

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of report (Date of earliest event reported) June 11, 2007

Marsh & McLennan Companies, Inc.
(Exact Name of Registrant as Specified in Charter)

| | | |
|--|---|---|
| <u>Delaware</u> (State or Other Jurisdiction of Incorporation) | <u>1-5998</u> (Commission File Number) | <u>36-2668272</u> (IRS Employer Identification No.) |
| <u>1166 Avenue of the Americas, New York, NY</u> (Address of Principal Executive Offices) | | <u>10036</u> (Zip Code) |

Registrant's telephone number, including area code (212) 345-5000

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events

As disclosed in its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007, during such period Marsh & McLennan Companies, Inc. (“MMC”) classified its subsidiary Putnam Investments Trust (“Putnam”) as a discontinued operation. In order to reflect this classification, MMC has attached hereto as Exhibits 99.1, 99.2 and 99.3, respectively, amended presentations of the following sections of its Annual Report on Form 10-K for the fiscal year ended December 31, 2006:

- Item 6. Selected Financial Data;
- Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations; and
- Item 8. Financial Statements and Supplementary Data (including segment data and related disclosures contained in MMC’s audited consolidated financial statements at December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006).

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

12.1 Amended Ratio of Earnings to Fixed Charges

23.1 Consent of Deloitte & Touche LLP.

99.1 Amended Item 6. Selected Financial Data of MMC’s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

99.2 Amended Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations of MMC’s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

99.3 Amended Item 8. Financial Statements and Supplementary Data of MMC’s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MARSH & McLENNAN COMPANIES, INC.

By: /s/ Luciana Fato

Name: Luciana Fato

Title: Deputy General Counsel-Corporate &
Corporate Secretary

Date: June 11, 2007

EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Exhibit</u> |
|--------------------|--|
| 12.1 | Amended Ratio of Earnings to Fixed Charges |
| 23.1 | Consent of Deloitte & Touche LLP. |
| 99.1 | Amended Item 6. Selected Financial Data of MMC's Annual Report on Form 10-K for the fiscal year ended December 31, 2006. |
| 99.2 | Amended Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of MMC's Annual Report on Form 10-K for the fiscal year ended December 31, 2006. |
| 99.3 | Amended Item 8. Financial Statements and Supplementary Data of MMC's Annual Report on Form 10-K for the fiscal year ended December 31, 2006. |

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

MMC's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, including the disclosure therein that is amended by exhibits 99.1, 99.2 and 99.3 to this Current Report on Form 8-K, contains "forward-looking statements," as defined in the Private Securities Litigation Reform Act of 1995. These statements, which express management's current views concerning future events or results, use words like "anticipate," "assume," "believe," "continue," "estimate," "expect," "intend," "plan," "project" and similar terms, and future or conditional tense verbs like "could," "should," "will" and "would." For example, we may use forward-looking statements when addressing topics such as: the timing and expected impact of acquisitions and dispositions; future actions by regulators; the outcome of contingencies; changes in our business strategy; changes in our business practices and methods of generating revenue; the development and performance of our services and products; market and industry conditions, including competitive and pricing trends; changes in the composition or level of MMC's revenues; our cost structure and the outcome of restructuring and other cost-saving initiatives; share repurchase programs; and MMC's cash flow and liquidity.

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

- the economic and reputational impact of litigation and regulatory proceedings described in the notes to our financial statements;
- the fact that MMC's agreement to sell Putnam, announced on February 1, 2007, is subject to a number of closing conditions, some of which are outside of MMC's control, and we cannot be certain that the transaction will close as planned or that the announced sale price will not be adjusted pursuant to the terms of the sale agreement;
- Putnam's performance between now and the closing of the announced sale later in 2007, including the actual and relative investment performance of Putnam's mutual funds and institutional and other advisory accounts, Putnam's net fund flows and the level of Putnam's assets under management;
- our ability to effectively deploy MMC's proceeds from the sale of Putnam, and the timing of our use of those proceeds;
- the fact that our estimate of the dilutive impact of the sale of Putnam on MMC's future earnings per share is necessarily based on a set of current management assumptions, including assumptions about MMC's use of sale proceeds and the operating results of Putnam and MMC's other subsidiaries;
- our ability to achieve profitable revenue growth in our risk and insurance services segment by providing both traditional insurance brokerage services and additional risk advisory services;
- our ability to retain existing clients and attract new business, and our ability to retain key employees;
- revenue fluctuations in risk and insurance services relating to the net effect of new and lost business production and the timing of policy inception dates;
- the impact on risk and insurance services commission revenues of changes in the availability of, and the premiums insurance carriers charge for, insurance and reinsurance products, including the impact on premium rates and market capacity attributable to catastrophic events such as hurricanes;
- the impact on renewals in our risk and insurance services segment of pricing trends in particular insurance markets, fluctuations in the general level of economic activity and decisions by insureds with respect to the level of risk they will self-insure;
- the impact on our consulting segment of pricing trends, utilization rates, legislative changes affecting client demand, and the general economic environment;
- our ability to implement our restructuring initiatives and otherwise reduce or control expenses and achieve operating efficiencies, including our ability to generate anticipated savings and operational improvements from the actions we announced in September 2006;
- the impact of competition, including with respect to pricing and the emergence of new competitors;
- fluctuations in the value of Risk Capital Holdings' investments;

