Marsh • Putnam • Mercer
Marsh & McLennan Companies

ANNUAL REPORT 2004

MMC

IS A GLOBAL PROFESSIONAL SERVICES FIRM WITH ANNUAL REVENUES EXCEEDING $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;
PUTNAM INVESTMENTS, ONE OF THE LARGEST INVESTMENT
MANAGEMENT COMPANIES IN THE UNITED STATES; AND MERCER, A MAJOR GLOBAL
PROVIDER OF CONSULTING SERVICES. MORE THAN 60,000 EMPLOYEES PROVIDE ANALYSIS, ADVICE,
AND TRANSACTIONAL CAPABILITIES TO CLIENTS IN OVER 100 COUNTRIES.

DEAR FELLOW SHAREHOLDER

Two thousand four was one of the most difficult years in MMC's 130-year history. We confronted significant and troubling issues raised by regulators about improper conduct at Marsh. We also dealt with regulatory matters at Putnam. These issues had a profound impact on our financial results, as they did on our shareholders, our clients, and our employees.

We acted quickly and decisively to stabilize the company. We cooperated fully with the investigation by New York regulators and conducted a comprehensive investigation. We named new leadership, introduced a number of significant reforms to ensure complete transparency in all dealings with clients, and instituted new compliance procedures that will enable Marsh to remain the leader in its industry.

We deeply regret that certain of our employees failed to live up to MMC's history of dedicated client service. Their actions were inconsistent with the high standards of integrity and ethics on which MMC was founded and which guide our tens of thousands of employees.

The settlements with regulators were important steps forward for the company. They allowed us to begin to put this difficult period behind us, and we are eager to do so. We have retained the overwhelming majority of our people and are working hard to restore trust and rebuild shareholder value. We do not underestimate the task before us. Achieving our goals will not be quick or easy. Yet, we are fortunate to have resilient and determined employees up to the task of setting the industry standard.

There were a number of positive developments during the year at MMC—good performance by Mercer, including realignments of its businesses; the successful acquisition of Kroll and continuing efforts to offer clients a full array of risk services; and Putnam's changing culture and improving performance. I am excited about the strategy that is driving these changes and the new direction of the company. We will leverage the market leadership position of each of our businesses to provide new services to clients and value to shareholders.

Significant executive changes were made at MMC. In addition to my own appointment as president and chief executive officer of MMC, succeeding Jeffrey W. Greenberg, who had led MMC since 1999, Peter J. Beshar was appointed MMC's new general counsel. E. Scott Gilbert joined MMC in the newly created position of chief compliance officer, reporting directly to me. Two senior executives with whom I worked closely at Kroll, Michael A. Beber and Michael A. Petrullo, also joined MMC's management team.

Management at Marsh was also changed in recognition of the firm's new priorities. I succeeded Ray J. Groves as chairman and chief executive officer of Marsh. Jules Kroll became vice chairman, and Peter F. Garvey and William A. Malloy were named co-presidents. Philip V. Moyles, Jr. was named executive vice president.

Peter Coster, president of Mercer Inc., retired as planned in January. Peter had a successful 40-year career with Mercer and was a member of the MMC Board of Directors for 16 years. We thank him for his contributions and wish him well. We made changes in the way Mercer is managed to reflect the breadth of its practices today and the strategic direction of its businesses around key revenue growth areas. Brian M. Storms was named president and chief executive officer of Mercer Human Resource Consulting, which includes new outsourcing and investment solutions businesses. David J. Morrison, president and chief executive officer of Mercer Management Consulting, is leading Mercer's specialty consulting businesses.

In keeping with our commitment to adhering to best practices in corporate governance, the five MMC management members of the MMC Board of Directors stepped down from the Board. Robert F. Erburu, a member of the Board since 1996 and former chairman of The Times Mirror Company, was named the lead director.

MMC's consolidated revenues rose 5 percent in 2004 to $12.2 billion from $11.5 billion. Net income of $176 million and earnings per share of $.33 compared with $1.5 billion and $2.81 in 2003. Regulatory settlements, restructuring charges, and lower revenues at Marsh due to the termination of market services agreements affected these results.

The MMC Board of Directors reduced the company's quarterly dividend by 50 percent to $.17, effective the first quarter of 2005. This reflects the shift in our expectations for earnings in 2005, demands for cash, and our desire for the most financial flexibility in operating our business. It does not reflect any mid- or long-term change in dividend philosophy.

Risk and Insurance Services

MMC's risk and insurance services revenues rose 8 percent to $7.4 billion in 2004 from $6.9 billion. Operating income of $252 million, compared with $1.8 billion in 2003, reflects the $850 million settlement with New York regulators, restructuring charges, and lower revenues due to the termination of market services agreements. Underlying revenues, excluding market services agreements, increased 3 percent. In the last 15 months, reduced insurance premium rates and easing terms and conditions have benefited clients. We expect this environment to continue throughout 2005.

Marsh's risk management and insurance broking operations produced solid revenue growth in Europe, Latin America, and Asia Pacific.

Marsh is restructuring its operations, improving efficiencies, eliminating unprofitable accounts, and simplifying its management structure while maintaining its commitment to being a global, full-service leader in insurance broking. Unfortunately, achieving our goals will require us to reduce Marsh's global workforce by approximately 2,500 people in 2005. This is in addition to the staff reductions in the fourth quarter of 2004 affecting 2,750 people throughout the MMC organization, including approximately 2,000 people in risk and insurance services.

The new Marsh business model reaffirms the company's fundamental commitment to providing value to clients and being compensated appropriately for its services. The model capitalizes on Marsh's strengths—highly specialized knowledge, access to global insurance capacity, and industry expertise in all the major categories of risk. Marsh has changed the way it places risks in the insurance markets and will not lose the abilities it has to negotiate on behalf of clients. Placement activity is now being carried out by marketing specialists aligned directly with client advisors.

While there is still a great deal of uncertainty, we believe that in 2006, Marsh will be a stronger, more streamlined company, delivering profitable growth with an operating margin in the upper teens and with the opportunity for future margin expansion.

Guy Carpenter's revenues grew in 2004 due to new business development as demand for analytical and placement services remained high. To eliminate even the perception of any conflict of interest, Guy Carpenter was separated organizationally from Marsh, thereby returning Carpenter to the independent model it followed throughout most of its 80-year history.

Acquiring Kroll in July 2004 was an important part of MMC's strategy to broaden the range of risk and insurance services businesses and enhance our leadership in risk management services, including risk mitigation and the ability to analyze the total cost of risk. Kroll had excellent results in 2004, with very strong underlying revenue growth. This was due to continuing strong demand for its technology and consulting services.

We signed a letter of intent to sell MMC Capital to its team of employees, led by Charles A. Davis. MMC will continue to be an investor but will not have direct ownership or involvement in investment decisions or management of the company. We believe this structure will preserve our investment and limit the appearance of conflict that has concerned some clients, while at the same time facilitate the creation of new capacity in the insurance market as needed.

Consulting

Mercer performed well in 2004. Revenues increased 13 percent to $3.1 billion from $2.7 billion. Underlying revenues grew 3 percent for the year.

Mercer Human Resource Consulting is continuing to deliver its core consulting services in retirement, benefits, and human capital. It is leveraging its brand, reputation, and intellectual capital to diversify into new areas of growth. In response to marketplace demand, it is extending its outsourcing capabilities and providing investment advice, including new investment solutions, such as funds of managers products.

Putnam's defined contribution business was combined with the newly formed Mercer HR Services to create a unified, full-service global leader in human resources outsourcing. In addition, Mercer's health care and group benefits and Marsh's employee benefits practices were brought together to expand the distribution capability and intellectual capital of both businesses.

Mercer's retirement consulting revenues were flat overall in 2004 as declines in the large markets of the United States and United Kingdom were offset by good growth throughout the rest of the world. Health care and group benefits and human capital consulting showed modest growth.

Mercer's specialty consulting businesses, which include management, organizational change, and economic consulting, produced excellent results in 2004 and continued to report strong new business in early 2005. Underlying revenues for management and organizational change consulting grew 13 percent and economic consulting rose 9 percent in 2004.

Investment Management

Putnam's revenues declined 12 percent to $1.8 billion in 2004 from $2 billion. Operating income fell to $90 million from $497 million due to regulatory settlements, restructuring, and legal and compliance costs. Putnam had $213 billion in assets under management at the end of 2004, compared with $240 billion at year-end 2003.

Putnam settled its regulatory issues relating to market timing and made restitution to investors, critical steps in restoring investor confidence. Its new leadership team made a number of changes to promote the interests of investors. Putnam was the first to adopt some of the strongest shareholder protections in its industry, becoming the model for industry reform.

Putnam is committed to its strategy of consistent, dependable, superior investment performance over the long term, and we are beginning to see positive results. There has been particular strength in fixed income products. Putnam is also regaining the confidence of public institutional clients. For the 13th year since 1990, Putnam earned top honors from DALBAR for service excellence to shareholders, financial advisors, and annuity contract holders.

In closing, it has been a difficult year, but we have sought to deal forthrightly with our problems. Despite challenges and uncertainties, we are optimistic about the future. We are implementing a new direction for the company based on its historical strengths and introducing strategic changes to build shareholder value.

I am grateful for the hard work and dedication of our employees around the world and encouraged by the resilience of this organization. Clients, employees, and shareholders will be proud to be associated with MMC.

Michael G. Cherkasky — March 7, 2005
President and Chief Executive 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, financial solutions, and insurance program management services for businesses, public entities, associations, professional services organizations, and private clients. Underwriting management and wholesale broking services are performed for a wide range of clients through various subsidiaries.

Guy Carpenter is the world's leading risk and reinsurance specialist, creating and executing reinsurance and risk management solutions for clients worldwide.

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.

MMC Capital is a private equity firm with over $2 billion of committed capital under management.

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 264 institutional clients and more than 10 million individual shareholder accounts. It had $213 billion in assets under management at year-end 2004.

CONSULTING

MERCER HUMAN RESOURCE CONSULTING

Mercer Human Resource Consulting is a global leader for HR and related financial advice, products, and services. **Mercer HR Services** provides a wide range of benefits and other HR outsourcing services. **Mercer Investment Consulting** and **Mercer Global Investments** help retirement plan sponsors and participants and other investors achieve long-term returns with acceptable risk.

MERCER SPECIALIZED CONSULTING BUSINESSES

Mercer Management Consulting helps enterprises develop, build, and operate strong businesses that deliver shareholder value growth. **Mercer Oliver Wyman** is a leader in financial services and risk management consulting. **Mercer Delta Organizational Consulting** works with CEOs, executive teams, and boards of directors on issues of leadership, organization, and change. **NERA Economic Consulting** advises corporations, law firms, courts, and other government entities on the economics of competition, regulation, and finance. **Lippincott Mercer** helps clients create, develop, and manage their corporate identity and brands.

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INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

Marsh & McLennan Companies, Inc. and its subsidiaries ("MMC") and their representatives may from time to time make oral or written statements (including certain statements contained in this report and other MMC filings with the Securities and Exchange Commission and in our reports to stockholders) relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such statements may include, without limitation, discussions concerning the matters raised in the complaint filed by the New York Attorney General's Office stating a claim for, among other things, fraud and violations of New York State antitrust and securities laws, the complaint filed by the Connecticut Attorney General and numerous other investigations being conducted by other state attorneys general and state superintendents or commissioners of insurance, elimination of market services agreements ("MSA"), the new business model of MMC or Marsh Inc., expected synergies from business combinations, cost savings from reductions in staff levels, the adverse consequences arising from market-timing issues at Putnam, including fines and restitution, revenues, expenses, earnings and cash flow, capital structure, existing credit facilities, and access to public capital markets including commercial paper markets, pension funding, market and industry conditions, premium rates, financial markets, interest rates, foreign exchange rates, claims, lawsuits and other contingencies, and matters relating to MMC's operations and income taxes.

Such forward-looking statements are based on available current market and industry materials, experts' reports and opinions, and long-term trends, as well as management's expectations concerning current and future events impacting MMC. Forward-looking statements by their very nature involve risks and uncertainties. Factors that may cause actual results to differ materially from those contemplated by forward-looking statements that we make include:

- the impact of litigation and regulatory proceedings brought by the New York Attorney General's Office, other state attorneys general and state insurance regulators,
- the impact of class actions, derivative actions and individual suits brought by policyholders and shareholders (including MMC employees) asserting various claims, including claims under U.S. securities laws, ERISA, unfair business practices and other common law or statutory claims,
- loss of clients,
- loss of producers or key managers,
- inability to negotiate satisfactory new arrangements for Marsh's compensation with insurance carriers or clients,
- inability to reduce expenses to the extent necessary to achieve desired levels of profitability,
- inability to collect previously accrued MSA revenue,
- changes in competitive conditions,
- movements in premium rate levels,
- changes in the availability of, and the market conditions and the premiums insurance carriers charge for, insurance products,
- mergers between client organizations,
- insurance or reinsurance company insolvencies,
- the impact of litigation and other matters stemming from market-timing issues at Putnam,
- changes in worldwide and national equity and fixed income markets,
- actual and relative investment performance of the Putnam mutual funds,
- the level of sales and redemptions of Putnam mutual fund shares,
- the ability to maintain investment management and administrative fees at current levels at Putnam,
- the ability of MMC to successfully access the public capital markets to meet long term financing needs,
- the continued strength of MMC's relationships with its employees and clients,
- the ability to successfully integrate acquired businesses and realize expected synergies,
- changes in general worldwide and national economic conditions,
- the impact of terrorist attacks,
- natural catastrophes,
- changes in the value of investments made in individual companies and investment funds,
- fluctuations in foreign currencies,
- actions of regulators,
- changes in interest rates,
- developments relating to claims, lawsuits and contingencies,
- prospective and retrospective changes in the tax or accounting treatment of MMC's operations, and
- the impact of tax and other legislation and regulation in the jurisdictions in which MMC operates.

Forward-looking statements speak only as of the date on which they are made, and MMC undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of unanticipated events.

MMC is committed to providing timely and materially accurate information to the investing public, consistent with our legal and regulatory obligations. To that end, MMC and its operating companies use their websites to convey meaningful information about their businesses, including the anticipated release of quarterly financial results and the posting of updates of assets under management at Putnam. Monthly updates of total assets under management at Putnam will be posted to the MMC website the first business day following the end of each month. Putnam posts mutual fund and performance data to its website regularly. Assets for most Putnam retail mutual funds are posted approximately two weeks after each month-end. Mutual fund net asset value (NAV) is posted daily. Historical performance and Lipper rankings are also provided. Investors can link to MMC and its operating company websites through www.mmc.com.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Marsh & McLennan Companies, Inc. and Subsidiaries (''MMC'') is a professional services firm. MMC subsidiaries include Marsh Inc. (''Marsh''), the world's leading risk and insurance services firm; Putnam Investments (''Putnam''), one of the largest investment management companies in the United States; and Mercer Inc. (''Mercer''), a major global provider of consulting services. Over 60,000 employees worldwide provide analysis, advice and transactional capabilities to clients in over 100 countries.

In 2004, MMC operated in three principal business segments based on the services provided. Segment performance is evaluated on the basis of segment operating income, which is after deductions for directly related expenses and minority interest, but before corporate expenses. A reconciliation of segment operating income to total operating income is included in Note 16 to the Consolidated Financial Statements. The accounting policies of the segments are identical to those used for the consolidated financial statements. A complete description of each of MMC's business segments is included in Part 1, Item 1 of this report. The financial results presented and this Management's Discussion and Analysis of Financial Condition and Results of Operations (''MD&A'') are based on MMC's business segments as they existed in 2004. MMC has announced several organizational changes that will change its reportable business segments effective January 1, 2005.

This MD&A contains certain statements relating to future results which are 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 six of this report.

Recent Developments

The historical financial results presented below should be viewed in light of recent developments, which have significantly impacted MMC's results of operations, liquidity and financial condition.

Marsh Developments

On October 14, 2004, the New York State Attorney General's Office (''NYAG'') filed a Civil Complaint (the ''NYAG Lawsuit'') in state court against MMC and Marsh (collectively ''Marsh'') asserting claims under New York law for fraudulent business practices, antitrust violations, securities fraud, unjust enrichment and common law fraud. On October 21, 2004, the New York State Insurance Department (''NYSID'') issued a citation, amended on October 24, 2004, (the ''Amended Citation'') that ordered MMC and a number of its subsidiaries and affiliates that hold New York insurance licenses to appear at a hearing and show cause why regulatory action should not be taken against them. These issues are discussed more fully in Note 15 to the Consolidated Financial Statements.

On January 30, 2005, MMC entered into an agreement (the ''Settlement Agreement'') with the NYAG and the NYSID to settle the NYAG Lawsuit and the Amended Citation. Pursuant to the Settlement Agreement, Marsh will establish a fund of $850 million (the ''Fund''), payable over four years, for Marsh policyholder clients. MMC recorded a $232 million charge in the third quarter of 2004 and an additional $618 million charge in the fourth quarter of 2004 for the amount to be paid into the Fund in accordance with the Settlement Agreement. In addition, MMC recorded a charge of $16 million for estimated costs to calculate and administer payments out of the Fund. The total amount of the settlement will be paid into the Fund as follows: on or before each of June 1, 2005 and 2006, $255 million, and on or before each of June 1, 2007 and 2008, $170 million.

Marsh has changed its business model to require complete transparency to clients of all fees and remuneration to be received by Marsh for performing its services. Effective October 1, 2004, Marsh agreed to eliminate contingent compensation agreements with insurers. As a result, market services revenue (''MSAs'') declined to $541 million in 2004 from $845 million in the prior year. Due to the filing of the Attorney General's civil complaint, Marsh was unable to complete the normal process to verify amounts earned or determine that collection of these amounts is reasonably assured for certain contracts. As a result, Marsh did not accrue a significant portion of market services revenue related to placement activity in the third quarter. Although some insurance companies have indicated they may delay payments until the issues concerning market services agreements are clarified, Marsh intends to collect market services revenue earned prior to October 1, 2004. Any such revenue earned but not accrued at September 30, 2004 will be recognized when collected or when confirmation of the amount of payment is received from the carriers. Market services revenue of $73 million was recorded in the fourth quarter of 2004. No market services revenue will be earned for placements made after October 1, 2004. Marsh is refining the details of its new business model and does not anticipate realizing the benefits from its implementation until later in 2005. Although MMC expects to be fairly and fully compensated for the services it provides, there is no assurance that revenues under the new model will be sufficient to achieve operating margins and cash flows that are comparable to historical levels. In addition, client revenue may also be reduced due to negative reaction to the issues raised in the complaint.

MMC Developments

On October 25, 2004, Michael Cherkasky was named President and Chief Executive Officer of MMC and was elected to MMC's Board of Directors. Robert Erburu was named lead director of the MMC Board of Directors.

On November 18, 2004, MMC announced that five members of its Board of Directors, who were also executives of the company, stepped down from their positions on the Board. After this action, MMC's Board consists of Michael Cherkasky, the company's president and chief executive officer, and ten outside members.

In addition to these changes, MMC has taken a number of steps to enhance the control and compliance environment.

Across all of its businesses, MMC must preserve its capabilities to serve clients and the capacity to support staff development. Retention of employees is critical to the organization. As a result, MMC has developed compensation programs to retain, motivate, and reward certain key employees. These programs resulted in $12 million of additional compensation expense in the fourth quarter of 2004 and will potentially increase compensation costs in 2005 by approximately $110 million.

MMC is conducting an ongoing examination of all parts of its cost structure to identify areas where expenses can be reduced appropriately. On a global basis, MMC has reduced headcount by 2,750 in the fourth quarter, 2004 through staff reductions and attrition. These actions are expected to result in annual savings of approximately $400 million when fully implemented in mid-2005. As a result of these actions, pre-tax costs of $337 million were incurred in the fourth quarter of 2004, primarily related to severance and other termination benefits and future rent under non-cancelable leases and lease termination costs, as well as $14 million for costs related to accelerated amortization or abandonment of leasehold improvements and other assets. Additional costs of $14 million are expected to be incurred in the first half of 2005 related to the 2004 restructuring activity. Marsh Inc. continues to restructure its operations, improve efficiencies, and eliminate unprofitable accounts. This could affect approximately 2,500 people throughout its global operations and, when fully implemented, should lead to annual expense savings exceeding $375 million. This will result in additional restructuring charges.

