annual Report on Form 10-K for the year ended December 31, 2006. In 2006, after our annual meeting of shareholders, the company filed with the New York Stock Exchange the CEO certification regarding its compliance with the NYSE corporate governance listing standards as required by NYSE Rule 303A.12(a).

Procedures for Reporting Complaints and Concerns Regarding Accounting Matters
MMC is committed to complying with all applicable accounting standards, internal accounting controls, audit practices, and securities laws and regulations (collectively, "Accounting Matters"). To report a complaint or concern regarding Accounting Matters, you may contact the company by mail or telephone. Anyone who wishes to communicate with the company's non-executive chairman or the non-management directors as a group may do so by mail or telephone. You may review the company's procedures for handling complaints and concerns of employees and other interested parties at www.mmc.com.

By mail:
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