- our ability to make strategic acquisitions and dispositions and to integrate, and realize expected synergies, savings or strategic benefits from, the businesses we acquire;
- our exposure to potential liabilities arising from errors and omissions claims against us;
- our ability to meet our financing needs by generating cash from operations and accessing external financing sources, including the potential impact of rating agency actions on our cost of financing or ability to borrow;
- the impact on our operating results of foreign exchange fluctuations;
- changes in applicable tax or accounting requirements, including any potential income statement effects from the application of FIN 48 (“Accounting for Uncertainty in Income Taxes”) and SFAS 142 (“Goodwill and Other Intangible Assets”); and
- the impact of, and potential challenges in complying with, legislation and regulation in the jurisdictions in which we operate, particularly given the global scope of our businesses and the possibility of conflicting regulatory requirements across the jurisdictions in which we do business.

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

EXHIBIT 12.1

Marsh & McLennan Companies, Inc. and Subsidiaries
 Amended Ratio of Earnings to Fixed Charges
 (In millions, except ratios)

| | Years Ended December 31, | | | | |
|--|--------------------------|-------|-------|---------|---------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| <u>Earnings</u> | | | | | |
| Income before income taxes and minority interest | \$912 | \$302 | \$283 | \$1,771 | \$1,520 |
| Interest expense | 303 | 332 | 219 | 185 | 160 |
| Portion of rents representative of the interest factor | 170 | 149 | 153 | 141 | 119 |
| | \$1,385 | \$783 | \$655 | \$2,097 | \$1,799 |
| <u>Fixed Charges</u> | | | | | |
| Interest expense | \$303 | \$332 | \$219 | \$185 | \$160 |
| Portion of rents representative of the interest factor | 170 | 149 | 153 | 141 | 119 |
| | \$473 | \$481 | \$372 | \$326 | \$279 |
| Ratio of Earnings to Fixed Charges | 2.9 | 1.6 | 1.8 | 6.4 | 6.5 |

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the previously filed Registration Statements on Form S-8 (Registration File Nos. 2-58660, 33-32880, 33-48803, 33-48804, 33-48807, 33-54349, 33-59603, 33-63389, 333-35741, 333-35739, 333-29627, 333-41828, 333-41830, 333-41832, 333-69774, 333-69776, 333-69778, 333-107195 and 333-127637), in Registration Statements on Form S-3 (Registration File Nos. 333-67543, 333-108566 and 333-136820), and in Registration Statement on Form S-4 (Registration File No. 33-24124) of our report dated February 28, 2007, June 4, 2007 as to Notes 1, 2, 5, 6, 7, 8, 10, 12, 13, 17, and 18, relating to the financial statements of Marsh & McLennan Companies, Inc. and subsidiaries (which report expresses an unqualified opinion and includes explanatory paragraphs regarding the Company's changes in accounting for pension and postretirement benefits and share-based payments, as well as the retrospective adjustment of the financial statements for discontinued operations) appearing in the Current Report on Form 8-K of Marsh & McLennan Companies, Inc. and subsidiaries for the year ended December 31, 2006.

/s/ Deloitte & Touche LLP.

New York, New York
June 8, 2007

EXHIBIT 99.1

AMENDED ITEM 6. SELECTED FINANCIAL DATA OF MMC'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006.