Following the filing of the NYAG Lawsuit, uncertainty regarding changes in Marsh's business model, the impact of eliminating contingent consideration agreements and potential fines and/or penalties resulted in credit rating downgrades and the inability to access commercial paper markets. The matters raised in the NYAG Lawsuit may have prohibited MMC from borrowing under its revolving facilities. The required lenders under each of the facilities agreed to waive the effect of such matters until December 30, 2004. During the period from October 14 to December 15, 2004, the revolving credit facilities were drawn upon to refinance approximately $1.7 billion of maturing commercial paper. On December 15, 2004, MMC completed financing with respect to a $1.3 billion, two-year term loan facility and the amendment of its existing $1 billion revolving credit facility which expires in June 2007, and $700 million revolving credit facility which expires in June 2009. The term loan was used to pay down balances on the revolving credit facilities. MMC's debt and credit facilities are discussed in more detail in the Liquidity and Capital Resources section of this MD&A.

Putnam Developments

On November 13, 2003, pursuant to an agreement with Putnam, the Securities and Exchange Commission (''SEC'') entered findings of fact which Putnam neither admitted nor denied, that Putnam had violated the Investment Advisors Act of 1940 and the Investment Company Act of 1940.

On April 8, 2004, Putnam entered into a settlement of those charges under which Putnam was required to pay $5 million in restitution plus a civil monetary penalty of $50 million. The settlement provided that if the restitution calculated by the independent assessment consultant under the SEC order exceeded $10 million, Putnam would be responsible for paying the excess.

On April 8, 2004, simultaneously and in conjunction with the settlement of the above-referenced SEC proceeding, the Massachusetts Secretary of the Commonwealth (''Massachusetts Security Division'') entered a Consent Order in final settlement of charges filed against Putnam and two of its employees on October 28, 2003 by the Massachusetts Security Division alleging violations of the state's securities law anti-fraud provision. That Consent Order provided that if the restitution calculated by the independent assessment consultant under the Massachusetts order exceeded $15 million, Putnam would be responsible for paying the excess. The restitution called for by the Consent Order will be distributed by the same independent assessment consultant appointed pursuant to the November 13, 2003 and April 8, 2004 SEC orders, acting in his capacity as the independent distribution consultant under the Orders.

On March 3, 2005, the independent assessment consultant issued his assessment reports (dated March 2, 2005) under the SEC orders and the Massachusetts Consent Order. In the reports, the independent assessment consultant concluded that $108.5 million is the total amount of restitution payable by Putnam to fund shareholders. Putnam will pay $25 million of this amount from the amounts previously made available for restitution under the SEC and Massachusetts orders, and has recorded a charge for the additional $83.5 million in the fourth quarter of 2004. In addition to the $108.5 million in restitution, Putnam fund shareholders will also receive a distribution of $45 million, which will be taken from the civil penalty Putnam previously paid to the SEC and does not reflect an additional payment. The independent assessment consultant, in his capacity as the independent distribution consultant under the April 8, 2004 SEC order and the Massachusetts Consent Order, is continuing his work on a distribution plan that will provide for the distribution of the restitution amounts described above to Putnam fund shareholders. Putnam will incur additional costs in connection with the implementation of the distribution plan.

Consolidated Results of Operations

MMC's results of operations in 2004 have been impacted significantly by the developments discussed above, as well as the changing business environment in which MMC operates. Consolidated results of operations are as follows:

(In millions, except per share figures)	**2004**	2003	2002
Revenue:			
Service Revenue	**$11,959**	$11,444	$10,321
Investment Income (Loss)	**200**	100	67
Operating Revenue	**12,159**	11,544	10,388
Expense:			
Compensation and Benefits	**6,714**	5,926	5,199
Other Operating Expenses	**3,828**	3,112	2,915
Regulatory and Other Settlements	**969**	10	—
Operating Expenses	**11,511**	9,048	8,114
Operating Income	**$ 648**	$ 2,496	$ 2,274
Net Income	**$ 176**	$ 1,540	$ 1,365
Net Income Per Share:			
Basic	**$ 0.33**	$ 2.89	$ 2.52
Diluted	**$ 0.33**	$ 2.81	$ 2.45
Average Number of Shares Outstanding:			
Basic	**526**	533	541
Diluted	**535**	548	557

Operating income in 2004 declined 74% to $648 million, reflecting costs of regulatory settlements at Marsh and Putnam and costs related to restructuring MMC's businesses. Results in risk and insurance services include an $850 million charge related to the settlement agreement reached with the NYAG and NYSID, the impact of a $304 million decrease in MSA revenue, and $231 million of restructuring charges. Investment Management results reflect a decline in revenue resulting from lower assets under management, charges of $224 million for regulatory settlements with the SEC and Commonwealth of Massachusetts, related legal costs and costs related to restructuring and repositioning Putnam's business that were incurred throughout 2004 and fourth quarter restructuring charges of $26 million. Results for Consulting include $62 million of restructuring charges. Corporate results include an expense credit of $105 million from final settlements with insurers for claims related to the September 11, 2001 attack on the World Trade Center (''WTC'') partially offset by $18 million of restructuring charges.

An analysis of MMC's operating revenue by segment and the impact of foreign currency translation, acquisitions and dispositions is as follows:

(In millions, except percentage figures)	Twelve Months Ended December 31,		% Change GAAP Revenue	Components of Revenue Change		
	2004	2003		Underlying Revenue[(a)]	Acquisitions/ Dispositions Impact	Currency Impact
Risk and Insurance Services						
Risk Management and Insurance Broking	**$ 4,805**	$ 4,881	(2)%	(6)%	1%	3%
Reinsurance Broking and Services	**842**	797	6%	3%	—	3%
Risk Consulting and Technology[(b)]	**716**	300	139%	9%	130%	—
Related Insurance Services[(c)]	**1,028**	890	16%	12%	3%	1%
Total Risk and Insurance Services[(d)]	**7,391**	6,868	8%	(2)%	7%	3%
Investment Management	**1,757**	2,001	(12)%	(12)%	—	—
Consulting						
Retirement Services[(d)]	**1,356**	1,203	13%	—	5%	8%
Management and Organizational Change	**585**	449	30%	13%	12%	5%
Health Care and Group Benefits	**397**	388	2%	1%	—	1%
Human Capital[(d)]	**407**	384	6%	1%	—	5%
Economic	**166**	150	11%	9%	—	2%
	2,911	2,574	13%	3%	4%	6%
Reimbursed Expenses	**159**	145				
Total Consulting	**3,070**	2,719	13%	3%	4%	6%
Total Operating Segments	**$12,218**	$11,588	5%	(3)%	5%	3%
Corporate/Eliminations	**(59)**	(44)				
Total	**$12,159**	$11,544	5%	(3)%	5%	3%

(In millions, except percentage figures)	Twelve Months Ended December 31,		% Change GAAP Revenue	Components of Revenue Change	
	2003	2002		Underlying Revenue[(a)]	Currency/ Acquisitions Impact
Risk and Insurance Services	$ 6,868	$ 5,910	16%	13%	3%
Investment Management	2,001	2,166	(8)%	(8)%	—
Consulting	2,719	2,364	15%	3%	12%
Total Operating Segments	$11,588	$10,440	11%	6%	5%
Corporate/Eliminations	(44)	(52)			
Total Revenue	$11,544	$10,388	11%	6%	5%

(a) Underlying revenue measures the change in revenue before the impact of acquisitions and dispositions using constant currency exchange rates.
(b) Includes the operations of Kroll, acquired in 2004 and Marsh risk consulting, previously reported in Risk and Insurance broking.
(c) Includes U.S. affinity, wholesale broking, underwriting management, claims management and MMC Capital businesses.
(d) Certain reclassifications have been made to prior year amounts to conform with current presentation.

Revenue, derived mainly from commissions and fees, increased 5% from 2003. The increase in revenue was primarily due to the impact of acquisitions and foreign exchange. Consolidated revenue decreased 3% on an underlying basis, which measures the change in revenue before the impact of acquisitions and dispositions and using constant currency exchange rates. Underlying revenue growth in consulting was more than offset by a decrease in investment management revenue due to a decline in average assets under management and a decrease in risk and insurance services revenue resulting from the elimination of MSAs.

Revenue increased 8% in risk and insurance services. Acquisitions, including the acquisition of Kroll, contributed 7% to the segment's revenue growth. Revenue in this segment declined 2% on an underlying basis in 2004 resulting primarily from the $304 million decline in MSA revenues which more than offset a 3% increase in client revenue and fiduciary income. Related insurance services reflects growth in claims management and higher investment income at MMC Capital. Consulting revenue grew 3% on an underlying basis. Higher demand for strategic advice generated an increase in management and organizational change consulting. Acquisitions contributed 4% to the revenue growth of consulting largely reflecting the acquisition of Synhrgy HR Technologies (completed in January, 2004) and Oliver Wyman (completed in April, 2003). Revenue decreased 12% in the investment management segment due to a decline in the amount of average assets under management on which fees are earned and lower 12b-1 fees, partially offset by higher investment income related to the sale of Putnam's interest in its Italian joint venture and related securities and by transaction fees related to private equity funds. Average assets under management declined 16% in 2004 compared with 2003.

Operating expenses increased 27% in 2004 over 2003, of which 10% was due to the effects of acquisitions and foreign exchange. Expenses in 2004 also include an $850 million charge related to the settlement agreement with the NYAG and the NYSID, charges of $224 million related to Putnam's settlement agreements with the SEC and the Massachusetts Security Division, costs of $337 million related to restructuring MMC's businesses partly offset by a credit of $105 million from the final settlement with insurers for claims related to the September 11, 2001 attack on the WTC. Combined, these items increased expenses by 14%. Underlying expenses excluding these items increased 3% due to higher compensation and benefits costs which includes severance of $108 million incurred prior to implementation of the restructuring plan in the fourth quarter and increased pension costs of $93 million, as well as other costs related to regulatory issues. These increases were partially offset by a decrease in amortization expense for prepaid dealer commissions and a credit to compensation expense related to the settlement with Putnam's former chief executive officer.

The 6% growth in underlying revenue in 2003 was primarily driven by higher renewal revenue and market services revenue and the impact of higher premiums in the risk and insurance services segment combined with growth in each of the practices of the consulting segment. Offsetting this growth was an 8% decrease in the investment management segment due to a decline in the amount of assets under management on which fees are earned and a decline in underwriting and distribution fees.

Operating expenses increased 11% in 2003, 5% on an underlying basis. The increase in underlying expenses was driven by higher compensation and benefit costs in risk and insurance services as well as higher facility and insurance costs, partially offset by a decrease in amortization expense for prepaid dealer commissions.

Risk and Insurance Services

MMC's risk and insurance services are provided by its subsidiaries and their affiliates as broker, agent or consultant for insureds, insurance underwriters and other brokers on a worldwide basis in the areas of risk management and insurance broking, reinsurance broking and services, risk consulting and technology services, and related insurance services. Risk management and consulting, insurance broking and insurance program management services are provided for businesses, public entities, associations, professional services organizations and private clients under the Marsh name. Reinsurance broking, catastrophe and financial modeling services, and related advisory functions are conducted for insurance

and reinsurance companies, principally under the Guy Carpenter name. Risk consulting and technology services are provided to businesses, governments and individuals throughout the world, primarily under the Kroll name. Underwriting management and wholesale broking services are performed for a wide range of clients under various names, the largest of which is Crump. Claims and associated productivity services are provided by Sedgwick Claims Management Services. In addition, MMC Capital provides services principally in connection with originating, structuring and managing insurance, financial services, and other industry-focused investments.

Revenue attributable to the risk and insurance services segment consists primarily of fees paid by clients, commissions and fees paid by insurance and reinsurance companies and compensation for billing and related services in the form of interest income on funds held in a fiduciary capacity for others, such as premiums and claims proceeds. Results in 2004 also include MSA revenue earned prior to October 1, 2004. MMC eliminated MSAs effective October 1, 2004. Compensation for the various risk consulting and related risk mitigation services provided by Kroll subsidiaries consists of fees paid by clients, typically charged on an hourly, project, or fixed fee basis, and sometimes on a per service or per unit basis. Revenue also includes compensation for services provided by MMC Capital in connection with the organization, structuring and management of insurance, financial services, and other industry-focused investments, including fees and dividends, as well as appreciation or depreciation that has been recognized on holdings in such entities.

Revenue generated by the risk and insurance services segment depends on the value to clients of the services provided. These revenues are affected by premium rate levels in the property and casualty and employee benefits insurance markets, since compensation is frequently related to the premiums paid by insureds. 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 insured values, the development of new products, markets and services, new and lost business, merging of clients and the volume of business from new and existing clients, as well as by the level of interest realized on the investment of fiduciary funds and foreign exchange rate fluctuations.

As previously discussed, MMC is making several changes to its risk and insurance business model. These changes include complete transparency to clients of all fees and remuneration to be received by Marsh and effective October 1, agreed to eliminate contingent compensation agreements with insurers. Although MMC expects to be fairly and fully compensated for the services it provides, there is no assurance that revenues under the new model will be sufficient to achieve operating margins and cash flows that are comparable to historical levels. In addition, client revenue may also be reduced due to negative reaction to the issues raised in the complaint.

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

(In millions of dollars)	**2004**	2003	2002
Revenue	**$ 7,391**	$ 6,868	$ 5,910
Expense	**7,139**	5,117	4,420
Operating Income	**$ 252**	$ 1,751	$ 1,490
Operating Income Margin	**3.4%**	25.5%	25.2%

Revenue

Revenue for the risk and insurance services segment grew 8% in 2004 over 2003. Acquisitions, principally Kroll, along with other smaller acquisitions, contributed 7% to revenue growth. Underlying revenue declined 2%. In risk management and insurance broking, underlying revenue decreased 6% primarily due to a reduction in MSAs, discussed in more detail below. Client revenue increased 1%, reflecting a 3% growth in Europe and 4% growth in other international markets, partially offset by a 2%

decline in North America. Underlying revenue in reinsurance broking increased 3%. Related insurance services revenue increased 12%, on an underlying basis, resulting from an increase in claims management and higher investment income at MMC Capital.

Effective October 1, 2004, Marsh agreed to eliminate contingent compensation agreements with insurers. As a result, market services revenue declined to $541 million in 2004 from $845 million in the prior year. Due to the filing of the NYAG Lawsuit, MMC was unable to complete the normal process to verify amounts earned or determine that collection of these amounts is reasonably assured for certain contracts. As a result, MMC did not accrue a significant portion of market services revenue related to placement activity in the third quarter. Although some insurance companies have indicated they may delay payments until the issues concerning market services agreements are clarified, MMC intends to collect market services revenue earned prior to October 1, 2004. Any such revenue earned but not accrued at September 30, 2004 will be recognized when collected or when confirmation of the amount of payment is received from the carriers. No market services revenue will be earned for placements made after October 1, 2004. The following table provides quarterly MSA revenue for 2003 and 2004:

Quarter Ended	**2004**	2003
March 31	**$211**	$173
June 30	**211**	202
September 30	**46**	177
December 31	**73**	293
Total	**$541**	$845

Revenue for the risk and insurance services segment grew 16% in 2003 over 2002, 13% on an underlying basis, reflecting an increase in renewal business, higher market services revenues, and the effect of higher premiums. Fiduciary interest income in 2003 declined 3% compared to 2002. Demand for Marsh's services was strong as the risks faced by clients grew in number, complexity and severity. Although premium rates increased during 2003 in most casualty lines, the rate of premium increases moderated during the year and some property coverage rates declined. In 2003, the underlying revenue in risk management and insurance broking, which is approximately 75% of this segment's revenues, grew 13%. Within risk management and insurance broking, underlying revenue grew 15% in the United States, 10% in Europe, and 15% in other geographies. Reinsurance broking and services grew 21% on an underlying basis due to increased new business and renewals. Related insurance services grew 5% as increases in the underwriting management and claims management businesses were partially offset by a decrease in affinity business and lower investment income at MMC Capital.

Expense

In 2004, risk and insurance services expenses increased 40% over 2003. Approximately 16% of the increase is due to an $850 million charge for the settlement agreement with the NYAG and the NYSID and legal and other costs of $31 million related to this matter. Expenses in 2004 include restructuring charges of $231 million, including severance and other termination benefits, future rent under non-cancelable leases and lease termination costs and incremental amortization of $7 million related to accelerated amortization or abandonment of leasehold improvements. Annual cost savings of $271 million are expected when the restructuring is fully implemented. Expenses in 2004 also include $8 million for employee retention programs, which will increase 2005 compensation expenses by $75 million. In connection with accounting guidance issued by the Institute of Chartered Accountants in the U.K., MMC reassessed its obligation to provide future claims handling and certain administrative services for brokerage clients in the European marketplace. MMC has determined that under certain circumstances it is obligated to provide such services based on its current business practices. In the fourth quarter, MMC recorded a pre-tax charge of approximately $65 million to reflect the change in estimated cost to provide these services. This charge does not result in any incremental cash outflow for the Company. The effects of acquisitions and foreign exchange increased expenses by 14%. On an underlying basis, excluding the

items previously discussed, expenses increased 4%. Compensation and benefits increased by 5%, primarily due to increased pension and benefits costs, and other operating expenses increased 1%.

Marsh Inc. continues to restructure its operations, improve efficiencies, and eliminate unprofitable accounts. This could affect approximately 2,500 people throughout its global operations and, when fully implemented, should lead to annual expense savings exceeding $375 million. This will result in additional restructuring charges.

In 2003, risk and insurance services expenses increased 16% over 2002, 11% on an underlying basis. Expense growth results primarily from higher compensation and benefit costs reflecting increased headcount and higher incentive compensation expenses, along with an increase in costs for facilities and insurance.

Acquisition

In July 2004, MMC acquired Kroll, Inc., the world's leading provider of risk mitigation services. The combination of Marsh and Kroll expands MMC's capabilities to assist clients in managing the total cost of risk. The total cost of the acquisition was $1.9 billion. In addition, during the year MMC made several smaller acquisitions in the risk and insurance services segment, at an aggregate cost of $250 million.

Investment Management

The operations within the investment management segment consist of services primarily under the Putnam name. The services, which are performed principally in the United States, include securities investment advisory and management services consisting of investment research and management, and accounting and related services for a group of publicly held investment companies (the ''Putnam Funds''). A number of the open-end funds serve as funding vehicles for variable insurance contracts. Investment management services are also provided on a separately managed or commingled basis to individuals, corporate profit-sharing and pension funds, state and other governmental and public employee retirement funds, university endowment funds, charitable foundations, collective investment vehicles (both U.S. and non-U.S.), and other domestic and foreign institutional accounts. Putnam serves as transfer agent, dividend disbursing agent, registrar and custodian for the Putnam Funds and provides custody services to several external clients. In addition, Putnam provided administrative and trustee (or custodial) services consisting of participant accounting and plan administration services for certain qualified contribution employee benefit plans (in particular 401(k) plans, certain defined benefit plans (cash-balance plans), employee stock purchase plans and certain non-qualified compensation plans), for which it receives compensation pursuant to service and trust or custodian contracts with plan sponsors. Putnam also acts as principal underwriter of the shares of the open-end Putnam Funds, selling primarily through independent broker/dealers, financial planners and financial institutions, including banks, and directly to certain large 401(k) plans and other institutional accounts. Shares of open-end funds are generally sold at their respective net asset value per share plus a sales charge, which varies depending on the individual fund and the amount and class of shares purchased. Essentially all Putnam Funds are available with a contingent deferred sales charge in lieu of a front-end load. The related prepaid dealer commissions initially paid by Putnam to broker/dealers for distributing such funds can be recovered through charges and fees received over a number of years.

Putnam's revenue is derived primarily from investment management and 12b-1 fees received from the Putnam Funds and investment management fees for institutional accounts. The investment management services provided by Putnam are performed pursuant to advisory contracts. The amount of the fees varies depending on the individual mutual fund or account and is usually based upon a sliding scale in relation to the level of assets under management and, in certain instances, is also based on investment performance. The management of Putnam and the trustees of the Putnam Funds regularly review the fund fee structure in light of fund performance, the level and range of services provided, industry conditions, and other relevant factors. Contracts with the Putnam Funds continue in effect only

so long as approved, at least annually, by their shareholders or by the Putnam Funds' Trustees, including a majority who are not affiliated with Putnam. A reduction in management fees payable under these contracts and/or the termination of one or more of these contracts, or other advisory contracts, could have a material adverse effect on Putnam's results of operations. Putnam also receives compensation for providing certain shareholder and custody services.

Putnam has a minority interest in Thomas H. Lee Partners (''THL''), a private equity investment firm, from which Putnam receives transactions fees. In addition, Putnam and THL formed a joint venture entity, TH Lee, Putnam Capital (''THLPC'') in which Putnam owns a 25% interest. THL and THLPC offer private equity and alternative investment funds for institutional and high net worth investors. Putnam is also an investor in certain of those funds.

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

(In millions of dollars)	**2004**	2003	2002
Revenue	**$ 1,757**	$ 2,001	$ 2,166
Expense	**1,667**	1,504	1,606
Operating Income	**$ 90**	$ 497	$ 560
Operating Income Margin	**5.1%**	24.8%	25.9%

Revenue

Putnam's revenue decreased 12% in 2004 reflecting a decrease in fees due to a decline in average assets under management partially offset by higher investment gains, higher equity income resulting from THL transaction fees related to private equity investments and increased transfer agent fees. Assets under management averaged $217 billion for the year ended December 31, 2004, a 16% decline from the $258 billion managed in 2003. Assets under management aggregated $213 billion at December 31, 2004 compared with $240 billion at December 31, 2003. The change from December 31, 2003 primarily results from net redemptions of $51 billion, partly offset by increases due to market appreciation of $16 billion and the consolidation of PanAgora ($8 billion).

Putnam receives service fees from the Putnam Funds for transfer agency, custody and other administrative services, as contracted by the Trustees of the Putnam Funds. In the third quarter of 2004, the contract for transfer agency services was converted from an expense reimbursement basis to a fixed fee for the remainder of 2004. The change in the service fee calculation resulted in an increase in both service fee revenue and expenses of approximately $41 million during the second half of 2004. The change in the service fee contract is expected to have an immaterial impact on operating income in future quarters, but will reduce operating margins by approximately 100 basis points from previous levels.

At the end of 2004, assets held in equity securities represented 69% of assets under management, compared with 72% in 2003 and 73% in 2002, while investments in fixed income products represented 31%, compared with 28% in 2003 and 27% in 2002.

Putnam's revenue decreased 8% in 2003, which is due to the effect of decreased assets under management and a decline in underwriting and distribution fees partially offset by higher investment income driven by investment gains from trading securities in 2003 and a favorable comparison to 2002, which included a charge for the decline in value of an available for sale security. Assets under management averaged $258 billion in the year ended December 31, 2003, an 8% decrease from the $279 billion managed during the year ended December 31, 2002. Assets under management aggregated $240 billion at December 31, 2003 compared with $251 billion at December 31, 2002. The change from December 31, 2002 was primarily due to net redemptions of $61 billion partially offset by an increase in equity market levels.

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

(In billions of dollars)	**2004**	2003	2002
Mutual Funds:			
Growth Equity	**$ 38**	$ 46	$ 45
Value Equity	**41**	43	40
Blend Equity	**28**	32	33
Fixed Income	**36**	42	46
	143	163	164
Institutional:			
Equity	**40**	51	66
Fixed Income	**30**	26	21
	70	77	87
Year-end Assets	**$213**	$240	$251
Assets from Non-US Investors	**$ 38**	$ 39	$ 33
Average Assets	**$217**	$258	$279
Components of year-to-date change in ending assets under management:			
New Sales/(Redemptions) including Dividends Reinvested	**$ (51)**	$ (61)	$ (10)
Impact of PanAgora acquisition	**$ 8**	$ —	$ —
Impact of Market/Performance	**$ 16**	$ 50	$ (53)

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

Assets under management and revenue levels are particularly affected by fluctuations in domestic and international stock and bond market prices, the composition of assets under management and by the level of investments and withdrawals for current and new fund shareholders and 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 the investment style under prevailing market conditions, changes in the investment patterns of clients and the ability to maintain investment management and administrative fees at historic levels. Future revenue may be adversely affected by continued net redemptions, shifts in asset style and share mix, and by limits on fund expense ratios and front end sales charges. Revenue levels are sensitive to all of the factors above, but in particular, to significant changes in stock and bond market valuations and net flows into or out of Putnam's funds.

Expense

Expenses in 2004 increased 11% from 2003. Expenses in 2004 include $224 million for Putnam's regulatory settlements with the SEC and the Commonwealth of Massachusetts. Restructuring costs incurred by Putnam in the fourth quarter totaled $15 million. Other significant items recorded in 2004 were severance of $57 million incurred prior to the fourth quarter restructuring, as well as incremental costs related to regulatory issues and repositioning Putnam, including legal and audit costs of $45 million and communications costs of $16 million. In 2004, Putnam discontinued the practice of directing brokerage commissions and virtually eliminated the use of soft dollars, causing expenses to increase by approximately $40 million. These increases were partially offset by a decrease in amortization expense for prepaid dealer commissions and a $25 million credit to compensation expense associated with the

settlement with Putnam's former chief executive officer. Investment management expenses in 2004 also reflect costs of $16 million, including $10 million of restructuring costs, related to a start-up hedge fund management business at MMC that was subsequently discontinued.

In 2003, Putnam's expenses declined 6% compared to 2002 primarily due to lower amortization expense for prepaid dealer commissions and lower impairment charges related to intangible assets. These reductions were partially offset by net costs of approximately $24 million related to the investigation of market timing in certain Putnam funds, including compliance, legal, and communication expenses as well as estimated potential restitution to the Putnam funds.

Acquisition

In July 2004, Putnam acquired an additional 30% of the voting stock of PanAgora Asset Management, Inc., bringing its total interest to an 80% voting majority. PanAgora primarily offers index, enhanced index and structured products, which typically have a lower level of management fees than Putnam's core products. This transaction increased Putnam's reported assets under management by approximately $8 billion.

Consulting

Through Mercer, the operations within this segment provide consulting and human resource (''HR'') outsourcing services from locations around the world, primarily to business organizations, in the areas of:

- Retirement Services including retirement consulting, administration, and investment consulting and discretionary investment management;
- Health Care & Group Benefits consulting and administration;
- Human Capital consulting including performance, measurement and rewards, communication and HR technology & operations consulting;
- Management and Organizational Change consulting comprising strategy, operations, organizational change, leadership and organizational design; and
- Economic consulting.

The major component of Mercer revenue is fees paid by clients for advice and services. In addition, commission revenue is received from insurance companies for the placement of individual and group insurance contracts, primarily life, health and accident coverages. The investment consulting practice receives compensation based on fees for service and sometimes is compensated based on assets under management. Revenue for the discretionary investment management business is based principally on fees calculated as a percentage of assets under management. A relatively small amount of revenue is derived from brokerage commissions in connection with a registered securities broker/dealer.

Revenue in the consulting business is affected by, among other things, economic conditions around the world, including changes in clients' industries and markets. Furthermore, revenue is subject to the introduction of new products and services, broad trends in employee demographics, the effect of government policies and regulations, market valuations, and interest and foreign exchange rate fluctuations. Revenues from the provision of discretionary investment management services and retirement trust and administrative services are significantly affected by changes in bond and stock market valuations.

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

(In millions of dollars)	**2004**	2003	2002
Revenue	**$ 3,070**	$ 2,719	$ 2,364
Expense	**2,740**	2,356	2,038
Operating Income	**$ 330**	$ 363	$ 326
Operating Income Margin	**10.7%**	13.4%	13.8%

Revenue

Consulting revenue in 2004 increased 13% over 2003. Acquisitions, which accounted for 4% of the revenue growth in 2004, include Synhrgy HR Technologies which closed in January, 2004, and Oliver, Wyman & Company (''OWC'') which closed on April 1, 2003. On an underlying basis, revenue increased 3% due to the higher demand for consulting services resulting from improving economic conditions. Underlying revenue grew 9% in economic consulting, 13% in management and organizational change, 1% in health care & group benefits and 1% in the human capital practices. Underlying revenue growth in retirement services was flat.

Consulting revenue in 2003 increased 15% over 2002 primarily due to the impact of foreign exchange and acquisitions. Acquisitions included OWC as well as several smaller acquisitions in Mercer's retirement and benefits consulting businesses. On an underlying basis, Mercer's revenue increased 3%, with all practices reporting underlying revenue growth. Economic Consulting underlying revenue increased by 12%. In Mercer's largest practice, Retirement Services, underlying revenue increased modestly, while other practices had growth between 2% and 4% in a difficult operating environment.

Expense

Consulting expenses increased 16% in 2004 compared to 2003. Expenses in 2004 include restructuring charges of $62 million, including severance and other termination benefits and future rent under non-cancelable leases and lease termination costs as well as incremental expense of $7 million related to accelerated amortization or abandonment of leasehold improvements and other assets. The restructuring activities are expected to result in annual cost savings of $57 million when fully implemented. Expenses in 2004 also include $4 million for employee retention programs, which will increase 2005 compensation expense by $36 million. In addition, the impact of acquisitions and foreign exchange increased expense by 11%. On an underlying basis, excluding the items discussed above, expenses increased 2%, primarily due to higher employee compensation and benefit costs.

Consulting services expenses increased 16% in 2003 compared to 2002 primarily due to the impact of foreign exchange, costs related to increased headcount resulting from acquisitions, and increased amortization expense for acquired intangible assets. As described in Note 4 to the Consolidated Financial Statements, a portion of the OWC purchase consideration is contingent upon future employment. This amount has been accounted for as prepaid compensation and is being recognized as compensation expense over four years. Consulting services expenses increased 3% on an underlying basis, due to higher facilities and insurance costs.

Acquisitions

In January 2004, MMC acquired Synhrgy HR Technologies, a leading provider of human resource technology and outsourcing services for a total cost of $115 million.

Corporate Items

Corporate Expenses

Corporate expenses in 2004 include costs of $18 million related to restructuring MMC's businesses, 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.

Corporate expenses increased to $140 million in 2003 from $123 million in 2002 due to increased compensation costs, an increase in headcount, and increased costs for facilities and insurance.

Integration and Restructuring Charges

Note 12 to the Consolidated Financial Statements discusses integration and restructuring costs. In November 2004, MMC announced that it would undertake restructuring initiatives involving staff reductions and consolidations of facilities in response to MMC's current situation and the realities of the marketplace. On a global basis, MMC has reduced staff by approximately 2,750. These actions are expected to result in savings of approximately $400 million when fully implemented in mid-2005. As a result of these actions, MMC incurred pre-tax costs of $337 million, primarily related to severance and other termination benefits, future rent under non-cancelable leases and lease termination costs, and also incurred costs of $14 million related to accelerated amortization or abandonment of leasehold improvements and other assets. Additional costs of $14 million are expected to be incurred in the first half of 2005 related to the 2004 restructuring activity. Employee retention programs will increase compensation costs in 2005 by approximately $110 million.

Marsh Inc. continues to restructure its operations, improve efficiencies, and eliminate unprofitable accounts. This could affect approximately 2,500 people throughout its global operations and, when fully implemented, should lead to annual expense savings exceeding $375 million. This will result in additional restructuring charges.

MMC previously incurred integration and restructuring costs related to the acquisition of Johnson & Higgins (''J&H'') in 1997, Sedgwick in 1998 and a restructuring plan in 2001. During 2004, MMC recorded the following payments, as well as adjustments related to changes in the estimated costs of integration and restructuring plans. A payment of $3 million for costs related to the Sedgwick Plan and $4 million of the reserves were reversed by MMC and recorded as a reduction of goodwill; a payment of $2 million and a credit of $1 million for a reduction in the estimated cost of the 1999 MMC plan related to the Sedgwick acquisition; a payment of $3 million and a charge of $1 million for increased costs related to the 2001 restructuring plan; and $1 million of the reserves were reversed by MMC and recorded as a reduction of goodwill and a charge of $4 million to reflect the current estimate for required lease payments related to the J&H acquisition. The net impact of the charges and credits to integration and restructuring reserves decreased diluted net income per share by approximately one-half of one cent for the year ended December 31, 2004.

Interest

Interest income earned on corporate funds was $21 million in 2004 compared with $24 million in 2003. Interest expense increased from $185 million in 2003 to $219 million in 2004. The increase in interest expense is due primarily to an increase in the amount of average outstanding debt.

Interest income earned on corporate funds was $24 million in 2003 compared with $19 million in 2002. Interest expense increased to $185 million in 2003 from $160 million in 2002. The increase in interest income was primarily due to a higher level of invested balances during 2003, partially offset by a decline in the average interest rate earned. The increase in interest expense is primarily due to an

increase in the average interest rates on outstanding debt. The increase in the average interest rate resulted from the conversion of a significant portion of the company's debt from floating to fixed rates.

Income Taxes

MMC's consolidated effective tax rate was 57.6% in 2004, an increase from 33% in 2003. The increase in the rate was primarily due to the non-deductibility of Putnam's $224 million in regulatory settlements; a lower tax benefit related to Marsh's $850 million settlement of the NYAG Lawsuit due to partial attribution to foreign operations; and a partially offsetting benefit for foreign earnings taxed at lower rates. In 2002 the effective tax rate was 35%. The decrease in the effective rate in 2003 compared with 2002 results from the change in the geographic mix of MMC's businesses and tax planning with respect to international operations.

In December 2004, the FASB issued Staff Position (''FSP'') No. 109-2, ''Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004''. The American Jobs Creation Act of 2004 (the ''Act''), signed into law on October 22, 2004, provides for a special one-time tax deduction, or dividend received deduction (''DRD''), 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. FSP 109-2 provides entities additional time to assess the effect of repatriating foreign earnings under the Act for purposes of applying SFAS No. 109, ''Accounting for Income Taxes,'' which typically requires the effect of a new tax law to be recorded in the period of enactment. MMC will elect, if applicable, to apply the DRD to qualifying dividends of foreign earnings repatriated in its calendar year 2005.

MMC is awaiting further clarifying guidance from the U.S. Treasury Department on certain provisions of the Act. Once this guidance is received, MMC expects to complete its evaluation of the effects of the Act during 2005. Under the limitations on the amount of dividends qualifying for the DRD of the Act, the maximum repatriation of MMC's foreign earnings that may qualify for the special one-time DRD is approximately $1.2 billion. Therefore, the range of possible amounts of qualifying dividends of foreign earnings is between zero and approximately $1.2 billion. Although the evaluation is ongoing, MMC estimates the range of income tax effects of potential repatriations to be zero to $63 million.

Liquidity and Capital Resources

Operating Cash Flows

MMC generated $2.1 billion of cash from operations in 2004 compared with $1.9 billion in 2003. These amounts reflect the net income earned by MMC during those periods 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. Although net income declined significantly from the prior year, a number of charges recorded in 2004 have not yet been paid by MMC which substantially offset the cash flow impact of the decline in operating income. These include $989 million of settlement costs in Marsh and Putnam, and $278 million of restructuring costs which are recorded in the Consolidated Balance Sheet as Accrued liabilities, Accounts payable, Other liabilities, or Accrued salaries, depending on the nature of the item. Cash flows from operations were reduced by a higher amount of investment gains, which are included in investing cash flows. An increase in 2004 of cash outflows related to payment of deferred compensation plans was largely offset by cash generated from the liquidation of assets related to these plans included in the change in other assets in the Consolidated Statements of Cash Flows.

Effective October 1, 2004, Marsh agreed to eliminate contingent compensation agreements with insurers. At December 31, 2004 accounts receivable related to accrued market services revenue was $282 million. Subsequent to the filing of the NYAG Lawsuit, some insurance companies indicated they may delay payments until the issues concerning market services agreements are clarified. Collection of previously accrued MSA revenue may occur more slowly than expected. Following the announcement of

the settlement with the NYAG and the NYSID, MMC reaffirmed its intention to collect outstanding MSA revenue earned prior to October, 2004 and will seek to enforce its rights under the contracts to collect amounts due.

For the years ended December 31, 2004 and 2003, MSA revenue was $541 million and $845 million, respectively. As discussed earlier, Marsh is revising its business model so that revenue for all services provided is disclosed to clients. The elimination of MSA revenue will negatively impact near-term revenue and operating income. Marsh is refining the details of its new business model and does not anticipate realizing the benefits from its implementation until later in 2005. Although MMC expects to be fairly and fully compensated for the services it provides, there is no assurance that revenues under the new model will be sufficient to achieve operating margins and cash flows that are comparable to historical levels. In addition, client revenue may also be reduced due to negative reaction to the issues raised in the complaint.

As previously discussed, MMC reached a settlement with the NYAG and NYSID that resolved the actions by them that were commenced against MMC and Marsh. As a result of this agreement, MMC will establish an $850 million fund to compensate clients, of which $255 million will be paid to the fund on or before each of June 1, 2005 and 2006, respectively, 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 on the Consolidated Balance Sheets.

MMC has funding requirements for the U.S. non-qualified and U.K. plans in 2005 of approximately $18 million and $184 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 international law. There currently is no ERISA funding requirement for the U.S. qualified plan in 2004 or in 2005. Funding requirements for non-U.S. plans vary country by country.

During 2004, MMC contributed approximately $47 million to the U.S. pension plans and $239 million to the significant non-U.S. pension plans, compared with $21 million for U.S. plans and $366 million for significant non-U.S. plans in 2003. These contributions resulted in an increase in prepaid pension expense for certain plans. The minimum pension liability related to any plan is recorded in Other liabilities in the Consolidated Balance Sheets.

During 2004, the net funded status of the U.S. and significant non-U.S. pension plans decreased by $253 million and $389 million, respectively, due primarily to higher actuarial losses. Benefit obligations of the U.S. and significant non-U.S. pension plans exceeded the fair value of plan assets by $397 million and $1.1 billion, respectively, at December 31, 2004. The funded status at December 31, 2004 includes the effects of contributions made during the year. Contribution rates are determined by the local foreign 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 required under regulatory requirements, may be affected by alternative uses of MMC's cash flows, including dividends, investments, and share repurchases.

Under generally accepted accounting principles, if the Accumulated Benefit Obligation of a plan exceeds the fair value of that plan's assets (an ''ABO deficit''), an additional minimum liability is recorded. The additional minimum liability is equal to the ABO deficit plus the amount of prepaid pension cost recognized for that plan. The additional minimum liability is established through a charge to other comprehensive income (equity), net of applicable taxes. At December 31, 2004, MMC has prepaid pension costs of approximately $1.4 billion which relate primarily to the U.S. qualified plan and two U.K. plans, as well as some smaller plans in various countries.

Financing Cash Flows

Net cash provided by financing activities was $1.2 billion in 2004 compared with a $1.3 billion use of cash in 2003. The cash generated in 2004 relates primarily to the issuance of long term debt to fund the acquisition of Kroll, Inc. in July 2004 and the $1.3 billion term loan discussed below. Approximately $1.2 billion of net debt was added in 2004, compared with a slight reduction in net debt in 2003.

The matters raised in the NYAG Lawsuit on October 14, 2004 (described in Note 15 of the Consolidated Financial Statements) may have prohibited MMC from borrowing under its revolving facilities. The required lenders under each of the facilities agreed to waive the effect of such matters until December 30, 2004. During the period from October 14 to December 15, 2004, the revolving credit facilities were drawn upon to refinance approximately $1.7 billion of maturing commercial paper. On December 15, 2004, MMC completed financing with respect to a $1.3 billion, two-year term loan facility and the amendment of its existing $1 billion revolving credit facility which expires in June 2007 and $700 million revolving credit facility which expires in June 2009. The term loan facility replaced MMC's existing one-year facilities and the proceeds from this loan were used to pay down the outstanding balances on revolving credit facilities. At December 31, 2004, $373 million was outstanding on the revolving credit facilities.