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

| For the Years Ended December 31, (In millions except per share figures) | 2006(b)(c) | 2005 (b)(c) | 2004 (b)(c) | 2003 (b)(c) | 2002 (b)(c) | Compound Growth Rate 2001-2006 |
|--|----------------|----------------|----------------|-----------------|-----------------|---|
| Revenue: | | | | | | |
| Service Revenue | \$10,350 | \$9,902 | \$9,877 | \$9,156 | \$7,885 | 8 % |
| Investment Income (Loss) | 197 | 180 | 149 | 97 | 109 | 20 % |
| Total Revenue | 10,547 | 10,082 | 10,026 | 9,253 | 7,994 | 8 % |
| Expenses: | | | | | | |
| Compensation and Benefits | 6,515 | 6,327 | 6,073 | 5,094 | 4,422 | 10 % |
| Other Operating Expenses | 2,877 | 3,135 | 2,853 | 2,226 | 1,909 | 7 % |
| Regulatory and Other Settlements | — | 30 | 618 | — | — | |
| Total Expenses | 9,392 | 9,492 | 9,544 | 7,320 | 6,331 | 9 % |
| Operating Income | 1,155(a) | 590 (a) | 482 (a) | 1,933 | 1,663 | - |
| Interest Income | 60 | 44 | 20 | 23 | 17 | |
| Interest Expense | (303) | (332) | (219) | (185) | (160) | |
| Income Before Income Taxes and Minority Interest | 912 | 302 | 283 | 1,771 | 1,520 | (1) % |
| Income Taxes | 272 | 95 | 100 | 555 | 518 | |
| Minority Interest, Net of Tax | 8 | 6 | 8 | 8 | 7 | |
| Income From Continuing Operations | 632 | 201 | 175 | 1,208 | 995 | 1 % |
| Discontinued Operations, Net of Tax | 358 | 203 | 1 | 332 | 370 | (1) % |
| Net Income | \$ 990 | \$ 404 | \$ 176 | \$ 1,540 | \$ 1,365 | — |
| Basic Income Per Share Information: | | | | | | |
| Income From Continuing Operations | \$ 1.15 | \$ 0.37 | \$ 0.33 | \$ 2.27 | \$ 1.84 | 1 % |
| Income From Discontinued Operations | \$ 0.65 | \$ 0.38 | \$ — | \$ 0.62 | \$ 0.68 | (1) % |
| Net Income | \$ 1.80 | \$ 0.75 | \$ 0.33 | \$ 2.89 | \$ 2.52 | — |
| Average Number of Shares Outstanding | 549 | 538 | 526 | 533 | 541 | |
| Diluted Income Per Share Information: | | | | | | |
| Income From Continuing Operations | \$ 1.14 | \$ 0.37 | \$ 0.33 | \$ 2.21 | \$ 1.79 | 2 % |
| Income From Discontinued Operations | \$ 0.62 | \$ 0.37 | \$ — | \$ 0.60 | \$ 0.66 | (2) % |
| Net Income | \$ 1.76 | \$ 0.74 | \$ 0.33 | \$ 2.81 | \$ 2.45 | 1 % |
| Average Number of Shares Outstanding | 557 | 543 | 535 | 548 | 557 | |
| Dividends Paid Per Share | \$ 0.68 | \$ 0.68 | \$ 1.30 | \$ 1.18 | \$ 1.09 | (8) % |
| Return on Average Stockholders' Equity | 18% | 8 % | 3 % | 29% | 27 % | |
| Year-end Financial Position: | | | | | | |
| Working capital | \$ 1,058 | \$ 1,390 | \$ (258) | \$ 920 | \$ 1,105 | |
| Total assets | \$18,137 | \$17,892 | \$18,498 | \$15,053 | \$13,855 | |
| Long-term debt | \$ 3,860 | \$ 5,044 | \$ 4,691 | \$ 2,910 | \$ 2,891 | |
| Stockholders' equity | \$ 5,819 | \$ 5,360 | \$ 5,056 | \$ 5,451 | \$ 5,018 | |
| Total shares outstanding (net of treasury shares) | 552 | 546 | 527 | 527 | 538 | |
| Other Information: | | | | | | |
| Number of employees | 52,600 | 51,900 | 59,300 | 55,200 | 53,800 | |
| Stock price ranges— | | | | | | |
| U.S. exchanges – High | \$ 32.73 | \$ 34.25 | \$ 49.69 | \$ 54.97 | \$ 57.30 | |
| – Low | \$ 24.00 | \$ 26.67 | \$ 22.75 | \$ 38.27 | \$ 34.61 | |

- (a) Includes net restructuring costs of \$87 million, \$317 million and \$322 million in 2006, 2005 and 2004, respectively.
(b) Certain balances have been reclassified to conform with current presentation. See Note 1 to the Consolidated Financial Statements.
(c) Amended to reflect Putnam as a discontinued operation.

See Management's Discussion and Analysis of Financial Condition and Results of Operations, appearing under Amended Item 7 of this report, for discussion of significant items affecting our results of operations in 2006 and 2005.

AMENDED ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS) OF MMC'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006.

As discussed in Note 1 of these consolidated financial statements included in Amended Item 8, on February 1, 2007, MMC announced that it had entered into an agreement with Great West Lifeco Inc. ("GWL"), a majority owned subsidiary of Power Financial Corporation, pursuant to which GWL agreed to purchase Putnam Investments Trust for \$3.9 billion. Accordingly, we have amended the consolidated results of operations, segment data and related disclosures contained in this management's discussion and analysis and notes to the consolidated financial statements to reflect the results of Putnam as a discontinued operation.

General

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

MMC's business segments are based on the services provided. Risk and Insurance Services includes risk management and insurance and reinsurance broking and services, provided primarily by Marsh and Guy Carpenter. Risk Consulting & Technology, conducted through Kroll, includes risk consulting and related investigative, intelligence, financial, security and technology services. Consulting, which comprises the activities of Mercer Human Resource Consulting and Mercer's Specialty Consulting Businesses, includes human resource consulting and related services, and specialized management and economic consulting services. We conduct Investment Management through Putnam. Please see Note 18 to the consolidated financial statements which discusses MMC's agreement to sell Putnam to Great-West Lifeco, Inc. A fuller description of our segments' business activities is included in Part I, Item 1 of this report.

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

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

Significant Developments

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

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

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

Consolidated Results of Operations

| For the Years Ended December 31, (In millions, except per share figures) | 2006 | 2005 | 2004 |
|---|-----------------|---------------|---------------|
| Revenue: | | | |
| Service revenue | \$10,350 | \$ 9,902 | \$ 9,877 |
| Investment income (loss) | 197 | 180 | 149 |
| Operating revenue | 10,547 | 10,082 | 10,026 |
| Expense: | | | |
| Compensation and benefits | 6,515 | 6,327 | 6,073 |
| Other operating expenses | 2,877 | 3,135 | 2,853 |
| Settlement and other costs | — | 30 | 618 |
| Operating expenses | 9,392 | 9,492 | 9,544 |
| Operating income | \$ 1,155 | \$ 590 | \$ 482 |
| Income from Continuing Operations | \$ 632 | \$ 201 | \$ 175 |
| Discontinued Operations, net of tax | 358 | 203 | 1 |
| Net income | \$ 990 | \$ 404 | \$ 176 |
| Income from Continuing Operations Per Share: | | | |
| Basic | \$ 1.15 | \$ 0.37 | \$ 0.33 |
| Diluted | \$ 1.14 | \$ 0.37 | \$ 0.33 |
| Net Income Per Share: | | | |
| Basic | \$ 1.80 | \$ 0.75 | \$ 0.33 |
| Diluted | \$ 1.76 | \$ 0.74 | \$ 0.33 |
| Average number of shares outstanding: | | | |
| Basic | 549 | 538 | 526 |
| Diluted | 557 | 543 | 535 |

Consolidated operating income in 2006 increased 96% to \$1.2 billion, resulting from a 5% increase in operating revenue and a 1% decrease in operating expenses. Revenue increases in consulting and risk consulting & technology were partly offset by decreases in risk and insurance services. The decrease in operating expenses reflects cost savings from restructuring activities, reduced net restructuring and related charges as well as lower costs related to several significant expense items, discussed in more detail below under “Consolidated Revenue and Expense”. These expense savings were partly offset by incremental costs, primarily related to stock options under SFAS 123(R).

Results from discontinued operations in 2006 were \$358 million net of tax, primarily due to the inclusion of Putnam’s net operating results and the gain on the sale of Sedgwick Claims Management Services in January 2006. In the third quarter of 2006, MMC completed the sale of Price Forbes, its U.K.-based wholesale insurance broker. The loss on the disposal of Price Forbes and net income associated with its 2006 results are included in discontinued operations. The results of Price Forbes were insignificant to MMC’s 2005 results and, therefore, prior year amounts have not been restated. In the fourth quarter of 2006, Kroll completed the sale of Kroll Security International (“KSI”), its international high-risk asset and personal protection division. The gain on the disposal of KSI, and the financial results associated with 2006 and prior periods, are included in discontinued operations.

Consolidated Revenues and Expenses

Consolidated revenue for the year ended December 31, 2006 was \$10.5 billion, a 5% increase over the prior year. Higher revenue in the consulting and risk consulting & technology segments was partly offset by lower revenue in the risk and insurance services segment. Consolidated revenue increased 5% on an underlying basis, which includes the impact of a \$71 million reduction in market services revenue.

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

| <i>(In millions, except percentage figures)</i> | Twelve Months Ended | | % Change GAAP Revenue | Components of Revenue Change | | |
|---|----------------------|-----------------|-----------------------------|------------------------------|---|-----------------------|
| | December 31, 2006 | 2005 | | Currency Impact | Acquisitions/ Dispositions Impact | Underlying Revenue |
| Risk and Insurance Services | | | | | | |
| Insurance Services | \$ 4,390 | \$ 4,567 | (4) % | — | (2) % | (2) % |
| Reinsurance Services | 880 | 836 | 5 % | — | — | 5 % |
| Risk Capital Holdings (a) | 193 | 189 | 2 % | — | (5) % | 7 % |
| Total Risk and Insurance Services | 5,463 | 5,592 | (2) % | — | (2) % | - |
| Risk Consulting & Technology (b) | 979 | 872 | 12 % | — | 3 % | 9 % |
| Consulting | | | | | | |
| Human Resource Consulting | 3,021 | 2,794 | 8 % | 1 % | — | 7 % |
| Specialty Consulting | 1,204 | 1,008 | 19 % | 1 % | 2 % | 16 % |
| Total Consulting | 4,225 | 3,802 | 11 % | 1 % | 1 % | 9 % |
| Total Operating Segments | \$10,667 | \$10,266 | 4 % | — | — | 4 % |
| Corporate/Eliminations | (120) | (184) | | | | |
| Total Revenue | \$10,547 | \$10,082 | 5 % | — | — | 5 % |

| <i>(In millions, except percentage figures)</i> | Twelve Months Ended | | % Change GAAP Revenue | Components of Revenue Change | | |
|---|----------------------|-----------------|-----------------------------|------------------------------|---|-----------------------|
| | December 31, 2005 | 2004 | | Currency Impact | Acquisitions/ Dispositions Impact | Underlying Revenue |
| Risk and Insurance Services | | | | | | |
| Insurance Services | \$ 4,567 | \$ 5,166 | (12) % | 1 % | — | (13) % |
| Reinsurance Services | 836 | 859 | (3) % | 1 % | — | (4) % |
| Risk Capital Holdings (a) | 189 | 180 | 5 % | — | (8) % | 13 % |
| Total Risk and Insurance Services | 5,592 | 6,205 | (10) % | 1 % | — | (11) % |
| Risk Consulting & Technology (b) | 872 | 371 | 135 % | (1) % | 114 % | 22 % |
| Consulting | | | | | | |
| Human Resource Consulting | 2,794 | 2,786 | — | 1 % | — | (1) % |
| Specialty Consulting | 1,008 | 851 | 19 % | — | 1 % | 18 % |
| Total Consulting | 3,802 | 3,637 | 4 % | 1 % | — | 3 % |
| Total Operating Segments | \$10,266 | \$10,213 | 1 % | 1 % | 5 % | (5) % |
| Corporate/Eliminations | (184) | (187) | | | | |
| Total Revenue | \$10,082 | \$10,026 | 1 % | 1 % | 5 % | (5) % |