Subsequent to the filing of the NYAG Lawsuit on October 14, 2004, both Moody's and Standard & Poor's have lowered their credit ratings on MMC. MMC's senior debt is currently rated Baa2 by Moody's and BBB by Standard & Poor's. These ratings remain on review for possible further downgrade. MMC's short-term ratings are currently P-2 by Moody's and A-2 by Standard & Poor's. These ratings also remain on review for possible further downgrade. These rating actions will result in increased borrowing costs for MMC.

In 2004, MMC repurchased 11.4 million shares for $524 million, substantially all of which was purchased in the first and second quarter.

Dividends paid by MMC amounted to $681 million in 2004 ($1.30 per share) and $631 million ($1.18 per share) in 2003. At its November 18 meeting, MMC's Board deferred its decision with respect to the company's dividend for the first quarter of 2005, pending completion of its review of Marsh's business model and ongoing regulatory matters. On February 26, 2005 MMC declared a dividend of $0.17 per share.

In June 2004, MMC refinanced $600 million of maturing long term debt by issuing commercial paper.

In July 2004, MMC purchased Kroll, Inc. in an all-cash transaction totaling approximately $1.9 billion. The purchase was initially funded with commercial paper borrowings. Following the acquisition, MMC issued $650 million of 5.375% Senior Notes due 2014 and $500 million of Floating Rate Notes due 2007. The proceeds from these notes were used to repay the commercial paper borrowings.

In July 2003, MMC issued $300 million of 5.875% Senior Notes due in 2033. In February 2003, MMC issued $250 million of 3.625% Senior Notes due in 2008 and $250 million of 4.85% Senior Notes due in 2013 (the ''2003 Notes''). The net proceeds from the 2003 Notes were used to pay down commercial paper borrowings.

MMC also maintains other credit facilities, guarantees and letters of credit with various banks, primarily related to operations located outside the United States, aggregating $331 million at December 31, 2004 and $209 million at December 31, 2003. There was $61 million outstanding under these facilities at December 31, 2004.

MMC's credit agreements contain covenants which include, in some cases, restrictions on consolidations or mergers, the sale or pledging of assets, and leverage and coverage ratio requirements. Details on the specific leverage and coverage ratio requirements can be found in the Credit Agreement and Amendment documents filed on Form 8-K with the SEC on December 15, 2004. Two outstanding loans amounting to $125 million include covenants stating minimum net worth requirements, the most restrictive of which requires at least $3.5 billion of net worth.

In January 2003, MMC terminated and settled interest rate swaps that had hedged the fair value of Senior Notes issued in 2002. The cumulative amount of previously recognized adjustments of the fair value of the hedged notes is being amortized over the remaining life of those notes. As a result, the effective interest rate over the remaining life of the notes, including the amortization of the fair value adjustments, is 4.0% for the $500 million Senior Notes due in 2007 (5.375% coupon rate) and 5.1% for the $250 million Senior Notes due in 2012 (6.25% coupon rate).

Investing Cash Flows

Cash used for investing activities amounted to $2.6 billion in 2004 and $470 million in 2003. The primary use of cash in 2004 was for the acquisition of Kroll, Inc., Synhrgy HR Technologies and the Australia and New Zealand operations of Heath Lambert, and payments of approximately $61 million for acquisitions completed in prior years. Remaining cash payments of approximately $65 million related to acquisitions completed in 2004 and prior years are recorded in Accounts payable and accrued liabilities or in Other liabilities in the Consolidated Balance Sheets at December 31, 2004. Cash used for acquisitions in 2003 amounted to $178 million, primarily related to the acquisition of OWC and several smaller consulting businesses.

MMC's additions to fixed assets and capitalized software, which amounted to $376 million in 2004 and $436 million in 2003, primarily relate to computer equipment purchases, the refurbishing and modernizing of office facilities and software development costs.

The sale of Putnam's interest in its Italian joint venture and related securities along with sales of securities by MMC Capital, generated $199 million of cash in 2004. Securities sales during 2003 generated $106 million. These sales are included in Other, net in the Consolidated Statements of Cash Flows.

MMC has committed to potential future investments of approximately $471 million in connection with various MMC Capital private equity funds and other MMC investments. Commitments of $276 million relate to Trident III, a private equity fund managed by MMC Capital, which was formed in 2003. The funding commitment to Trident III will reduce by $100 million when the spinoff of MMC Capital's business occurs. The remaining commitments relate to other funds managed by MMC Capital (approximately $90 million) and by Putnam through THL and THLPC (approximately $105 million). Trident III closed in December 2003, and has an investment period of six years. While it is unknown when the actual capital calls will occur, typically, the investment period for funds of this type has been closer to four years, which would indicate an expected capital call of approximately $50-$75 million per year but actual capital calls may occur more quickly. The timing of capital calls is not controlled by MMC. The majority of the other investment commitments for funds managed by MMC Capital related to Trident II. The investment period for Trident II is closed for new investments. Any remaining capital calls would relate to follow on investments in existing portfolio companies or for management fees or other partnership expenses. Significant capital calls related to Trident II are not expected at this time. Although it is anticipated that Trident II will be harvesting its portfolio in 2005 and thereafter, the timing of any portfolio company sales and capital distributions is unknown and not controlled by MMC.

Putnam has investment commitments of $105 million for three active THL funds, of which approximately $50 million is not expected to be called and funded. 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, 2004 none of the $187 million is committed.

Approximately $49 million was invested in 2004 related to all of the commitments discussed above.

Commitments and Obligations

MMC's contractual obligations were comprised of the following as of December 31, 2004 (dollars in millions):

	Payment due by Period				
Contractual Obligations	Total	Within 1 Year	1-3 Years	4-5 Years	After 5 Years
Revolving lines of credit	$ 434	$ 434	$ —	$ —	$ —
Current portion of long-term debt	70	70	—	—	—
Commercial paper	129	129	—	—	—
Long term debt	4,673	—	2,366	854	1,453
NYAG/NYSID settlement	850	255	425	170	—
Net operating leases	4,077	505	859	652	2,061
Service agreements	217	76	79	29	33
Other long-term obligations	68	24	44	—	—
Total	$10,518	$1,493	$3,773	$1,705	$3,547

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. Interest rate swaps are used on a limited basis to manage MMC's exposure to interest rate movements on its cash and investments as well as interest expense on borrowings and are only executed with counterparties of high creditworthiness.

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

Year Ended December 31, *(In millions of dollars)*	**2004**
Cash and cash equivalents invested in certificates of deposit and time deposits (Note 1)	**$1,396**
Fiduciary cash and investments (Note 1)	**$4,136**
Variable rate debt outstanding (Note 10)	**$2,363**

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 26 basis points, annual interest income would increase by approximately $14 million; however, this would be partially offset by a $6 million increase in interest expense resulting in a net increase to income before income taxes and minority interest of $8 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.

Forward contracts and options are periodically utilized by MMC to limit foreign currency exchange rate exposure on net income and cash flows for specific, clearly defined transactions arising in the ordinary course of its business.

Equity Price Risk

MMC holds investments in both public and private companies as well as certain private equity funds managed by MMC Capital, including Trident II and Trident III. Publicly traded investments of $410 million are classified as available for sale under SFAS No. 115. Non-publicly traded investments of $75 million and $327 million are accounted for under APB Opinion No. 18, ''The Equity Method of Accounting for Investments in Common Stock'', using the cost method and the equity method, respectively. 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 15 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 estimation 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.

Retirement Benefits

MMC maintains qualified and non-qualified defined benefit pension plans for its U.S. and non-U.S. eligible 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 international laws.

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 7 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 as appropriate. Pension expense in 2004 increased by $93 million compared with 2003. Based on its current assumptions, MMC expects pension expense to increase by approximately $140 million in 2005 and currently expects to contribute approximately $256 million to the plans during the year. MMC has reviewed ways to reduce benefits costs going forward and expects to take action during 2005 to mitigate these increases by the beginning of 2006.

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 90% 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	$(13.0)	$(20.1)	$13.0	$20.1
Discount Rate	$(29.0)	$(47.2)	$32.0	$50.6

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 7 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.

Investment Valuation

MMC holds investments in both public and private companies, as well as certain private equity funds managed by MMC Capital. The majority of these 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. 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 MMC's 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.

New Accounting Pronouncements

New accounting pronouncements are discussed in Note 1 to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, *(In millions, except per share figures)*	**2004**	2003	2002
Revenue:			
Service revenue	**$11,959**	$11,444	$10,321
Investment income (loss)	**200**	100	67
Operating revenue	**12,159**	11,544	10,388
Expense:			
Compensation and benefits	**6,714**	5,926	5,199
Other operating expenses	**3,828**	3,112	2,915
Regulatory and other settlements	**969**	10	—
Operating expenses	**11,511**	9,048	8,114
Operating income	**648**	2,496	2,274
Interest income	**21**	24	19
Interest expense	**(219)**	(185)	(160)
Income before income taxes and minority interest	**450**	2,335	2,133
Income taxes	**259**	770	747
Minority interest, net of tax	**15**	25	21
Net income	**$ 176**	$ 1,540	$ 1,365
Basic net income per share	**$ .33**	$ 2.89	$ 2.52
Diluted net income per share	**$ .33**	$ 2.81	$ 2.45
Average number of shares outstanding-Basic	**526**	533	541
Average number of shares outstanding-Diluted	**535**	548	557

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

CONSOLIDATED BALANCE SHEETS

December 31, *(In millions of dollars)*	**2004**	2003
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,396**	$ 665
Receivables		
Commissions and fees	**2,507**	2,388
Advanced premiums and claims	**102**	89
Other	**424**	342
	3,033	2,819
Less — allowance for doubtful accounts and cancellations	**(143)**	(116)
Net receivables	**2,890**	2,703
Other current assets	**601**	480
Total current assets	**4,887**	3,848
Goodwill and intangible assets	**8,139**	5,797
Fixed assets, net	**1,387**	1,389
Long-term investments	**558**	648
Prepaid pension	**1,394**	1,199
Other assets	**1,972**	2,172
	$18,337	$15,053
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	**$ 636**	$ 447
Accounts payable and accrued liabilities	**1,834**	1,501
Regulatory settlements — current portion	**394**	10
Accrued compensation and employee benefits	**1,591**	1,263
Accrued income taxes	**280**	272
Dividends payable	**—**	166
Total current liabilities	**4,735**	3,659
Fiduciary liabilities	**4,136**	4,228
Less — cash and investments held in a fiduciary capacity	**(4,136)**	(4,228)
	—	—
Long-term debt	**4,691**	2,910
Regulatory settlements	**595**	—
Pension, postretirement and postemployment benefits	**1,333**	997
Other liabilities	**1,927**	2,036
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 2004 and 2003	**561**	561
Additional paid-in capital	**1,316**	1,301
Retained earnings	**5,044**	5,386
Accumulated other comprehensive loss	**(370)**	(279)
	6,551	6,969
Less — treasury shares at cost, 33,831,782 shares in 2004 and 33,905,497 shares in 2003	**(1,495)**	(1,518)
Total stockholders' equity	**5,056**	5,451
	$18,337	$15,053

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, *(In millions of dollars)*	**2004**	2003	2002
Operating cash flows:			
Net income	**$ 176**	$ 1,540	$ 1,365
Adjustments to reconcile net income to cash generated from operations:			
Depreciation of fixed assets and capitalized software	**392**	349	324
Amortization of intangible assets	**64**	42	35
Provision (benefit) for deferred income taxes	**(71)**	90	176
(Gains) losses on investments	**(200)**	(100)	(67)
Changes in assets and liabilities:			
Net receivables	**(107)**	(199)	215
Other current assets	**60**	(34)	(15)
Other assets	**93**	(289)	(318)
Accounts payable and accrued liabilities	**858**	23	135
Accrued compensation and employee benefits	**328**	125	4
Accrued income taxes	**(39)**	85	(445)
Other liabilities	**446**	135	(123)
Effect of exchange rate changes	**69**	100	51
Net cash generated from operations	**2,069**	1,867	1,337
Financing cash flows:			
Net decrease in commercial paper	**(311)**	(817)	(484)
Proceeds from issuance of debt	**4,265**	800	791
Other repayments of debt	**(2,003)**	(55)	(25)
Purchase of treasury shares	**(536)**	(1,195)	(1,184)
Issuance of common stock	**456**	573	490
Dividends paid	**(681)**	(631)	(593)
Net cash provided by (used for) financing activities	**1,190**	(1,325)	(1,005)
Investing cash flows:			
Additions to fixed assets and capitalized software	**(376)**	(436)	(423)
Proceeds from sales related to fixed assets	**23**	8	18
Acquisitions	**(2,364)**	(178)	(92)
Other, net	**161**	136	167
Net cash used for investing activities	**(2,556)**	(470)	(330)
Effect of exchange rate changes on cash and cash equivalents	**28**	47	7
Increase in cash and cash equivalents	**731**	119	9
Cash and cash equivalents at beginning of year	**665**	546	537
Cash and cash equivalents at end of year	**$ 1,396**	$ 665	$ 546

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 of dollars, except per share figures)*	**2004**	2003	2002
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	**$ 1,301**	$ 1,426	$ 1,620
Acquisitions	**1**	2	—
Issuance of shares under stock compensation plans and employee stock purchase plans and related tax benefits	**14**	(127)	(194)
Balance, end of year	**$ 1,316**	$ 1,301	$ 1,426
RETAINED EARNINGS			
Balance, beginning of year	**$ 5,386**	$ 4,490	$ 3,723
Net income[a]	**176**	1,540	1,365
Dividends declared–(per share amounts: $.99 in 2004, $1.21 in 2003 and $1.11 in 2002)	**(518)**	(644)	(598)
Balance, end of year	**$ 5,044**	$ 5,386	$ 4,490
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance, beginning of year	**$ (279)**	$ (452)	$ (227)
Foreign currency translation adjustments[b]	**234**	302	131
Unrealized investment holding (losses) gains, net of reclassification adjustments[c]	**(58)**	76	(106)
Minimum pension liability adjustment[d]	**(266)**	(201)	(257)
Net deferred (loss) gain on cash flow hedges[e]	**(1)**	(4)	7
Balance, end of year	**$ (370)**	$ (279)	$ (452)
TREASURY SHARES			
Balance, beginning of year	**$ (1,518)**	$ (1,007)	$ (504)
Purchase of treasury shares	**(524)**	(1,209)	(1,184)
Acquisitions	**7**	16	10
Issuance of shares under stock compensation plans and employee stock purchase plans	**540**	682	671
Balance, end of year	**$ (1,495)**	$ (1,518)	$ (1,007)
TOTAL STOCKHOLDERS' EQUITY	**$ 5,056**	$ 5,451	$ 5,018
TOTAL COMPREHENSIVE INCOME[a+b+c+d+e]	**$ 85**	$ 1,713	$ 1,140

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Marsh & McLennan Companies, Inc. (''MMC''), a professional services firm, is organized based on the different services that it offers. Under this organizational structure, MMC operated in 2004 in three principal business segments: risk and insurance services, investment management and consulting. 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. It also provides risk consulting and technology services to businesses, governments and individuals, and provides services principally in connection with originating, structuring and managing investments, primarily in the insurance and financial services industries. The investment management segment primarily provides securities investment advisory and management services and administrative services for a group of publicly held investment companies and institutional accounts. The consulting segment provides advice and services to the managements of organizations primarily in the areas of retirement services, human capital, health care and group benefit programs, management consulting, organizational change and organizational design, economic consulting, and corporate identity.

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 $130 million in 2004, $114 million in 2003, and $118 million in 2002. Since fiduciary assets are not available for corporate use, they are shown in the balance sheet as an offset to fiduciary liabilities.

Net uncollected premiums and claims and the related payables were $11.2 billion and $11.5 billion at December 31, 2004 and 2003, 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 fiduciary funds and through the first three quarters of 2004, market service fees from insurers. Effective October 1, 2004 Marsh agreed to eliminate contingent compensation agreements with insurers. 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. 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 and London market 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.

Investment Management revenue is derived primarily from investment management fees and 12b-1 fees. Investment management fees are recognized as services are provided. 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. Such fees are based on the net assets of the funds and are collected directly from the applicable funds. 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.

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. Insurance commissions are recorded as of the effective date of the applicable policies.

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)*	**2004**	2003
Furniture and equipment	**$1,676**	$1,510
Land and buildings	**458**	445
Leasehold and building improvements	**914**	882
	3,048	2,837
Less–accumulated depreciation and amortization	**(1,661)**	(1,448)
	$1,387	$1,389

Investment Securities: MMC holds investments in both public and private companies, as well as certain private equity funds (managed by MMC Capital 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 when they occur. 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. 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 $281 million and $255 million, net of accumulated amortization of $418 million and $372 million at December 31, 2004 and 2003, respectively, are included in Other assets in the Consolidated Balance Sheets.

Legal and Other Loss Contingencies: MMC and its subsidiaries are subject to various 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. 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. 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 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 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 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.

U.S. Federal income taxes are provided on unremitted foreign earnings except those that are considered permanently reinvested, which at December 31, 2004 amounted to approximately $1.7 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 $190 million.

In December 2004, the FASB issued Staff Position (''FSP'') No. 109-2, ''Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004.'' The American Jobs Creation Act of 2004 (the ''Act''), signed into law on October 22, 2004, provides for a special one-time tax deduction, or dividend received deduction (''DRD''), 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. FSP 109-2 provides entities additional time to assess the effect of repatriating foreign earnings under the Act for purposes of applying SFAS No. 109, ''Accounting for Income Taxes,'' which typically requires the effect of a new tax law to be recorded in the period of enactment. MMC will elect, if applicable, to apply the DRD to qualifying dividends of foreign earnings repatriated in its calendar year 2005.

MMC is awaiting further clarifying guidance from the U.S. Treasury Department on certain provisions of the Act. Once this guidance is received, MMC expects to complete its evaluation of the effects of the Act during 2005. Under the limitations on the amount of dividends qualifying for the DRD of the Act, the maximum repatriation of MMC's foreign earnings that may qualify for the special one-time DRD is approximately $1.2 billion. Therefore, the range of possible amounts of qualifying dividends of foreign earnings is between zero and approximately $1.2 billion. Although the evaluation is ongoing, MMC estimates the range of income tax effects of potential repatriations to be zero to $63 million.

Prepaid Dealer Commissions: Essentially all of the mutual funds marketed by MMC's investment management segment are made available with a contingent deferred sales charge in lieu of a front-end load. The related prepaid dealer commissions, initially paid by MMC to broker/dealers for distributing such funds, can be recovered through charges and fees received over a number of years. The prepaid dealer commissions are amortized on a straight-line basis over a period not to exceed six years. If early terminations result in the recognition of contingent deferred sales charges, the amortization of prepaid dealer commissions is accelerated accordingly. MMC assesses the recoverability of prepaid dealer commissions by comparing the expected future cash flows with recorded balances.

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: MMC through Putnam, manages $3.6 billion in the form of Collateralized Debt Obligations (''CDO'') and Collateralized Bond Obligations (''CBO''). Separate limited liability companies were established to issue the notes and to hold the underlying collateral, which consists of high-yield bonds and other securities. Putnam serves as the collateral manager for the CDOs and CBOs. The maximum loss exposure related to the CDOs and CBOs is limited to Putnam's investment totaling $7.5 million, reflected in Long-term investments in the Consolidated Balance Sheets at December 31, 2004. MMC has concluded it is not the primary beneficiary of these structures under FIN 46 ''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. 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 8, and adding back dividend equivalent expense related to common stock equivalents. 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 net income to net income 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)*	**2004**	2003	2002
Net income	**$ 176**	$1,540	$1,365
Less: Potential minority interest expense associated with Putnam Class B Common Shares	**—**	(1)	(2)
Add: Dividend equivalent expense related to common stock equivalents	**2**	2	2
Net income for diluted earnings per share	**$ 178**	$1,541	$1,365
Basic weighted average common shares outstanding	**526**	533	541
Dilutive effect of potentially issuable common shares	**9**	15	16
Diluted weighted average common shares outstanding	**535**	548	557
Average stock price used to calculate common stock equivalents	**$42.12**	$46.99	$48.95

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 December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (''Act'') introduced a prescription drug benefit under Medicare, as well as a federal subsidy to sponsors of retiree health care benefit plans. In January 2004, the Financial Accounting Standards Board (''FASB'') issued FASB Staff Position (''FSP'') No. 106-1, ''Accounting

and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003''. As allowed by this FSP, the Company elected to defer accounting for the effects of the Act. In May 2004, the FASB issued FSP No. 106-2 to address the accounting and disclosure requirements related to the Act. The FSP was effective for the Company beginning with its third quarter ended September 30, 2004. The effect of the Act on the Company's financial statements was not significant.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), ''Employers' Disclosures about Pensions and Other Postretirement Benefits — an Amendment of FASB Statements Nos. 87, 88, and 106''. Additional disclosure requirements were added to include information describing the types of plan assets, investment strategy, measurement dates, plan obligations and cash flows. See Note 7 to the Consolidated Financial Statements and the Retirement Benefits section of Management's Discussion and Analysis for the related pension and postretirement benefit disclosures.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), ''Share-based Payments'' (''SFAS No. 123R''). SFAS No. 123R requires companies to measure and recognize compensation for share-based payments at fair value. The effects of adoption of SFAS No. 123R are disclosed in the proforma information in Note 8 to the Consolidated Financial Statements.