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

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

Revenue

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

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

Operating Expenses

Consolidated operating expenses in 2006 decreased 1% from 2005. The decrease in operating expenses reflects cost savings from restructuring activities; a decrease in net restructuring and related charges; lower settlement, legal and regulatory costs related to proceedings involving MMC and certain of its subsidiaries; and lower costs related to employee retention awards, partly offset by higher compensation costs, primarily in the consulting segment due to increased headcount and higher incentive compensation. Expenses in 2006 also reflect lower costs related to professional liability claims. These decreases in 2006 were partly offset by higher expenses related to stock options. Due to the adoption of SFAS 123(R) on July 1, 2005, the prior year includes expenses related to stock options for only six months while 2006 includes stock option expense for the full year. In 2006, the costs related to stock options are included in segment results. In 2005, the costs related to stock options are included in Corporate.

Consolidated operating expenses in 2005 were essentially the same as 2004. This was primarily due to savings from restructuring initiatives and lower regulatory and other settlement expenses, mostly offset by employee retention costs, the impact of acquisitions, higher benefits costs, and incremental costs, primarily related to stock options, resulting from the implementation of SFAS 123(R). Expenses in 2004 include an \$850 million charge related to the NYAG/NYSID settlement and restructuring costs of \$337 million, partly offset by a \$105 million credit from the final insurance settlement related to World Trade Center losses.

Restructuring and Related Activities

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

2005 Plan

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

2006 Plan

In September 2006, MMC announced cost savings initiatives related to firm-wide infrastructure, organization structure and operating company business processes which are expected to result in annualized savings of approximately \$350 million when fully implemented by the end of 2008, and result in restructuring charges and related costs of approximately \$225 million. The cost savings initiatives are expected to be implemented in several phases – Phase 1 began in September 2006, with several additional phases to follow. The discussion below identifies the areas impacted and savings expected from various phases of the 2006 Plan.

Phase 1 of the 2006 Plan is expected to result in cost savings of \$160 million. The expected savings from this phase comprise \$70 million from operating company process improvements and \$90 million from corporate infrastructure and process improvements in IT, real estate and corporate functions. Staff reductions of more than 750 are expected. During 2006, MMC recorded a net charge of \$10 million in connection with actions taken under Phase 1 that includes a \$74 million gain on the sale of five (5) floors in MMC's headquarters building, more than offset by costs primarily related to severance and exit costs for facilities. Through December 2006, the actions under Phase 1 are expected to result in annualized savings of approximately \$110 million beginning in the first quarter of 2007. These actions under Phase 1 are expected to be completed by the second quarter of 2007, except for certain actions related to MMC's headquarters building, discussed below.

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

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

As noted above, MMC has been reducing its occupancy at its headquarters building in New York. Phase 1 of the 2006 Plan includes net costs of \$8 million and expected annualized savings of approximately \$25 million related to these actions. The expected net costs of \$8 million comprise both gains on the sale of owned floors and losses on sub-leases of leased floors, which will be recognized at the earlier of when the floors are vacated or when sub-lease agreements are executed. During the fourth quarter of 2006, MMC sold its condominium interest in five floors of its headquarters building, realizing a gain of \$74 million. The disposal of these

floors is an integral part of MMC's overall restructuring plan and the gain from this disposal has been included as a reduction of other operating expenses, consistent with the classification of other costs for actions taken related to this and other facilities MMC has vacated. The sale of the five floors will reduce MMC's annual facilities costs by approximately \$5 million, which is included in the \$110 million of savings from Phase 1 of the 2006 Plan, as discussed above.

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

Businesses Exited in 2006 and 2005

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

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

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

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

Subsequent Event

On February 1, 2007, MMC announced it had entered into a stock purchase agreement with Great-West Lifeco Inc. ("GWL"), a majority-owned subsidiary of Power Financial Corporation, pursuant to which GWL will purchase Putnam Investments Trust. The sale agreement includes Putnam's interest in the T.H. Lee private equity business. The after-tax cash proceeds to MMC are expected to be approximately \$2.5 billion, subject to possible adjustment based on (i) changes in Putnam's adjusted stockholders' equity between September 30, 2006 and closing and (ii) any decline below an agreed threshold in Putnam's adjusted asset management revenue between December 31, 2006 and closing. For further information and a copy of the

stock purchase agreement, please see our Form 8-K filed on February 1, 2007. MMC expects the sale of Putnam to close in mid-2007. Putnam's results have been reclassified as part of discontinued operations in this revised annual report.

Risk and Insurance Services

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

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

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

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

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

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

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

Revenue

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

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

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

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

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

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

At December 31, 2006, the balance of accounts receivable related to accrued market services revenue earned prior to October 1, 2004 was approximately \$43 million, compared with \$132 million at December 31, 2005. MMC intends to collect the remaining MSA revenue earned prior to October 1, 2004, and is seeking to enforce its rights under the contracts to collect amounts due. However, there is no assurance that MMC will be successful in collecting all amounts due.