Reclassifications: Certain reclassifications have been made to the prior year amounts to conform with current year presentation.

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)*	**2004**	2003	2002
Purchase acquisitions:			
Assets acquired, excluding cash	**$2,353**	$ 408	$ 99
Liabilities assumed	**(17)**	(9)	(2)
Issuance of debt and other obligations	**(33)**	(115)	(5)
Deferred purchase consideration	**61**	—	—
Shares issuable	**—**	(106)	—
Net cash outflow for acquisitions	**$2,364**	$ 178	$ 92
Interest paid	**$ 198**	$ 172	$154
Income taxes paid	**$ 383**	$ 542	$931

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

(In millions of dollars)	**2004**	2003	2002
Balance at beginning of year	**$116**	$124	$139
Provision charged to operations	**30**	18	21
Accounts written-off, net of recoveries	**(10)**	(36)	(44)
Effect of exchange rate changes	**7**	10	8
Balance at end of year	**$143**	$116	$124

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)*	**2004**	2003	2002
Foreign currency translation adjustments	**$ 234**	$ 302	$ 131
Unrealized investment holding gains (losses), net of income tax liability (benefit) of $3, $54 and $(35) in 2004, 2003 and 2002, respectively	**8**	98	(70)
Less: Reclassification adjustment for realized gains included in net income, net of income tax liability of $36, $12 and $21 in 2004, 2003 and 2002, respectively	**(66)**	(22)	(36)
Minimum pension liability adjustment, net of income tax benefit of $123 in 2004, $77 in 2003 and $110 in 2002	**(266)**	(201)	(257)
Deferred (loss) gain on cash flow hedges, net of income tax (benefit) liability of $(1), $(2) and $3 in 2004, 2003 and 2002, respectively	**(1)**	(4)	7
	$ (91)	$ 173	$(225)

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

December 31, *(In millions of dollars)*	**2004**	2003
Foreign currency translation adjustments	**$ 244**	$ 10
Net unrealized investment gains	**138**	196
Minimum pension liability adjustment	**(752)**	(486)
Net deferred gain on cash flow hedges	**—**	1
	$(370)	$(279)

4. ACQUISITIONS

In July 2004, MMC acquired Kroll Inc. (''Kroll''), the world's leading risk mitigation services firm in an all-cash $1.9 billion transaction in which Kroll shareholders received $37 for each outstanding share of Kroll common stock owned. The acquisition of Kroll broadens and deepens the capabilities of MMC's risk consulting and advisory businesses by adding services which clients need to reduce the impact of an adverse event. It expands MMC's capacity in several important sectors that complement existing businesses, such as corporate restructuring, business intelligence and investigations, security services, employee screening, and electronic evidence and litigation support. The estimated fair values of assets and liabilities are recorded in the financial statements as follows: net tangible assets of $45 million, identified intangible assets of $311 million; and goodwill of $1.6 billion.

In addition, MMC acquired Synhrgy HR Technologies, a leading provider of human resource technology and outsourcing services, for a total cost of $115 million in 2004. Substantially all employees of Synhrgy became employees of MMC. Approximately $7 million of the purchase consideration is subject to continued employment of the selling shareholders and is being recorded as compensation expense over three years. MMC also acquired the Australia and New Zealand operations of Heath Lambert for $53 million in March of 2004, Prentis Donegan for $63 million in cash in July of 2004, an additional 30% of the voting stock of PanAgora Asset Management, Inc. (bringing its total to an 80% voting majority) for

$3 million in cash in July of 2004, Centerlink for $36 million in September 2004 and Corporate Systems for $72 million in cash in October 2004.

The allocation of purchase consideration resulted in acquired goodwill of $1.9 billion in 2004. Estimated fair values of assets acquired and liabilities assumed are subject to adjustment when the purchase accounting is finalized.

In April 2003, MMC acquired Oliver, Wyman & Company (''OWC'') for $265 million comprising $159 million in cash, to be paid over four years, and $106 million in MMC stock. Substantially all former employees of OWC became employees of MMC. Approximately $35 million of the purchase consideration is subject to continued employment of the selling shareholders and is recorded as prepaid compensation. This asset is being amortized as compensation expense over four years.

During 2003, MMC also acquired several insurance and consulting businesses in transactions accounted for as purchases for a total cost of $135 million. The cost of 2003 acquisitions exceeded the fair value of assets acquired by $307 million.

5. 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. In connection with MMC's annual impairment tests in the third quarter of 2004, it was determined that such assets were not impaired. Due to the decline in MMC's share price following the filing of the Civil Complaint by the Attorney General of the State of New York on October 14, 2004, MMC conducted goodwill impairment tests as of December 31, 2004 and determined that such assets were not impaired.

Changes in the carrying amount of goodwill are as follows:

(In millions of dollars)	
Balance as of January 1, 2004	**$5,533**
Goodwill acquired	**1,881**
Other adjustments (primarily foreign exchange)	**118**
Balance as of December 31, 2004	**$7,532**

Goodwill allocable to each of MMC's reporting segments is as follows: Risk and Insurance Services $6.3 billion; Investment Management $122 million; and Consulting $1.1 billion.

The goodwill balance at December 31, 2004 and 2003 includes approximately $119 million and $121 million, respectively, of equity method goodwill.

Amortized intangible assets consist of the cost of client lists, client relationships and tradenames acquired, and the rights to future revenue streams from certain existing private equity funds. MMC has no intangible assets with indefinite lives. The gross cost and accumulated amortization by major intangible asset class is as follows:

December 31, *(In millions of dollars)*	**2004**			2003		
	Gross Cost	**Accumulated Amortization**	**Net Carrying Amount**	Gross Cost	Accumulated Amortization	Net Carrying Amount
Customer and marketing related	**$630**	**$122**	**$508**	$222	$ 74	$148
Future revenue streams related to existing private equity funds	**198**	**108**	**90**	199	92	107
Total amortized intangibles	**$828**	**$230**	**$598**	$421	$166	$255

Aggregate amortization expense for the years ended December 31, 2004 and 2003, was $64 million and $42 million, respectively, and the estimated future aggregate amortization expense is as follows:

For the Years Ending December 31, *(In millions of dollars)*	Estimated Expense
2005	$109
2006	$ 88
2007	$ 82
2008	$ 78
2009	$ 67

6. 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)*	**2004**	2003	2002
Income before income taxes and minority interest:			
U.S.	**$ (63)**	$1,434	$1,346
Other	**513**	901	787
	$ 450	$2,335	$2,133
Income taxes:			
Current–			
U.S. Federal	**$ 204**	$ 433	$ 424
Other national governments	**80**	159	111
U.S. state and local	**46**	88	36
	330	680	571
Deferred–			
U.S. Federal	**(118)**	45	17
Other national governments	**67**	60	130
U.S. state and local	**(20)**	(15)	29
	(71)	90	176
Total income taxes	**$ 259**	$ 770	$ 747

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

December 31, *(In millions of dollars)*	**2004**	2003
Deferred tax assets:		
Accrued expenses not currently deductible	**$ 809**	$502
Differences related to non-U.S. operations	**251**	254
Other	**54**	29
	$1,114	$785
Deferred tax liabilities:		
Prepaid dealer commissions	**$ 12**	$ 22
Unrealized investment holding gains	**74**	107
Differences related to non-U.S. operations	**123**	121
Depreciation and amortization	**276**	83
Accrued retirement benefits	**34**	48
Other	**21**	15
	$ 540	$396
Balance sheet classifications:		
Current assets	**$ 282**	$ 35
Other assets	**$ 292**	$354

A reconciliation from the U.S. Federal statutory income tax rate to MMC's effective income tax rate is shown below. The increase in percentages in 2004 is largely due to the decline in pre-tax operating income. The increase in the effective tax rate was primarily due to the non-deductibility of Putnam's $224 million in regulatory settlements; a lower tax benefit related to Marsh's $850 million settlement of the NYAG Lawsuit due to partial attribution to foreign operations; and a partially offsetting benefit for foreign earnings taxed at lower rates.

For the Years Ended December 31,	**2004**	2003	2002
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	**1.7 %**	2.0 %	2.0 %
Differences related to non-U.S. operations	**(7.3)%**	(4.1)%	(1.6)%
NYAG lawsuit, including state taxes	**11.5 %**	—	—
Putnam regulatory settlements	**17.4 %**	—	—
Meals and entertainment	**3.0 %**	.5 %	.6 %
Dividends paid to employees	**(3.0)%**	(.5)%	(.6)%
Other	**(.7)%**	.1 %	(.4)%
Effective tax rate	**57.6 %**	33.0 %	35.0 %

MMC is routinely examined by the Internal Revenue Service (the ''IRS'') 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. The current IRS examination covers 2000-2002. 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. The resolution of tax matters should 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 for a particular future period and on its effective tax rate.

7. RETIREMENT BENEFITS

MMC maintains qualified and non-qualified defined benefit pension plans for its U.S. and non-U.S. eligible 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 the U.S. and international law.

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	
	2004	2003	**2004**	2003
Weighted average assumptions:				
Discount rate (for expense)	**5.8%**	6.1%	**6.3%**	6.6%
Expected return on plan assets	**8.4%**	8.5%	**—**	—
Rate of compensation increase (for expense)	**3.7%**	3.8%	**—**	—
Discount rate (for benefit obligation)	**5.5%**	5.8%	**5.9%**	6.3%
Rate of compensation increase (for benefit obligation)	**3.6%**	3.7%	**—**	—

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 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% bonds, and for the U.K. plans, which comprise approximately 85% 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 72% to equities and 28% to fixed income, and for the U.K. plans was 58% to equities and 42% to fixed income. Actual portfolio allocations in 2004 approximated the target allocations. 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 durations that match the expected payment patterns of 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 (income) for combined U.S. and significant non-U.S. defined benefit and other postretirement plans are as follows:

For the Years Ended December 31,	Pension Benefits			Postretirement Benefits		
(In millions of dollars)	**2004**	2003	2002	**2004**	2003	2002
Service cost	**$ 235**	$ 192	$ 171	**$11**	$ 9	$ 7
Interest cost	**424**	365	337	**20**	20	19
Expected return on plan assets	**(619)**	(546)	(519)	**—**	—	—
Amortization of prior service credit	**(38)**	(38)	(17)	**(2)**	(2)	(2)
Amortization of transition asset	**(4)**	(4)	(5)	**—**	—	—
Recognized actuarial loss	**90**	26	11	**3**	5	3
Net Periodic Benefit Cost (Income)	**$ 88**	$ (5)	$ (22)	**$32**	$32	$27

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)	**2004**	2003	**2004**	2003
Change in benefit obligation:				
Benefit obligation at beginning of year	**$2,563**	$2,309	**$ 290**	$ 250
Service cost	**82**	68	**10**	8
Interest cost	**166**	155	**17**	17
Actuarial loss	**351**	139	**3**	23
Benefits paid	**(114)**	(108)	**(11)**	(8)
Benefit obligation at end of year	**$3,048**	$2,563	**$ 309**	$ 290
Change in plan assets:				
Fair value of plan assets at beginning of year	**$2,419**	$2,045	**$ —**	$ —
Actual return on plan assets	**299**	461	**—**	—
Employer contributions	**47**	21	**11**	8
Benefits paid	**(114)**	(108)	**(11)**	(8)
Fair value of plan assets at end of year	**$2,651**	$2,419	**$ —**	$ —
Funded status	**$ (397)**	$ (144)	**$(309)**	$(290)
Unrecognized net actuarial loss	**911**	674	**66**	65
Unrecognized prior service credit	**(184)**	(222)	**(5)**	(7)
Unrecognized transition asset	**—**	(5)	**—**	—
Net asset (liability) recognized	**$ 330**	$ 303	**$(248)**	$(232)
Amounts recognized in the Consolidated Balance Sheets consist of:				
Prepaid benefit cost	**$ 580**	$ 538	**$ —**	$ —
Accrued benefit liability	**(322)**	(270)	**(248)**	(232)
Accumulated other comprehensive loss	**72**	35	**—**	—
Net asset (liability) recognized	**$ 330**	$ 303	**$(248)**	$(232)
Accumulated benefit obligation at December 31	**$2,846**	$2,399	**$ —**	$ —

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	
	2004	2003	**2004**	2003
Weighted average assumptions:				
Discount rate (for expense)	**6.4%**	6.75%	**6.4%**	6.75%
Expected return on plan assets	**8.75%**	8.75%	**—**	—
Rate of compensation increase (for expense)	**3.15%**	3.5%	**—**	—
Discount rate (for benefit obligation)	**6.0%**	6.4%	**6.0%**	6.4%
Rate of compensation increase (for benefit obligation)	**2.85%**	3.15%	**—**	—

The U.S. defined benefit pension plans do not have any direct or indirect ownership of MMC stock. Plan assets of approximately $1.9 billion and $1.8 billion at December 31, 2004 and 2003, respectively, were managed by Putnam, which includes both separately managed and publicly available investment funds.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the U.S. pension plans with accumulated benefit obligations in excess of plan assets were $340 million, $315 million and $0, respectively, as of December 31, 2004 and $290 million, $266 million and $0, respectively, as of December 31, 2003.

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

For the Years Ended December 31, *(In millions of dollars)*	U.S. Pension Benefits			U.S. Postretirement Benefits		
	2004	2003	2002	**2004**	2003	2002
Service cost	**$ 81**	$ 68	$ 67	**$10**	$ 8	$ 6
Interest cost	**166**	155	160	**17**	17	16
Expected return on plan assets	**(231)**	(229)	(241)	**—**	—	—
Amortization of prior service credit	**(38)**	(38)	(17)	**(2)**	(2)	(2)
Amortization of transition asset	**(4)**	(4)	(5)	**—**	—	—
Recognized actuarial loss	**46**	18	9	**3**	5	3
Net Periodic Benefit Cost (Income)	**$ 20**	$ (30)	$ (27)	**$28**	$ 28	$ 23

The assumed health care cost trend rate was approximately 12% in 2004 gradually declining to 5% in the year 2019. 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	$ 4	$ (3)
Effect on postretirement benefit obligation	$43	$(35)

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (''Act'') became law. The net periodic benefit cost shown above includes the subsidy which did not have a material impact.

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

December 31, *(In millions of dollars)*	Non-U.S. Pension Benefits		Non-U.S. Postretirement Benefits	
	2004	2003	**2004**	2003
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 4,666**	$3,660	**$ 55**	$ 52
Service cost	**154**	124	**1**	1
Interest cost	**258**	210	**3**	3
Employee contributions	**36**	27	**—**	—
Actuarial loss (gain)	**591**	325	**1**	(2)
Effect of settlement	**(11)**	(4)	**—**	—
Special termination benefits	**6**	4	**—**	—
Benefits paid	**(162)**	(141)	**(3)**	(2)
Foreign currency changes	**429**	466	**5**	6
Plan amendments	**(31)**	(1)	**—**	(3)
Effect of spinoff	**—**	(4)	**—**	—
Benefit obligation at end of year	**$ 5,936**	$4,666	**$ 62**	$ 55
Change in plan assets:				
Fair value of plan assets at beginning of year	**$ 3,934**	$2,918	**$ —**	$ —
Actual return on plan assets	**427**	380	**—**	—
Effect of settlement	**(11)**	(4)	**—**	—
Company contributions	**239**	366	**3**	2
Employee contributions	**36**	27	**—**	—
Benefits paid	**(162)**	(141)	**(3)**	(2)
Foreign currency changes	**352**	388	**—**	—
Fair value of plan assets at end of year	**$ 4,815**	$3,934	**$ —**	$ —
Funded status	**$(1,121)**	$ (732)	**$(62)**	$ (55)
Unrecognized net actuarial loss	**2,322**	1,655	**9**	8
Unrecognized prior service cost	**(20)**	10	**(3)**	(3)
Net asset (liability) recognized	**$ 1,181**	$ 933	**$(56)**	$ (50)
Amounts recognized in the Balance Sheet consist of:				
Prepaid benefit cost	**$ 800**	$ 645	**$ —**	$ —
Accrued benefit liability	**(631)**	(374)	**(56)**	(50)
Intangible asset	**9**	8	**—**	—
Accumulated other comprehensive loss	**1,003**	654	**—**	—
Net asset (liability) recognized	**$ 1,181**	$ 933	**$(56)**	$ (50)
Accumulated benefit obligation at December 31	**$ 5,261**	$4,126	**$ —**	$ —
Weighted average assumptions:				
Discount rate (for expense)	**5.4%**	5.7%	**5.7%**	5.9%
Expected return on plan assets	**8.2%**	8.3%	**—**	—
Rate of compensation increase (for expense)	**4.0%**	4.0%	**—**	—
Discount rate (for benefit obligation)	**5.3%**	5.4%	**5.6%**	5.7%
Rate of compensation increase (for benefit obligation)	**4.0%**	4.0%	**—**	—

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 $3.4 billion, $3.1 billion and $2.5 billion, respectively, as of December 31, 2004 and $2.6 billion, $2.4 billion and $2 billion, respectively, as of December 31, 2003.

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

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, *(In millions of dollars)*	Non-U.S. Pension Benefits			Non-U.S.Postretirement Benefits		
	2004	2003	2002	**2004**	2003	2002
Service cost	**$ 154**	$ 124	$ 104	**$ 1**	$ 1	$ 1
Interest cost	**258**	210	177	**3**	3	3
Expected return on plan assets	**(388)**	(317)	(278)	**—**	—	—
Recognized actuarial loss	**44**	8	2	**—**	—	—
Net periodic benefit cost	**$ 68**	$ 25	$ 5	**$ 4**	$ 4	$ 4
Curtailment gain	**—**	—	(1)	**—**	—	—
Settlement loss	**3**	—	1	**—**	—	—
Special termination benefits	**6**	4	1	**—**	—	—
Total expense	**$ 77**	$ 29	$ 6	**$ 4**	$ 4	$ 4

The assumed health care cost trend rate was approximately 6.6% in 2004, gradually declining to 4.3% in the year 2012. 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	$9	$(7)

MMC's estimated future benefit payments for its pension and postretirement benefits at December 31, 2004 were as follows:

December 31, *(In millions of dollars)*	Pension Benefits		Postretirement Benefits	
	U.S.	Non-U.S.	U.S.	Non-U.S.
2005	$ 128	$ 163	$ 14	$ 3
2006	136	174	14	3
2007	144	183	15	4
2008	154	207	16	4
2009	164	227	18	4
2010-2014	$1,005	$1,355	$105	$21

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''). Under these plans, eligible employees may

contribute a percentage of their base salary, subject to certain limitations. For the SIP, MMC matches a portion of the employees' contributions, while under the Putnam Plan the contributions are at the discretion of MMC subject to IRS limitations. The SIP is an Employee Stock Ownership Plan under U.S. tax law and plan assets of approximately $715 million at December 31, 2004 and $1.3 billion at December 31, 2003 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 $973 million and $938 million at December 31, 2004 and 2003, respectively, were managed by Putnam. The cost of these defined contribution plans was $97 million, $97 million and $92 million for 2004, 2003 and 2002, respectively.

8. STOCK BENEFIT PLANS

MMC has stock-based benefit plans under which employees are awarded grants of restricted stock, stock options or other forms of awards. As provided under SFAS No. 123, ''Accounting for Stock-Based Compensation'' (''SFAS 123''), MMC has elected to continue to account for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, ''Accounting for Stock Issued to Employees'' (''APB 25'') and has provided the required additional pro forma disclosures.

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. There were 41,468,548, 46,748,574 and 65,049,280 shares available for awards under the 2000 Plans and prior plans at December 31, 2004, 2003 and 2002, respectively.

Stock Options: Options granted under the 2000 Plans may be designated as incentive stock options or as 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. Except under certain limited circumstances, no stock option may be granted with an exercise price of less than the fair market value of the stock at the time the stock option is granted.

Stock option transactions under the 2000 Plans and prior plans are as follows:

	2004		2003		2002	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance at beginning of period	**89,315,072**	**$42.30**	82,130,854	$40.74	70,067,916	$34.58
Granted	**9,270,590**	**$45.90**	17,188,980	$43.11	21,006,580	$55.78
Exercised	**(4,532,653)**	**$24.35**	(6,947,666)	$22.71	(7,216,142)	$23.16
Forfeited	**(7,842,322)**	**$46.81**	(3,057,096)	$49.50	(1,727,500)	$47.51
Balance at end of period	**86,210,687**	**$43.22**	89,315,072	$42.30	82,130,854	$40.74
Options exercisable at year-end	**56,187,738**	**$40.91**	49,358,186	$37.46	42,009,798	$31.49

The following table summarizes information about stock options at December 31, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding at 12/31/04	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at 12/31/04	Weighted Average Exercise Price
$13.08 - $25.35	6,414,762	1.6 years	$18.18	6,414,762	$18.18
$25.36 - $37.30	6,683,711	3.2 years	$30.10	6,573,711	$30.14
$37.31 - $51.94	56,117,734	6.5 years	$43.77	33,993,577	$43.20
$51.95 - $62.33	16,994,480	7.0 years	$55.99	9,205,688	$56.00
$13.08 - $62.33	86,210,687	5.9 years	$43.22	56,187,738	$40.91

Restricted Stock: Restricted shares of MMC's common stock may be awarded 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.

There were 1,030,541, 603,200 and 249,421 restricted shares granted in 2004, 2003 and 2002, respectively. The fair value of the awards granted was $48 million in 2004, $19 million in 2003 and $13 million in 2002, related to these shares. Shares that have been granted generally become unrestricted at the earlier of: (1) January 1 of the eleventh year following the grant or (2) the later of the recipient's normal or actual retirement date. Some restricted shares granted in 2004 cliff vest in seven years.

Restricted Stock Units: Restricted stock units may be awarded under the 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.

There were 592,786, 1,039,608 and 760,749 restricted stock units awarded during 2004, 2003 and 2002, respectively. The total value of the restricted stock units at the time of the awards was $26 million, $44 million and $40 million in 2004, 2003 and 2002, respectively. The cost of the awards is amortized over the vesting period, which is generally three years.

Deferred Stock Units: Deferred stock units may be awarded under the 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.

There were, 3,853,020, 2,325,802 and 1,669,680 deferred stock units awarded during 2004, 2003 and 2002, respectively. The total value of the deferred stock unit awards was $170 million, $100 million and $85 million in 2004, 2003 and 2002, respectively. The cost of the awards is amortized over the vesting period, which is generally three years.

Putnam Investments Equity Partnership Plan: In 1997, Putnam adopted the Putnam Investments Equity Partnership Plan (the ''Equity Plan'') pursuant to which Putnam is authorized to grant or sell to certain employees of Putnam or its subsidiaries restricted shares of a new class of common shares of Putnam Investments Trust, the parent of Putnam Investments, LLC (''Class B Common Shares'') and options to acquire the Class B Common Shares. Such awards or options generally vest over a four-year period. 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 12,000,000 shares of Class B Common Shares, which would represent approximately 12% of the outstanding shares on a fully diluted basis, as increased for certain issuances of Putnam Class A Common Stock to MMC. Through December 31, 2004, Putnam made awards pursuant to the Equity Plan of 2,021,879, 2,174,100 and 1,051,400 Class B Common Shares and shares subject to options in 2004, 2003 and 2002, respectively. These awards included 1,971,379, 21,300 and 525,700 restricted shares with a value of $66 million, $1 million and $39 million in 2004, 2003 and 2002, respectively. These awards also included 50,500, 2,152,800 and 525,700 shares subject to options in 2004, 2003 and 2002, respectively. There were 4,048,841 shares available for grant related to the Equity Plan at December 31, 2004. Outstanding shares and common stock equivalents related to Equity Plan grants at December 31, 2004 resulted in a minority interest in Putnam of approximately 3.9% on a fully diluted basis.

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). Also, shares of MMC common stock are purchased at a price that is 85% of the average market price on each quarterly purchase date. Previously, shares were purchased at a price based on 85% of the lower of the market price at the beginning or end of the plan year. 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 3,463,352 shares in 2004, 3,815,231 shares in 2003 and 3,744,190 shares in 2002. At December 31, 2004, 28,186,973 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 1,167,822 shares in 2004, 1,216,359 shares in 2003 and 717,696 shares in 2002. At December 31, 2004, 1,962,887 shares were available for issuance under the International Plan.

Pro Forma Information: In accordance with the intrinsic value method allowed by APB 25, no compensation cost has been recognized in the Consolidated Statements of Income for MMC's stock option and stock purchase plans and the stock options awarded under the Putnam Investments Equity Partnership Plan. Had compensation cost for MMC's stock-based compensation plans been determined consistent with the fair value method prescribed by SFAS No. 123, MMC's net income and net income per share for 2004, 2003 and 2002 would have been reduced to the pro forma amounts indicated in the table below.

(In millions of dollars, except per share figures)	**2004**	2003	2002
Net Income:			
As reported	**$ 176**	$1,540	$1,365
Adjustment for fair value method, net of tax	**(146)**	(171)	(152)
Pro forma	**$ 30**	$1,369	$1,213
Net Income Per Share:			
Basic:			
As reported	**$0.33**	$ 2.89	$ 2.52
Pro forma	**$0.06**	$ 2.57	$ 2.24
Diluted:			
As reported	**$0.33**	$ 2.81	$ 2.45
Pro forma	**$0.06**	$ 2.50	$ 2.18

The pro forma information reflected above includes stock options issued under MMC incentive and stock award plans and the Putnam Investments Equity Partnership Plan and stock issued under MMC stock purchase plans.

The estimated fair value of options granted was calculated using the Black-Scholes option pricing valuation model. The weighted average assumptions used in the valuation models are as follows:

	Stock Options			Stock Purchase Plan*	
	2004	2003	2002	2003	2002
MMC incentive and stock award plans					
Dividend yield	**2.3%**	2.3%	2.3%	2.3%	2.3%
Expected volatility	**19.6%**	21.0%	33.2%	29.5%	31.4%
Risk-free interest rate	**2.8%**	2.75%	4.9%	1.03%	1.2%
Weighted-average fair value	**$7.51**	$7.45	$16.82	$12.47	$11.18
Expected life	**5 years**	5 years	5 years	1 year	1 year
Putnam Investments Equity Partnership Plan					
Dividend yield	**5.0%**	5.0%	5.0%		
Expected volatility	**26.8%**	29.4%	44.4%		
Risk-free interest rate	**3.45%**	2.48%	4.9%		
Weighted-average fair value	**$4.87**	$6.55	$21.63		
Expected life	**5 years**	5 years	5 years		

* As described above, changes to the Stock Purchase Plan in 2004 eliminated the ''look back'' feature, therefore a calculation of the fair value of that feature using the Black-Scholes model calculations is no longer required. Starting in September 2004 the costs for the Stock Purchase Plan are based on the value of the discount.

9. 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 96% of MMC's lease obligations are for the use of office space.

The Consolidated Statements of Income include net rental costs of $505 million, $469 million and $397 million for 2004, 2003 and 2002, respectively, after deducting rentals from subleases ($20 million in 2004, $21 million in 2003 and $20 million in 2002).

At December 31, 2004, the aggregate future minimum rental commitments under all noncancelable operating lease agreements are as follows:

For the Years Ended December 31, *(In millions of dollars)*	Gross Rental Commitments	Rentals from Subleases	Net Rental Commitments
2005	$ 531	$ 26	$ 505
2006	479	24	455
2007	425	21	404
2008	376	18	358
2009	311	17	294
Subsequent years	2,234	173	2,061
	$4,356	$279	$4,077

MMC has entered into agreements with various service companies to outsource certain information systems activities and responsibilities. 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, 2004, 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
2005	$ 76
2006	51
2007	28
Subsequent years	62
	$217

10. DEBT

MMC's outstanding debt is as follows:

December 31, *(In millions of dollars)*	**2004**	2003
Short-term:		
Commercial paper	**$ 129**	$ 440
Revolving credit facility	**434**	—
Bank loans	**3**	—
Current portion of long-term debt	**70**	7
	$ 636	$ 447
Long-term:		
Term loan – 2 year floating rate note due 2006 (3.438% at December 31, 2004)	**$1,300**	$ —
Senior notes – 6.625% due 2004	**—**	599
Senior notes – 7.125% due 2009	**399**	399
Senior notes – 5.375% due 2007 (4.0% effective interest rate)[a]	**514**	520
Senior notes – 6.25% due 2012 (5.1% effective interest rate)[a]	**266**	269
Senior notes – 3.625% due 2008	**249**	248
Senior notes – 4.850% due 2013	**249**	249
Senior notes – 5.875% due 2033	**295**	295
Senior notes – 5.375% due 2014	**646**	—
Senior notes – 3 year floating rate note due 2007 (2.21% at December 31, 2004)	**499**	—
Mortgage – 9.8% due 2009	**200**	200
Notes payable – 8.62% due 2005	**65**	69
Notes payable – 7.68% due 2006	**61**	61
Other	**18**	8
	4,761	2,917
Less current portion	**70**	7
	$4,691	$2,910

(a) The effective interest rates result from unwinding fair value hedges, as discussed below.

The weighted average interest rates on MMC's outstanding short-term debt at December 31, 2004 and 2003 are 3% and 1.1%, respectively.

At December 31, 2003, based on MMC's intent and ability to refinance certain obligations on a long-term basis, the 6.625% Senior Note due in 2004 was classified as Long-term debt.

The matters raised in the civil NYAG Lawsuit on October 14, 2004 (described in Note 15 to the Consolidated Financial Statements) may have prohibited MMC from borrowing under its revolving credit facilities. The required lenders under each of the facilities agreed to waive the effect of such matters until December 30, 2004. During the period from October 14 to December 15, 2004, the revolving credit facilities were drawn upon to refinance approximately $1.7 billion of maturing commercial paper. On December 15, 2004, MMC completed financing with respect to a $1.3 billion Term Loan Facility and the amendment of its existing $1 billion revolving credit facility which expires in June 2007 and $700 million revolving credit facility which expires in June 2009. The Term Loan Facility will mature on December 31, 2006 and replaces revolving credit facilities of $700 million and $355 million, which were due to expire in 2005. The proceeds from the Term Loan Facility were used to pay down the outstanding balances on

revolving credit facilities. The interest rates on these facilities vary based upon the level of usage of the facility and MMC's credit ratings. Each of these facilities requires MMC to maintain certain coverage and leverage ratios on the last day of the measurement period specified in the contract and the guarantors identified in the contract must meet certain guaranty minimum coverage percentages. The amount outstanding under the revolving credit facilities at December 31, 2004 is $373 million.

Additional credit facilities, guarantees and letters of credit are maintained with various banks, primarily related to operations located outside the United States, aggregating $331 million at December 31, 2004 and $209 million at December 31, 2003. There was $61 million outstanding at December 31, 2004 and there were no outstanding amounts under these facilities at December 31, 2003.

In June 2004, MMC repaid $600 million of long-term debt that matured by issuing commercial paper. In July 2004, MMC purchased Kroll, Inc. in an all-cash transaction totaling approximately $1.9 billion. The purchase was initially funded with commercial paper borrowings. To support these borrowings, MMC negotiated a new $1.5 billion, one-year revolving credit facility. Following the acquisition, MMC issued $650 million of 5.375% Senior Notes due 2014 and $500 million of Floating Rate Notes due 2007. The proceeds from these notes were used to repay a portion of MMC's commercial paper borrowings. Under the terms of the agreement of the above-mentioned credit facility, the amount of the facility was reduced by the proceeds from the issuance of the Senior Notes and Floating Rate Notes of approximately $1.15 billion. The available revolving credit facility totaled $355 million after the issuance of these notes and in December 2004 was replaced by the Term Loan Facility.

In July 2003, MMC issued $300 million of 5.875% Senior Notes due 2033. In February 2003, MMC issued $250 million of 3.625% Senior Notes due 2008 and $250 million of 4.85% Senior Notes due 2013 (the ''2003 Notes''). The net proceeds from the 2003 Notes were used to pay down commercial paper borrowings.

In January 2003, MMC terminated and settled interest rate swaps that had hedged the fair value of Senior Notes issued 2002. The cumulative amount of previously recognized adjustments of the fair value of the hedged notes is being amortized over the remaining life of those notes. As a result, the effective interest rate over the remaining life of the notes, including the amortization of the fair value adjustments, is 4.0% for the Notes due 2007 and 5.1% for the Notes due 2012.

MMC has a fixed rate non-recourse mortgage note agreement due 2009 amounting to $200 million, bearing an interest rate of 9.8%, in connection with its interest in its worldwide headquarters building in New York City. 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.

Scheduled repayments of long-term debt in 2005 and in the four succeeding years are $70 million, $1.36 billion, $1.0 billion, $251 million and $603 million, respectively.

11. 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)*	**2004** Carrying Amount	**2004** Fair Value	2003 Carrying Amount	2003 Fair Value
Cash and cash equivalents	**$1,396**	**$1,396**	$ 665	$ 665
Long-term investments	**$ 558**	**$ 558**	$ 648	$ 648
Short-term debt	**$ 636**	**$ 636**	$ 447	$ 447
Long-term debt	**$4,691**	**$4,705**	$2,910	$3,069

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 primarily consist of available for sale securities recorded at quoted market prices. MMC also has certain additional long-term investments, for which there are no readily available market prices, amounting to $75 million and $100 million at December 31, 2004 and 2003, 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 $483 million and $548 million at December 31, 2004 and 2003, respectively, which are carried at market value under SFAS 115. Gross unrealized gains amounting to $212 million and $304 million at December 31, 2004 and 2003, respectively, and gross unrealized losses of $2 million at December 31, 2003 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 $102 million, $34 million and $57 million, in 2004, 2003 and 2002, respectively. Proceeds from the sale of available for sale securities for the years ended December 31, 2004, 2003 and 2002 were $170 million, $94 million and $161 million, respectively. Gross realized gains on available for sale securities sold during 2004, 2003 and 2002 amounted to $107 million, $49 million and $100 million, respectively. In 2004, 2003 and 2002, MMC recorded losses of $5 million, $15 million and $43 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 $98 million, $66 million and $10 million in 2004, 2003 and 2002, 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 primarily of commercial paper borrowings and 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.

12. INTEGRATION AND RESTRUCTURING COSTS

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 current situation and the realities of the marketplace (the ''2004 Plan''). In connection with this plan, MMC incurred restructuring charges of $337 million in the year ended December 31, 2004. The breakdown by segment was $231 million, $62 million, and $26 million in risk and insurance services, consulting and investment management, respectively. An additional $18 million of restructuring expense was recorded in corporate. The amounts incurred and paid in 2004 and the liability as of December 31, 2004 are as follows:

(In millions of dollars)	Expense Incurred in 2004	Utilized in 2004	Remaining Liability at 12/31/04
Severance and benefits	$273	$48	$225
Future rent on non-cancelable leases	28	1	27
Lease termination costs	18	—	18
Other exit costs	18	10	8
	$337	$59	$278

Costs of approximately $7 million related to the 2004 restructuring are expected to be incurred in 2005. The expenses associated with these initiatives are included in Other operating expenses in the Consolidated Statements of Income. 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 item.

MMC previously incurred integration and restructuring costs related to the acquisition of Johnson & Higgins (''J&H'') in 1997, Sedgwick in 1998 and a restructuring plan in 2001. During 2004, MMC recorded the following payments, as well as adjustments related to changes in the estimated costs of integration and restructuring plans. A payment of $3 million for costs related to the Sedgwick Plan and $4 million of the reserves were reversed by MMC and recorded as a reduction of goodwill; a payment of $2 million and a credit of $1 million for a reduction in the estimated cost of the 1999 MMC plan related to the Sedgwick acquisition; a payment of $3 million and a charge of $1 million for increased costs related to the 2001 restructuring plan; and $1 million of the reserves were reversed by MMC and recorded as a reduction of goodwill and a charge of $4 million to reflect the current estimate for required lease payments related to the J&H acquisition. The net impact of the charges and credits to integration and restructuring reserves decreased diluted net income per share by approximately one-half of one cent for the year ended December 31, 2004.

At December 31, 2004, the remaining liability related to integration and restructuring plans is as follows: 2001 Restructuring Plan $16 million; Sedgwick acquisition — Sedgwick Plan $13 million, MMC Plan $7 million. Actions under each of the plans are complete. The remaining accruals, primarily for future rent under noncancelable leases, costs to restore leased properties to contractually agreed upon conditions, and salary continuance arrangements, are expected to be paid over several years.

13. COMMON STOCK

In 2004, MMC repurchased shares of its common stock for treasury as well as to meet requirements for issuance of shares for its various stock compensation and benefit programs. During 2004, MMC repurchased 11.4 million shares for total consideration of $524 million, compared with 26.1 million shares for total consideration of $1.2 billion in 2003.

MMC repurchases shares subject to market conditions, including from time to time pursuant to the terms of a 10b5-1 plan. A 10b5-1 plan allows a company to purchase shares during a blackout period, provided the company communicates its share purchase instructions to the broker prior to the blackout period, pursuant to a written plan that may not be changed. Approximately 1.3 million of the shares repurchased in 2004 were made under the 10b5-1 plan.

MMC currently has no plans to repurchase its stock.

14. 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.

15. CLAIMS, LAWSUITS AND OTHER CONTINGENCIES

Marsh Inc. Related Matters

New York State Attorney General Investigation and Related Litigation and Regulatory Matters

New York State Attorney General Investigation and Lawsuit

In or about April 2004, the Office of the New York State Attorney General (''NYAG'') commenced an investigation into broker compensation arrangements generally and compensation under placement or market service agreements specifically. NYAG issued a subpoena to MMC on April 7, 2004 and followed with additional subpoenas in the summer and fall of 2004.

On October 14, 2004, NYAG filed a civil complaint in New York State court (the ''NYAG Lawsuit'') against MMC and Marsh Inc. (collectively ''Marsh'') asserting claims under New York law for fraudulent

business practices, antitrust violations, securities fraud, unjust enrichment, and common law fraud. The complaint alleged that market service agreements between Marsh and various insurance companies (the ''Agreements''), created an improper incentive for Marsh to steer business to such insurance companies and to shield them from competition. The complaint further alleged that these Agreements were not adequately disclosed to Marsh's clients or to Marsh's investors. In addition, the complaint alleged that Marsh engaged in bid-rigging and solicited fraudulent bids to create the appearance of competitive bidding. The complaint sought relief that included an injunction prohibiting Marsh from engaging in the alleged wrongful conduct, disgorgement of all profits related to such conduct, restitution and unspecified damages, attorneys fees, and punitive damages.

On October 21, 2004, the New York State Insurance Department (the ''NYSID'') issued a citation, amended on October 24, 2004 (the ''Amended Citation''), that ordered MMC and a number of its subsidiaries and affiliates that hold New York insurance licenses to appear at a hearing and show cause why regulatory action should not be taken against them. The amended citation charged the respondents with the use of fraudulent, coercive and dishonest practices; violations of Section 340 of the New York General Business Law relating to contracts or agreements for monopoly or in restraint of trade; and violations of the New York Insurance Law that resulted from unfair methods of competition and unfair or deceptive acts or practices. The Amended Citation contemplated a number of potential actions the NYSID could take, including the revocation of licenses held by the respondents.