To the extent such accrued amounts are not collected, a charge to earnings would result. In 2007, MMC collected an additional \$23 million of accrued market service revenue.

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

Expense

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

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

Risk Consulting & Technology

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

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

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

| <i>(In millions of dollars)</i> | 2006 | 2005 | 2004 |
|---------------------------------|--------------|-------|-------|
| Revenue | \$979 | \$872 | \$371 |
| Expense | 830 | 751 | 326 |
| Operating Income | \$149 | \$121 | \$ 45 |
| Operating Margin | 15.2% | 13.9% | 12.1% |

Revenue

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

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

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

Expense

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

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

Consulting

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

on management consulting, organizational design and change management, and economic consulting.

The major component of Mercer's revenue, in both Mercer HR and the Mercer Specialty Consulting Companies, is fees paid by clients for advice and services. Mercer HR, principally through its health & benefits line of business, also earns significant revenue in the form of commissions received from insurance companies for the placement of group (and occasionally individual) insurance contracts, primarily life, health and accident coverages. Revenue for Mercer global investment's discretionary investment management business and certain of Mercer HR's outsourcing business defined contribution administration services consists principally of fees based on assets under administration.

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

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

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

Revenue

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

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

Expense

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

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

Discontinued Operations

Results of discontinued operations have been amended to include Putnam's operating income for all years presented. Operating income from SCMS, KSI and Price Forbes is also included for all years presented. Crump operating income is included in discontinued operations in 2005 and 2004. In addition, discontinued operations in 2006 also includes the gain on disposal of SCMS and a charge to reduce the carrying value of Price Forbes' asset to fair value for all years presented. The gain on the disposal of Crump is included in 2005.

The following reflects the results of operations for Putnam, MMC's investment management segment, that are included in discontinued operations.

| <i>(In millions of dollars)</i> | 2006 | 2005 | 2004 |
|---|----------------|---------|---------|
| Putnam: | | | |
| Revenue | \$1,385 | \$1,506 | \$1,711 |
| Expense | 1,082 | 1,243 | 1,596 |
| Net Operating Income | 303 | 263 | 115 |
| Minority interest and other discontinued operations | 1 | 43 | 45 |
| Provision for income tax | 118 | 117 | 159 |
| Income from discontinued operations, net of tax | 186 | 189 | 1 |
| Gain on disposal of discontinued operations | 298 | 55 | - |
| Provision for income tax | 126 | 41 | - |
| Gain on disposal of discontinued operations, net of tax | 172 | 14 | - |
| Discontinued operations, net of tax | \$358 | \$203 | \$ 1 |

Revenue - Putnam

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

Putnam's revenue decreased 12% in 2005, reflecting a decrease in fees due to a decline in assets under management, lower 12b-1 fee revenue, and decreased investment gains. Assets under management averaged \$196 billion in 2005, a 10% decline from the \$217 billion

managed in 2004. Assets under management aggregated \$189 billion at December 31, 2005, compared with \$213 billion at December 31, 2004. The change in assets under management from December 31, 2004 results primarily from net redemptions of \$31 billion, partly offset by the positive impact of market performance.

Expense - Putnam

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

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

Corporate Items

Corporate Expenses

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

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

Corporate expenses were \$287 million in 2005 compared to \$55 million in 2004. Expenses in 2005 included \$64 million of incremental expenses, primarily related to stock options, resulting from the adoption of SFAS 123 (R) effective July 1, 2005. The incremental cost related to the implementation of SFAS 123 (R) was charged to corporate and not to the operating segments in 2005. In addition, \$6 million was recorded for severance and other termination benefits related to the 2005 Plan, and a charge of \$49 million was recorded related to the consolidation of office space in London. Because the office consolidation was initiated by MMC to benefit its London

operations as a whole, the related charge was recorded in corporate. Corporate expenses also reflected \$30 million of charges in connection with the resolution of certain litigation and related matters.

Corporate expenses in 2004 included \$28 million of restructuring costs, including severance and other termination benefits, future rent under non-cancelable leases and lease termination costs; and \$10 million that related to a start-up hedge fund management business at MMC that was subsequently discontinued. The impact of the final settlement for insured losses related to the WTC reduced Corporate expenses in 2004. The replacement value of the assets exceeded their book value by \$105 million which was recorded as a reduction of other operating expenses.

Interest

Interest income earned on corporate funds amounted to \$60 million in 2006, an increase of \$16 million from 2005. The increase in interest income reflected the combination of higher average corporate cash balances and generally higher average interest rates in 2006 compared with the prior year. Interest expense of \$303 million in 2006 decreased from \$332 million in 2005. The decrease in interest expense is primarily due to \$34 million recorded in the third quarter of 2005 for the prepayment charge incurred in connection with the refinancing of the mortgage on MMC's headquarters building in New York.

Interest income was \$44 million for 2005, an increase of \$24 million from 2004. The increase in interest income reflected the combination of higher average corporate cash balances and generally higher average interest rates in 2005 compared with 2004. Interest expense was \$332 million in 2005 compared to \$219 million in 2004. The increase in interest expense is due to an increase in the amount of average outstanding debt resulting from the acquisition of Kroll and a \$34 million charge in 2005 for the prepayment of the \$200 million mortgage on MMC's corporate headquarters in New York. In addition, interest expense in 2005 includes a write-off of \$7 million of unamortized deferred financing costs related to MMC's prior revolving credit agreements which were refinanced in December 2005.