On October 25, 2004, NYAG announced that it would not bring criminal charges against Marsh.

On January 30, 2005, Marsh entered into an agreement (the ''Settlement Agreement'') with NYAG and the NYSID to settle the NYAG Lawsuit and the Amended Citation.

Pursuant to the Settlement Agreement, Marsh will establish a fund of $850 million (the ''Fund''), payable over four years, for Marsh policyholder clients. A copy of the Settlement Agreement was previously disclosed as an exhibit to MMC's Current Report on Form 8-K dated January 31, 2005. As a general matter, U.S. policyholder clients who retained Marsh to place insurance between 2001 and 2004 that resulted in Marsh receiving market service revenue will be eligible to receive a pro rata distribution. No showing of fault, harm or wrongdoing is required in order to receive a distribution. No portion of the Fund represents a fine or penalty against Marsh and no portion of the Fund will revert to Marsh. Clients who voluntarily elect to participate in the Fund will tender a release relating to the matters alleged in the NYAG Lawsuit or the Amended Citation, except for claims which are based upon, arise out of or relate to the purchase or sale of Marsh securities. The Settlement Agreement further provides that Marsh will not seek or accept indemnification pursuant to any insurance policy for amounts payable pursuant to the Settlement Agreement.

MMC has recorded a reserve of $850 million in 2004 for the amount to be paid into the Fund in accordance with the Settlement Agreement. In addition, MMC recorded a charge of $16 million for the expected cost to calculate and administer payments out of the Fund.

Marsh also agreed to undertake the following business reforms within 60 days of the date of the Settlement Agreement:

a. Marsh will accept compensation for its services in placing, renewing, consulting on or servicing any insurance policy only by a specific fee paid by the client; or by a specific percentage commission on premium to be paid by the insurer; or a combination of both. The amount of such compensation must be fully disclosed to, and consented to in writing, by the client prior to the binding of any policy;

b. Marsh must give clients prior notification before retaining interest earned on premiums collected on behalf of insurers;

c. In placing, renewing, consulting on or servicing any insurance policy, Marsh will not accept from or request of any insurer any form of contingent compensation;

d. In placing, renewing, consulting on or servicing any insurance policy, Marsh will not knowingly use wholesalers for the placement, renewal, consultation on or servicing of insurance without the agreement of its client;

e. Prior to the binding of an insurance policy, Marsh will disclose to clients all quotes and indications sought or received from insurers, including the compensation to be received by Marsh in connection with each quote. Marsh also will disclose to clients at year-end Marsh's compensation in connection with the client's policy; and

f. Marsh will implement company-wide written standards of conduct relating to compensation and will train relevant employees in a number of subject matters, including business ethics, professional obligations, conflicts of interest, anti-trust and trade practices compliance, and record keeping.

The MMC Board of Directors has established a committee of the Board to monitor compliance with the standards of conduct regarding compensation from insurers and will make quarterly reports to the Board of the results of its monitoring activity for a period of five years.

The Settlement Agreement further provides that Marsh reserves the right to request that NYAG and the NYSID modify the Settlement Agreement if compliance with any portion thereof proves impracticable.

Though Mercer Inc. (''Mercer'') was not a defendant in the NYAG Lawsuit, U.S. policyholder clients that retained Mercer to place, renew, consult on or service insurance between 2001 and 2004 that related to Mercer receiving contingent commissions or overrides are eligible to participate in the Fund.

On January 6, 2005, NYAG filed a felony complaint against former Marsh employee Robert Stearns as to which Mr. Stearns has entered a guilty plea. On February 15, 2005 and February 24, 2005, former Marsh employees, Joshua Bewlay and Kathryn Winter, respectively, pled guilty to certain claims.

The Settlement Agreement does not resolve any investigation, proceeding or action commenced by NYAG or NYSID against any former or current employees of Marsh. As part of the Settlement Agreement, Marsh apologized for the improper conduct of certain employees. Marsh also agreed to continue to cooperate with NYAG and NYSID in connection with their ongoing investigations of the insurance industry, and in any related proceedings or actions. NYAG has publicly stated that additional charges and/or guilty pleas involving Marsh personnel and others are highly likely.

Investigations by the offices of attorneys general in 18 jurisdictions, and the departments of insurance or other state agencies in 29 jurisdictions remain pending.

Related Litigations

As of February 15, 2005, numerous lawsuits have been commenced against MMC, one or more of its subsidiaries, and its current and former directors and officers, relating to matters alleged in the NYAG Lawsuit, including the following:

- Fifteen putative class actions have been brought purportedly on behalf of policyholders in various federal courts, including the Southern and Eastern Districts of New York, the District of New Jersey, the Eastern District of Pennsylvania, the Northern District of Illinois, the Southern District of Texas and the Northern District of California. These actions generally include

statutory claims for violations of the Racketeering Influenced and Corrupt Organizations Act, federal and state antitrust laws and state unfair business practice laws, and common law claims for, among other things, breach of contract, fraud, breach of fiduciary duty, breach of duty of loyalty, and unjust enrichment. The complaints seek a variety of remedies including unspecified monetary damages, treble damages, disgorgement, restitution, punitive damages, injunctive relief, an accounting, and attorneys' fees and costs. The longest class period alleged in these policyholder cases begins on January 1, 1994 and continues to February 4, 2005. On February 17, 2005, the Judicial Panel on Multidistrict Litigation transferred a number of these federal cases to the District of New Jersey for coordination or consolidated pretrial proceedings. It is anticipated that all of the other federal cases brought by policyholders will be transferred as well. Five similar class or representative actions are pending in state courts — two in California, one in New York, one in Massachusetts and one in Texas. Two putative class actions are pending in Canada. There are at least two actions brought by individual policyholders and additional suits may be filed by other policyholders.

- On January 21, 2005, the State of Connecticut commenced a lawsuit against Marsh challenging Marsh's conduct in connection with the placement of a loss portfolio transfer of workers' compensation claims for the State of Connecticut's Department of Administrative Services. The complaint alleges that Marsh violated Connecticut's Unfair Trade Practices Act by, among other things, failing to disclose a $50,000 payment Marsh received from the insurer in connection with the transfer. The complaint seeks remedies that include an accounting, actual and punitive damages, and the costs of investigation and conduct of the lawsuit.

- Four purported class actions on behalf of individuals and entities who purchased or acquired MMC's publicly-traded securities during the purported class periods are pending in the United States District Court for the Southern District of New York. The purported class periods extend from October 15, 1999 to October 14, 2004. These complaints allege, among other things, that MMC inflated its earnings during the class period by engaging in unsustainable business practices as alleged in the NYAG Lawsuit. These complaints further allege, among other things, that defendants deceived the investing public regarding MMC's business, operations, management, and the intrinsic value of MMC's stock, and caused the plaintiffs and other members of the purported class to purchase MMC's securities at artificially inflated prices. The complaints allege, among other things, that MMC failed to disclose that the revenue derived from MSA agreements with insurers was part of an unlawful scheme, which could not be sustained and which exposed the Company to significant regulatory sanctions, and that MMC failed to disclose certain alleged anti-competitive and illegal practices, such as ''bid rigging'' and soliciting fictitious quotes, at MMC's subsidiaries. The complaints further allege that MMC's revenues and earnings would have been significantly lower had MMC's subsidiaries not engaged in these allegedly unlawful business practices. The complaints contain factual allegations similar to those asserted in the NYAG Lawsuit and include claims for violations of Section 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 based on the company's allegedly false or incomplete disclosures and seek unspecified compensatory damages and attorneys' fees. On January 26, 2005, the United States District Court for the Southern District of New York issued an order consolidating these complaints into a single proceeding and appointing co-lead plaintiffs and co-lead counsel to represent the purported class. On February 18, 2005, the Court entered an order requiring the co-lead plaintiffs to file a consolidated complaint by April 19, 2005, and providing that the Company will have until July 5, 2005 to answer or otherwise respond to the consolidated complaint.

- Twelve shareholder derivative actions are pending against MMC's current and former directors and officers in the Court of Chancery of the State of Delaware, the United States District Court for the Southern District of New York and the New York Supreme Court for New York County. These 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 breaches of fiduciary duty, and must contribute to or indemnify MMC for any damages MMC has suffered. MMC has also received six demand letters from shareholders 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.

- Nineteen purported class actions alleging violations of the Employee Retirement Income Security Act (''ERISA'') have been filed in the United States District Court for the Southern District of New York on behalf of participants in one or more MMC and Putnam sponsored employee benefit plans (the ''Plans''). The purported class periods vary, with the longest alleged class period extending from October 1, 1998 to February 10, 2005. These complaints allege, among other things that, in view of the allegedly fraudulent bids and the receipt of contingent commissions pursuant to the Agreements, the defendants knew or should have known that the investment of the Plans' funds in MMC stock was imprudent. These complaints assert claims for violations of ERISA based on, among other things, the alleged failure to manage the Plans' assets properly, to monitor the Plans' fiduciaries, to provide complete and accurate information to participants and beneficiaries of the Plans, and to avoid conflicts of interest and prohibited transactions. The complaints seek, among other things, unspecified compensatory damages, restitution, disgorgement, injunctive relief and attorneys' fees. 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 MMC stock price declined upon the announcement of the NYAG Lawsuit from approximately $45 per share immediately prior to such announcement to a low of $22.75 after such announcement. On February 9, 2005, the Court issued an order consolidating these complaints into a single proceeding and appointing co-lead plaintiffs and lead counsel to represent the purported class. The order requires plaintiffs' counsel to confer on the timing of a consolidated complaint and submit a proposed scheduling order to the court.

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 governmental entities in a number of jurisdictions (other than New York) that relate to the allegations in the NYAG Lawsuit. As of February 15, 2005, offices of attorneys general in 18 jurisdictions have issued one or more requests for information or subpoenas calling for the production of documents or for witnesses to provide testimony. Subpoenas, letters of inquiry and other information requests have been received from departments of insurance or other state agencies in 29 jurisdictions. MMC and its subsidiaries are cooperating with these requests from regulators. Also, in Australia, the Australian Securities and Investments Commission (ASIC) has requested information and documents from insurers and brokers, including Marsh, as part of an examination of brokers' remuneration practices. It is possible that MMC or its subsidiaries could face administrative proceedings or other regulatory actions or penalties, including, without limitation, actions to revoke or suspend their insurance licenses.

Putnam-Related Matters

Regulatory Matters

- On October 28, 2003, the Securities and Exchange Commission (''the SEC'') commenced a civil administrative and cease and desist proceeding against Putnam under the Investment Advisers Act of 1940 and the Investment Company Act of 1940. On November 13, 2003, pursuant to an agreement with Putnam, the SEC entered findings of fact, which Putnam neither admitted nor denied, that Putnam had violated the Investment Advisers Act of 1940 and the Investment

Company Act of 1940. The order imposed partial relief, including final censure, remedial undertakings, and a requirement that Putnam cease and desist from engaging in certain practices. The SEC asserted that, since 1998, at least six of Putnam's investment management employees had engaged in excessive short-term trading of Putnam mutual funds in their personal accounts and that four of these employees had engaged in trading in funds over which they had had investment decision-making responsibilities and access to non-public information regarding their funds' portfolios. The SEC further found that Putnam had failed to disclose this potentially self-dealing securities trading to the trustees or shareholders of the mutual funds it manages, had failed to take adequate steps to detect and deter such trading activity through internal controls and had failed in its supervision of these investment management professionals. Under the terms of the order, Putnam agreed to a number of remedial actions, including new employee trading restrictions, enhanced employee trading compliance, determination by an independent assessment consultant of the amount of restitution that Putnam would be required to make mutual fund investors whole for losses attributable to excessive short-term trading by Putnam employees, the retention of an independent compliance consultant, the undertaking of periodic compliance reviews, and certification of compliance with the SEC. On April 8, 2004, Putnam entered into a settlement of those charges, under which Putnam was required to pay $5 million in restitution plus a civil monetary penalty of $50 million. The settlement provided that if the restitution calculated by the independent assessment consultant under the SEC order exceeded $10 million, Putnam would be responsible for paying the excess.

On October 28, 2003, the Secretary of the Commonwealth of Massachusetts (''Massachusetts Securities Division'') commenced a civil administrative proceeding against Putnam and two of its employees alleging violations of the state's securities law anti-fraud provisions. On April 8, 2004, simultaneously and in conjunction with the settlement of the above-referenced SEC proceeding, the Massachusetts Securities Division entered a Consent Order in final settlement of those charges. That Consent Order included a cease and desist order, and required Putnam to pay $5 million in restitution and an administrative fine of $50 million. The Consent Order provided that if the restitution calculated by the independent assessment consultant under the Massachusetts order exceeded $15 million, Putnam would be responsible for paying the excess. The restitution called for by the Consent Order will be distributed by the same independent assessment consultant appointed pursuant to the November 13, 2003 and April 8, 2004 SEC orders, acting in his capacity as the independent distribution consultant under the Orders.

On March 3, 2005, the independent assessment consultant issued his assessment reports (dated March 2, 2005) under the SEC orders and the Massachusetts Consent Order. In the reports, the independent assessment consultant concluded that $108.5 million is the total amount of restitution payable by Putnam to fund shareholders. Putnam will pay $25 million of this amount from the amounts previously made available for restitution under the SEC and Massachusetts orders, and has recorded a charge for the additional $83.5 million in the fourth quarter of 2004. In addition to the $108.5 million in restitution, Putnam fund shareholders will also receive a distribution of $45 million, which will be taken from the civil penalty Putnam previously paid to the SEC and does not reflect an additional payment. The independent assessment consultant, in his capacity as the independent distribution consultant under the April 8, 2004 SEC order and the Massachusetts Consent Order, is continuing his work on a distribution plan that will provide for the distribution of the restitution amounts described above to Putnam fund shareholders. Putnam will incur additional costs in connection with the implementation of the distribution plan.

In a separate action, the SEC is seeking an injunction against two of the six investment management employees referenced above. These six individuals are no longer employed by Putnam.

In late 2003 and early 2004, Putnam received initial document subpoenas or requests for information from the United States Attorney for the District of Massachusetts, the Florida Department of Financial Services, the Office of the New York State Attorney General, Offices of the Secretary of State and the State Auditor for the State of West Virginia, the Vermont Securities Division, the National Association of Securities Dealers and the U.S. Department of Labor (''Department of Labor'') inquiring into, among other things, matters that are the subject of the SEC and Massachusetts actions described above.

- In connection with its investigation of certain brokerage matters, the staff of the Philadelphia district office of the SEC questioned whether, in years prior to 2004, Putnam had fully and effectively disclosed its practices for executing securities trades through broker-dealers that also sold Putnam mutual funds. Putnam ceased directing brokerage to broker-dealers in connection with the sale of fund shares as of January 1, 2004. Putnam and the Philadelphia office negotiated an offer of settlement under which Putnam would pay a civil penalty in the amount of $40 million and disgorgement in the amount of $1, and the total amount would be paid to certain Putnam funds. Discussions with the staff of the SEC with respect to this offer are ongoing, and the offer is subject to final documentation and acceptance by the staff and the Commissioners of the SEC. Putnam has also received requests for information from the Department of Labor with respect to the foregoing.

- In the Spring of 2004, Putnam received initial document requests and subpoenas from the Massachusetts Securities Division, the Office of the New York State Attorney General, the SEC, and the Department of Labor relating to plan expense reimbursement agreements between Putnam and certain multi-employer deferred compensation plans that are Putnam clients, and also relating to Putnam's relationships with consultants retained by multi-employer deferred compensation plans. The Massachusetts Securities Division has taken testimony from a number of Putnam employees relating to these matters.

- The Enforcement Staff of the SEC's Boston Office is currently investigating certain matters that arose in the defined contribution plan administration business formerly conducted by Putnam Fiduciary Trust Company (''PFTC''). Putnam also has received requests for information about certain of these matters from the Massachusetts Securities Division and the Department of Labor. One of the matters relates to the manner in which certain operational errors were corrected in connection with a January 2001 transfer and investment of assets on behalf of a 401(k) defined contribution plan. The manner in which these errors were corrected affected the plan and five of the Putnam mutual funds in which certain plan assets were invested. Putnam has made restitution to the plan and the affected funds. Putnam also has made a number of personnel changes, including replacing senior managers, and has implemented changes in procedures. A second matter relates to the source and use of funds paid to a third-party vendor by PFTC in exchange for information consulting services. Putnam has re-processed the payment of these consulting expenses in accordance with Putnam's corporate expense payment procedures.

  On or about September 9, 2004, the SEC issued a Formal Order directing an investigation into the two matters described above and designating officers to take testimony in furtherance of this investigation. In addition, on or about September 29, 2004, the Examination Staff of the SEC's Boston District Office communicated to Putnam and to the Board of Trustees of the Putnam mutual funds the Examination Staff's belief that Putnam and certain of its employees may have violated certain provisions of federal law in connection with these two matters. The Examination Staff has requested that Putnam provide additional information regarding these matters and a description of the steps Putnam has taken or intends to take with respect to these matters, and Putnam has undertaken to do so in connection with the Enforcement Staff's ongoing investigation. It is possible that the Enforcement Staff may take enforcement action with respect to these matters.

- On March 2, 2004, Putnam received a request for information from the Department of Labor relating to investments by the Putnam Profit Sharing Retirement Plan and certain discretionary ERISA accounts in Putnam mutual funds that pay 12b-1 fees. On October 6, 2004 the Department of Labor indicated its preliminary belief that, in making such investments, Putnam may have violated certain provisions of ERISA. Putnam has made a written submission to the Department of Labor addressing these issues. Putnam has also responded to requests for information from the Department of Labor regarding PFTC's treatment of gains generated by transaction processing errors made by PFTC in connection with its administration of defined contribution plans. Putnam has implemented new procedures for handling such gains and intends to make restitution to certain plans pursuant to a methodology that has been disclosed to the Department of Labor. In 2003, Putnam provided a reserve at approximately $3 million in connection with such restitution.
- Since December 2003, Putnam has received various requests for information from the Department of Labor regarding the Putnam Profit Sharing Retirement Plan, including requests for information relating to (i) Plan governance, (ii) Plan investments, including investments in MMC stock, (iii) the purported ERISA class actions relating to MMC's receipt of contingent commissions and other matters, which are discussed above, (iv) the market timing-related ''ERISA Actions,'' which are discussed below; and (v) the suspensions of trading in MMC stock imposed by Putnam on its employees in October and November 2004.
- Commencing on March 5, 2002, PFTC received a number of document requests, subpoenas for the production of documents or testimony and requests for interviews from the Department of Labor relating to PFTC's role as the directed trustee of certain Global Crossing retirement accounts.
- The Fort Worth office of the SEC has raised issues about whether the current structure of the Putnam Research Fund's investment management fee, which includes a performance component in addition to a base fee, fully complies with SEC regulations concerning performance fees. Putnam is currently engaged in discussions with the staff of the SEC regarding possible adjustments to the fee structure. Retroactive application of such adjustments over the period since April 1, 1997 (the period during which the performance fee has been in effect) would result in a reduction in aggregate management fees for that period. In the fourth quarter of 2004 Putnam provided a reserve of approximately $2 million for this matter.

Putnam is fully cooperating with the regulatory authorities in connection with these matters.

''Market-Timing'' Related Litigation. As of February 15, 2005, MMC and Putnam have received complaints in over 70 civil actions based on allegations of ''market-timing'' and in some cases ''late trading'' activities. These actions were filed in courts in New York, Massachusetts, California, Illinois, Connecticut, Delaware, Vermont, Kansas, and North Carolina. 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 on September 29, 2004. MMC and Putnam intend to move to dismiss the non-ERISA consolidated amended complaints on February 25, 2005 and the ERISA-related complaints on March 25, 2005.

The consolidated amended complaints currently pending in federal court in Maryland are as follows:

- MMC and Putnam, along with certain of their former officers and directors, have been 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 family of 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.

- MMC and Putnam have also been named as defendants in a consolidated amended complaint filed on behalf of a putative class of investors in certain Putnam funds, and in another consolidated amended complaint in which certain fund investors purport to assert derivative claims on behalf of all Putnam funds. These 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 derivative suit seeks additional relief, including termination of the investment advisory contracts between Putnam Investment Management 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 addition to MMC and Putnam, various Putnam affiliates, certain trustees of 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 Putnam funds are named as defendants. The complaints allege violations of sections 11, 12(a), and 15 of the Securities Act of 1933, sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, sections 36(a) and (b), 47 and 48(a) of the Investment Company Act of 1940, and sections 206 and 215 of the Investment Advisors Act, as well as state law claims for breach of fiduciary duty, breach of contract, unjust enrichment and civil conspiracy. Putnam has also been named as a defendant in its capacity as a sub-advisor to a non-Putnam fund in a class action suit pending in the District of Maryland against another mutual fund complex.

- 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 as a result of a failure of oversight of market-timing in Putnam mutual funds. The MMC Derivative Action alleges that, as a result of the alleged violation of defendants' fiduciary duties, MMC suffered damages. The suit seeks unspecified damages and equitable relief. MMC has also received two demand letters from stockholders asking the MMC Board of Directors to take action to remedy alleged breaches of duty by certain officers, directors, trustees or employees of MMC or Putnam, based on allegations of market-timing in the Putnam funds. The first letter asked to have the Board of Trustees of the Putnam Funds, as well as the MMC Board, take action to remedy those alleged breaches of fiduciary duty. The second letter demanded that the Company commence legal proceedings against the MMC directors, the senior management of Putnam, the Putnam Trustees and MMC's auditor to remedy those alleged breaches of fiduciary duty.

- 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 Putnam's mutual fund shares was imprudent and that the defendants breached their fiduciary duties to the plan participants in making these investments. The ERISA Actions seek unspecified damages, as well as 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.

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.

Other Putnam Litigation

- MMC, Putnam Investment Management, LLC 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 the mutual funds in which plaintiffs purportedly owned shares. Plaintiffs seek, among other things, to recover the compensation paid to defendants by the funds for 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. On August 13, 2004, defendants filed a motion to dismiss the complaint for failure to state a claim for relief. The motion has been fully briefed and argued and remains before the court for decision.
- Putnam has also been notified by certain former institutional clients that they are considering possible claims relating to certain alleged disclosure failures, misrepresentations and purported breaches of investment management agreements.
- Putnam may be subject to employment-related claims by former employees who left Putnam in connection with various regulatory inquiries, including claims relating to deferred compensation. A former Putnam senior executive has notified Putnam of his intention to initiate an arbitration proceeding against Putnam arising from the circumstances of his separation from Putnam. To date, no such action has been commenced.
- Commencing on July 9, 2004, PFTC, as well as Cardinal Health and a number of other Cardinal-related fiduciaries, were named as defendants in a litigation pending in the United States District Court for the Southern District of Ohio relating to the allegedly imprudent investment of retirement plan assets in Cardinal stock in the Cardinal Health Profit Sharing, Retirement and Savings Plan and its predecessor plans. PFTC was a directed trustee of this plan. Plan participants have sued, alleging that plan assets were imprudently invested in Cardinal stock when the market price of Cardinal stock was artificially inflated and the plan fiduciaries failed to disclose material information necessary for participants to make informed decisions concerning investments in such stock.

Other Governmental Inquiries

The SEC is examining the practices, compensation arrangements and disclosures of consultants that provide services to sponsors of pension plans or other market participants, including among other things, practices with respect to advice regarding the selection of investment advisors to manage plan assets. Mercer Investment Consulting, Inc. has received requests for information from the SEC in connection with this examination and is fully cooperating.

MMC, Putnam and Mercer have been advised by the Boston Office of the SEC that it is conducting an informal investigation of a program pursuant to which companies within the MMC group refer business to one another and receive compensation for such referrals. In connection with this

investigation, MMC, Putnam and Mercer have received requests for information from the SEC and are fully cooperating.

On February 10, 2005, Mercer Investment Consulting received a letter from the West Virginia Securities Commission seeking documents relating to services provided by Mercer Investment Consulting and related Mercer entities to the State of West Virginia and its Public Retirement System. Mercer is cooperating fully with this request.

On February 8, 2005 the Department of Labor served a subpoena on MMC seeking documents pertaining to services provided by MMC subsidiaries to employee benefit plans, including but not limited to documents relating to how such subsidiaries have been compensated for such services. The request also seeks information concerning market service agreements and the solicitation of bids from insurance companies in connection with such services. MMC is fully cooperating with the Department of Labor.

On January 6, 2005, MMC received a request for information from the Pension Benefit Guaranty Corporation (the ''PBGC''). The PBGC requested information regarding the funded status of the Marsh & McLennan Companies, Inc. Retirement Plan and certain financial and business developments at MMC since the filing of the complaint by the NYAG. MMC is fully cooperating with the PBGC's request for information.

On or about March 25, 2004, and January 6, 2005, Mercer received requests for documents and testimony from the U.S. Department of Justice in connection with an industry-wide investigation of potential anti-competitive agreements or understandings among providers of actuarial consulting services relating to limitations of liability and other contractual terms or conditions of engagement. Mercer is cooperating fully with this investigation.

On December 21, 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. MMC is fully cooperating in the investigation.

Other Matters

- MMC and its subsidiaries are subject to various other claims, lawsuits and proceedings in the ordinary course of business. Such claims and lawsuits consist principally of alleged errors and omissions in connection with the placement of insurance or reinsurance and in rendering investment and consulting services. Some of these matters seek damages, including punitive damages, in amounts that could, if assessed, be significant. To the extent insurance coverage is available, the terms of any applicable coverage varies by policy year, but the self insurance element has increased substantially over the past several years. MMC utilizes actuarial estimates and case level reviews to set loss reserves on the self-insured portion of its potential exposure in these cases. To the extent that expected losses exceed MMC's self-insured retention, an asset is recorded for the estimated amount recoverable under its insurance programs.
- On February 7, 2005, Olwyco LLC (''Olwyco'') commenced a lawsuit in the United States District Court for the Southern District of New York, against MMC, Mercer, and certain of MMC's former directors alleging violations of sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, breach of representations and warranties, breach of contract, and unjust enrichment. The lawsuit arises from a February 21, 2003 agreement in which Mercer agreed to purchase substantially all of Olwyco's assets and, as part of the consideration, to transfer to Olwyco — in April of 2005, 2006 and 2007 — a fixed number of shares of MMC stock. Olwyco alleges that the price of MMC stock at the time of the agreement

was inflated artificially as a result of a failure to disclose alleged violations of law that later became the subject of the NYAG Lawsuit and the Putnam ''Market-Timing'' litigation. Olwyco alleges that it will receive substantially less than the agreed-upon purchase price and that it has been damaged in an amount not less than $70 million, exclusive of attorneys' fees and costs.

- As part of the combination with Sedgwick, 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, 2004, 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 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 guaranty in exchange for MMC's agreement to post an evergreen letter of credit that is available to pay claims on E&A policies issued through the ILU and incepting between July 3, 1980 and October 6, 1983. A representative of the ILU has indicated that potentially significant claims could be made in the coming months against the letter of credit.

The proceedings described in this Note 15 on Claims, Lawsuits and Other Contingencies seek 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, at the present time, MMC's management is unable to provide a reasonable estimate of the range of possible loss attributable to the foregoing proceedings 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 are in their early stages, the sufficiency of the complaints has not yet been tested in most of the cases, and, in many of the cases, only limited discovery, if any, has taken place. Without knowledge of which, if any, claims will survive, it is not possible to reasonably estimate the possible loss or range of loss.

16. SEGMENT INFORMATION

In 2004, MMC operated in three principal business segments based on the services provided. Segment performance is evaluated based on segment operating income, which includes investment income and losses attributable to each segment, directly related expenses, minority interest, and charges or credits related to integration and restructuring but excludes corporate expenses. The accounting policies of the segments are the same as those used for the consolidated financial statements described in Note 1. Revenues are attributed to geographic areas on the basis of where the services are performed.

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
2004–					
Risk and Insurance Services	**$ 7,391[(a)]**	**$ 252**	**$12,497**	**$264**	**$258**
Investment Management	**1,757**	**90**	**2,038**	**100**	**61**
Consulting	**3,070**	**330**	**3,161**	**78**	**43**
Total Operating Segments	**$12,218**	**$ 672**	**$17,696**	**$442**	**$362**
Corporate/Eliminations	**(59)[(b)]**	**(24)[(c)]**	**641[(d)]**	**14**	**14**
Total Consolidated	**$12,159**	**$ 648**	**$18,337**	**$456**	**$376**
2003–					
Risk and Insurance Services	$ 6,868[(a)]	$1,751	$ 9,625	$ 203	$ 281
Investment Management	2,001	497	2,377	106	56
Consulting	2,719	363	2,786	70	59
Total Operating Segments	$ 11,588	$2,611	$ 14,788	$ 379	$ 396
Corporate/Eliminations	(44)[(b)]	(115)[(c)]	265[(d)]	12	40
Total Consolidated	$ 11,544	$2,496	$ 15,053	$ 391	$ 436
2002–					
Risk and Insurance Services	$ 5,910[(a)]	$1,490	$ 8,571	$ 183	$ 257
Investment Management	2,166	560	2,144	108	82
Consulting	2,364	326	2,080	58	53
Total Operating Segments	$ 10,440	$2,376	$ 12,795	$ 349	$ 392
Corporate/Eliminations	(52)[(b)]	(102)[(c)]	1,060[(d)]	10	31
Total Consolidated	$ 10,388	$2,274	$ 13,855	$ 359	$ 423

(a) Includes interest income on fiduciary funds ($130 million in 2004, $114 million in 2003 and $118 million in 2002).
(b) Represents elimination of intercompany revenue among segments.
(c) Details provided in the chart below.
(d) Corporate assets primarily include unallocated goodwill, insurance recoverables, prepaid pension and a portion of MMC's headquarters building.

A reconciliation of segment operating income to operating income in the Consolidated Statements of Income is as follows:

(In millions of dollars)	**2004**	2003	2002
Income Before Income Taxes and Minority Interest:			
Total segment operating income	**$672**	$2,611	$2,376
Corporate expense	**(39)**	(140)	(123)
Reclassification of minority interest	**15**	25	21
Operating income	**$648**	$2,496	$2,274

Operating Segment Revenue by Product is as follows:

(In millions of dollars)	**2004**	2003	2002
Risk & Insurance Services			
Risk Management and Insurance Broking	**$ 4,805**	$ 4,881	$ 4,287
Reinsurance Broking and Services	**842**	797	652
Risk Consulting & Technology	**716**	300	124
Related Insurance Services	**1,028**	890	847
Total Risk & Insurance Services	**7,391**	6,868	5,910
Investment Management	**1,757**	2,001	2,166
Consulting			
Retirement Services	**1,356**	1,203	1,115
Management and Organizational Change	**585**	449	280
Health Care & Group Benefits	**397**	388	358
Human Capital	**407**	384	340
Economic	**166**	150	130
	2,911	2,574	2,223
Reimbursed Expenses	**159**	145	141
Total Consulting	**3,070**	2,719	2,364
Total Operating Segments	**$12,218**	$11,588	$10,440
Corporate/Eliminations	**(59)**	(44)	(52)
Total	**$12,159**	$11,544	$10,388

Information by geographic area is as follows:

(In millions of dollars)	**2004**	2003	2002
Geographic Area:			
External Revenue–			
United States	**$ 7,294**	$ 7,371	$ 7,005
United Kingdom	**2,083**	1,760	1,499
Continental Europe	**1,456**	1,241	950
Other	**1,385**	1,216	986
	$12,218	$11,588	$10,440
Corporate/Eliminations	**(59)**	(44)	(52)
	$12,159	$11,544	$10,388
Fixed Assets–			
United States	**$ 906**	$ 921	$ 914
United Kingdom	**308**	308	261
Continental Europe	**85**	78	64
Other	**88**	82	69
	$ 1,387	$ 1,389	$ 1,308

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Marsh & McLennan Companies, Inc. and subsidiaries (the ''Company'') as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. 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, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

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, 2004, 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 March 7, 2005 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.

Deloitte & Touche LLP

New York, New York
March 7, 2005

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 included 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, 2004. 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, 2004.

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, 2004.

Michael G. Cherkasky
President and
Chief Executive Officer
March 7, 2005

Sandra S. Wijnberg
Senior Vice President and
Chief Financial Officer
March 7, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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, 2004, 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, 2004, 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, 2004, 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, 2004 of the Company and our report dated March 7, 2005 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

New York, New York
March 7, 2005

SELECTED QUARTERLY FINANCIAL DATA AND SUPPLEMENTAL INFORMATION (UNAUDITED)

(In millions of dollars, except per share figures)	Revenue	Operating Income	Net Income	Net Income Per Share(a) Basic	Net Income Per Share(a) Diluted	Dividends Paid Per Share
2004:						
First quarter	**$ 3,196**	**$ 773**	**$ 446**	**$ .85**	**$ .83**	**$ .31**
Second quarter	**3,028**	**632**	**389**	**.75**	**.73**	**.31**
Third quarter	**2,950**	**128**	**21**	**.04**	**.04**	**.34**
Fourth quarter	**2,985**	**(885)**	**(680)**	**(1.29)**	**(1.29)**	**.34**
	$12,159	**$ 648**	**$ 176**	**$ .33**	**$ .33**	**$1.30**
2003:						
First quarter	$ 2,844	$ 717	$ 443	$ .83	$ .81	$ .28
Second quarter	2,854	599	365	.68	.66	.28
Third quarter	2,823	593	357	.67	.65	.31
Fourth quarter	3,023	587	375	.71	.69	.31
	$ 11,544	$2,496	$1,540	$ 2.89	$ 2.81	$ 1.18
2002:						
First quarter	$ 2,619	$ 687	$ 418	$ .76	$ .73	$ .265
Second quarter	2,601	565	336	.62	.60	.265
Third quarter	2,540	512	299	.56	.55	.28
Fourth quarter	2,628	510	312	.58	.57	.28
	$ 10,388	$2,274	$1,365	$ 2.52	$ 2.45	$ 1.09

(a) Net income per share is computed independently for each of the periods presented. Accordingly, the sum of the quarterly net income per share amounts does not equal the total for the year in 2004.

All per share amounts have been restated for a two-for-one stock distribution of MMC common stock, which was issued as a stock dividend on June 28, 2002.

As of February 25, 2005, there were 11,067 stockholders of record.

FIVE-YEAR STATISTICAL SUMMARY OF OPERATIONS

For the Years Ended December 31, *(In millions, except per share figures)*	**2004**	2003	2002	2001	2000	Compound Growth Rate 1999-2004
Revenue:						
Risk and Insurance Services	**$ 7,391**	$ 6,868	$ 5,910	$ 5,152	$ 4,780	10%
Investment Management	**1,757**	2,001	2,166	2,409	3,242	(8)%
Consulting	**3,070**	2,719	2,364	2,308	2,286	8%
Corporate/Eliminations[c]	**(59)**	(44)	(52)	(43)	(45)	
Total Revenue	**12,159**	11,544	10,388	9,826	10,263	6%
Expenses:						
Compensation and Benefits	**6,714**	5,926	5,199	4,877	4,941	8%
Other Operating Expenses	**3,887**	3,156	2,967	3,229	3,188	4%
Regulatory and Other Settlements	**969**	10	—	—	—	
Corporate/Eliminations[c]	**(59)**	(44)	(52)	(43)	(45)	
Total Expenses	**11,511**	9,048	8,114	8,063	8,084	8%
Operating Income	**648[b]**	2,496	2,274	1,763[a]	2,179	(15)%
Interest Income	**21**	24	19	23	23	
Interest Expense	**(219)**	(185)	(160)	(196)	(247)	
Income Before Income Taxes and Minority Interest	**450**	2,335	2,133	1,590	1,955	(19)%
Income Taxes	**259**	770	747	599	753	
Minority Interest, Net of Tax	**15**	25	21	17	21	
Net Income	**$ 176**	$ 1,540	$ 1,365	$ 974	$ 1,181	(25)%
Basic Net Income Per Share Information:						
Net Income Per Share	**$ .33**	$ 2.89	$ 2.52	$ 1.77	$ 2.18	(25)%
Average Number of Shares Outstanding	**526**	533	541	550	543	
Diluted Net Income Per Share Information:						
Net Income Per Share	**$ .33**	$ 2.81	$ 2.45	$ 1.70	$ 2.05	(24)%
Average Number of Shares Outstanding	**535**	548	557	572	569	
Dividends Paid Per Share	**$ 1.30**	$ 1.18	$ 1.09	$ 1.03	$ .95	9%
Return on Average Stockholders' Equity	**3%**	29%	27%	19%	25%	
Year-end Financial Position:						
Working capital	**$ 152**	$ 189	$ (199)	$ (622)	$ (855)	
Total assets	**$18,337**	$15,053	$13,855	$13,769	$14,144	
Long-term debt	**$ 4,691**	$ 2,910	$ 2,891	$ 2,334	$ 2,347	
Stockholders' equity	**$ 5,056**	$ 5,451	$ 5,018	$ 5,173	$ 5,228	
Total shares outstanding (excluding treasury shares)	**527**	527	538	548	552	
Other Information:						
Number of employees	**63,900**	60,400	59,400	57,800	57,000	
Stock price ranges –						
U.S. exchanges – High	**$ 49.69**	$ 54.97	$ 57.30	$ 59.03	$ 67.85	
– Low	**$ 22.75**	$ 38.27	$ 34.61	$ 39.70	$ 35.25	

(a) Includes charges related to September 11 and restructuring costs of $396 million.
(b) Includes restructuring costs of $337 million.
(c) Certain balances have been reclassified to conform with current presentation.

See Management's Discussion and Analysis of Financial Condition and Results of Operations for discussion of significant items affecting the results of operations in 2004 and 2003.

BOARD OF DIRECTORS AND CORPORATE OFFICERS

BOARD OF DIRECTORS

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, MMC
Chairman and Chief Executive Officer, Marsh

Robert F. Erburu
Former Chairman,
The Times Mirror Company

Oscar Fanjul
Vice Chairman and
Chief Executive Officer, Omega Capital
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The Rt. Hon. Lord Lang of Monkton, DL
Morton O. Schapiro

Executive
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The Rt. Hon. Lord Lang of Monkton, DL
Adele Simmons

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Executive Resources and Development

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Chairman, MMC International

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Mercer Human Resource Consulting

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Guy Carpenter

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International Advisory Board Chairman
President and Chief Executive Officer, MMC
Chairman and Chief Executive Officer, Marsh

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Chairman, Arab Fund for Economic
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Rolf-E. Breuer (Germany)
Chairman, Deutsche Bank AG

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Master, University College, Oxford
Former Secretary of the Cabinet and
Head of the Home Civil Service

Mathis Cabiallavetta (Switzerland)
Chairman, MMC International

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

John R. Evans (Canada)
Chairman, Torstar Corporation

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Chief Executive Officer, Omega Capital
Honorary Chairman, Repsol YPF

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Monetary Affairs
Former Chairman, The Bank of Tokyo

Jules Kroll (United States)
Vice Chairman, Marsh

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)
President, British Bankers Association
Former Chairman, Barclay's Group
Former Permanent Secretary to HM
Treasury

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 2005 annual meeting of shareholders will be held at 10 a.m., Thursday, May 19, 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
(610) 382-7833

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, Extension: 7125
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:

Corporate Development
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, Pacific, 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, 2004. In 2004, after our annual meeting of stockholders, 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).

Complaints and Concerns Procedures
To report any issue relating to the accounting, internal accounting controls, or auditing practices of Marsh & McLennan Companies (including its subsidiaries and affiliates), you may contact the company by mail or telephone. To communicate with the company's independent directors, you may telephone or write to the chair, Directors and Governance Committee of the MMC Board of Directors. You may review the company's procedures for handling complaints and concerns of employees and other interested parties at www.mmc.com.

By mail:
Marsh & McLennan Companies, Inc.
P.O. Box 4974
New York, NY 10185-4974

By telephone:
MMC Ethics & Compliance Line
In Canada and the United States: (800) 381-2105
Outside Canada and the United States: Use your country's AT&T Direct® Service number to reach the MMC Ethics & Compliance Line toll-free.

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Marsh & McLennan Companies, Inc.
1166 Avenue of the Americas
New York, NY 10036
www.mmc.com