Income Taxes

MMC's consolidated effective tax rate was 29.8% in 2006 compared to 31.4% in 2005. The change primarily reflects the release of valuation allowances on certain deferred tax assets, partly offset by a change in the geographic mix of MMC's earnings and an adjustment of the 2005 tax provision estimates to the tax return amount.

MMC's consolidated effective tax rate was 31.4% in 2005, a decrease from 35.2% in 2004. The decrease in the rate was primarily due to the impact in 2004 of a lower benefit related to Marsh's \$850 million settlement of the NYAG lawsuit; partially offset in 2005 by an increase in valuation allowances provided on net operating losses in certain state and foreign jurisdictions and a change in the geographic mix of MMC's earnings.

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

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

2005 Stock Option Exchanges

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

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

Liquidity and Capital Resources

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

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

Operating Cash Flows

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

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

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

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

Financing Cash Flows

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

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

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

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

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

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

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

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

Investing Cash Flows

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

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

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

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

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

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

Commitments and Obligations

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

| Contractual Obligations | Payment due by Period | | | | |
|-----------------------------------|-----------------------|------------------|----------------|----------------|------------------|
| | Total | Within 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
| Bank Borrowings-International | \$ 8 | \$ 8 | \$ — | \$ — | \$ — |
| Current portion of long-term debt | 1,103 | 1,103 | — | — | — |
| Long-term debt | 3,865 | — | 669 | 566 | 2,630 |
| NYAG/NYSID settlement | 340 | 170 | 170 | — | — |
| Net operating leases | 3,401 | 442 | 734 | 559 | 1,666 |
| Service agreements | 225 | 94 | 94 | 27 | 10 |
| Other long-term obligations | 86 | 73 | 10 | 2 | 1 |
| Total | \$9,028 | \$1,890 | \$1,677 | \$1,154 | \$4,307 |

Market Risk

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

Interest Rate Risk

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

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

| <i>(In millions of dollars)</i> | December 31, 2006 |
|---|------------------------------|
| Cash and cash equivalents invested in certificates of deposit and time deposits (Note 1) | \$2,015 |
| Fiduciary cash and investments (Note 1) | \$3,587 |
| Variable rate debt outstanding (Note 11) | \$ 601 |

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

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

Foreign Currency Risk

The translated values of revenue and expense from MMC's international risk and insurance services and consulting operations are subject to fluctuations due to changes in currency exchange rates. We periodically use forward contracts and options to limit foreign currency

exchange rate exposure on net income and cash flows for specific, clearly defined transactions arising in the ordinary course of business.

Equity Price Risk

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

Other

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

Management's Discussion of Critical Accounting Policies

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

Legal and Other Loss Contingencies

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

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

Retirement Benefits

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

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132 (R)" ("SFAS 158"). SFAS 158 requires that MMC recognize the funded status of its overfunded defined benefit pension and retiree medical plans (the "Plans") as a net benefit plan asset and its unfunded and underfunded plans as a net benefit plan liability. The gains or losses and prior service costs or credits that have not been recognized as components of net periodic costs are recorded as a component of Accumulated Other Comprehensive Income ("AOCI"), net of tax, in MMC's balance sheet. MMC adopted the provisions of SFAS 158, prospectively, on December 31, 2006.

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

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

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

| <i>(In millions of dollars)</i> | 0.5 Percentage Point Increase | | 0.5 Percentage Point Decrease | |
|---------------------------------|-------------------------------|----------|-------------------------------|--------|
| | U.S. | U.K. | U.S. | U.K. |
| Assumed Rate of Return | \$(14.4) | \$(23.4) | \$14.4 | \$23.4 |
| Discount Rate | \$(28.4) | \$(51.5) | \$30.4 | \$54.6 |

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

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

Income Taxes

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

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

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

Share-based Payment

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

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

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

Investment Valuation

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

New Accounting Pronouncements

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

In September 2006, the FASB issued SFAS 158 which requires that MMC recognize the funded status of its overfunded defined benefit pension and retiree medical plans (the "Plans") as a net benefit plan asset and its unfunded and underfunded plans as a net benefit plan liability. The gains or losses and prior service costs or credits that have not been recognized as components

of net periodic costs are recorded as a component of AOCI, net of tax, in MMC's balance sheet. MMC adopted the provisions of SFAS 158, prospectively, on December 31, 2006. The impact of adopting SFAS 158 caused a reduction in assets of \$659 million and an increase in liabilities of \$259 million, including a related adjustment to tax benefits of \$424 million. The net impact of adopting SFAS 158 was a reduction of MMC's stockholders' equity of \$908 million, \$807 million including an adjustment for the impact of recording a minimum pension credit prior to the adoption of SFAS 158. This adoption has no impact on MMC's consolidated statements of income or cash flows. The adoption of SFAS 158 does not impact any financial covenants in MMC's bank agreements, nor does MMC expect adoption to adversely impact its credit ratings. SFAS 158 also requires companies to measure the funded status of their plans as of their year-end balance sheet date no later than 2008. MMC's existing policy is to measure the funded status of its Plans as of its year-end balance sheet date and therefore is not impacted by this requirement.

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

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

See the information set forth under the heading "Market Risk" above under Amended Item 7 ("Management's Discussion and Analysis of Financial Condition and Results of Operations").

AMENDED ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA OF MMC'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006.

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Financial Highlights

| For the Years Ended December 31, (In millions, except per share figures) | 2006 | 2005 | 2004 |
|---|-----------------|----------|----------|
| Revenue | \$10,547 | \$10,082 | \$10,026 |
| Income Before Income Taxes and Minority Interest | \$ 912 | \$ 302 | \$ 283 |
| Income From Continuing Operations | \$ 632 | \$ 201 | \$ 175 |
| Net Income | \$ 990 | \$ 404 | \$ 176 |
| Stockholders' Equity | \$5,819 | \$ 5,360 | \$ 5,056 |
| <hr/> | | | |
| Diluted Income Per Share: | | | |
| Income From Continuing Operations | \$ 1.14 | \$ 0.37 | \$ 0.33 |
| Net Income | \$ 1.76 | \$ 0.74 | \$ 0.33 |
| Dividends Paid Per Share | \$ 0.68 | \$ 0.68 | \$ 1.30 |
| Year-end Stock Price | \$30.66 | \$31.76 | \$ 32.90 |

Marsh & McLennan Companies, Inc. and Subsidiaries
Consolidated Statements of Income

| For the Years Ended December 31, (In millions, except per share figures) | 2006 | 2005 | 2004 |
|---|-----------------|---------|---------|
| Revenue: | | | |
| Service revenue | \$10,350 | \$9,902 | \$9,877 |
| Investment income (loss) | 197 | 180 | 149 |
| Operating revenue | 10,547 | 10,082 | 10,026 |
| Expense: | | | |
| Compensation and benefits | 6,515 | 6,327 | 6,073 |
| Other operating expenses | 2,877 | 3,135 | 2,853 |
| Settlement and other costs | — | 30 | 618 |
| Operating expenses | 9,392 | 9,492 | 9,544 |
| Operating income | 1,155 | 590 | 482 |
| Interest income | 60 | 44 | 20 |
| Interest expense | (303) | (332) | (219) |
| Income before income taxes and minority interest | 912 | 302 | 283 |
| Income taxes | 272 | 95 | 100 |
| Minority interest, net of tax | 8 | 6 | 8 |
| Income from continuing operations | 632 | 201 | 175 |
| Discontinued operations, net of tax | 358 | 203 | 1 |
| Net income | \$ 990 | \$ 404 | \$ 176 |
| Basic net income per share – Continuing operations | \$ 1.15 | \$ 0.37 | \$ 0.33 |
| – Net income | \$ 1.80 | \$ 0.75 | \$ 0.33 |
| Diluted net income per share – Continuing operations | \$ 1.14 | \$ 0.37 | \$ 0.33 |
| – Net income | \$ 1.76 | \$ 0.74 | \$ 0.33 |
| Average number of shares outstanding – Basic | 549 | 538 | 526 |
| – Diluted | 557 | 543 | 535 |

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

Marsh & McLennan Companies, Inc. and Subsidiaries
Consolidated Balance Sheets

| December 31, (In millions of dollars) | 2006 | 2005 |
|---|----------|----------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 2,015 | \$ 1,903 |
| Receivables | | |
| Commissions and fees | 2,340 | 2,123 |
| Advanced premiums and claims | 82 | 117 |
| Other | 452 | 350 |
| | 2,874 | 2,590 |
| Less – allowance for doubtful accounts and cancellations | (156) | (157) |
| Net receivables | 2,718 | 2,433 |
| Assets of discontinued operations | 1,921 | 1,473 |
| Other current assets | 322 | 283 |
| Total current assets | 6,976 | 6,092 |
| Goodwill and intangible assets | 7,595 | 7,574 |
| Fixed assets, net | 990 | 1,108 |
| Long-term investments | 124 | 153 |
| Pension related assets | 613 | 1,596 |
| Other assets | 1,839 | 1,369 |
| | \$18,137 | \$17,892 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Short-term debt | \$ 1,111 | \$ 498 |
| Accounts payable and accrued liabilities | 2,486 | 2,206 |
| Regulatory settlements – current portion | 178 | 267 |
| Accrued compensation and employee benefits | 1,230 | 1,142 |
| Accrued income taxes | 131 | 112 |
| Dividends payable | – | 93 |
| Liabilities of discontinued operations | 782 | 384 |
| Total current liabilities | 5,918 | 4,702 |
| Fiduciary liabilities | 3,587 | 3,679 |
| Less – cash and investments held in a fiduciary capacity | (3,587) | (3,679) |
| | – | – |
| Long-term debt | 3,860 | 5,044 |
| Regulatory settlements | 173 | 348 |
| Pension, postretirement and postemployment benefits | 1,085 | 1,174 |
| Liability for errors and omissions | 624 | 624 |
| Other liabilities | 658 | 640 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$1 par value, authorized 6,000,000 shares, none issued | – | – |
| Common stock, \$1 par value, authorized 1,600,000,000 shares, issued 560,641,640 shares in 2006 and 2005 | 561 | 561 |
| Additional paid-in capital | 1,138 | 1,143 |
| Retained earnings | 5,691 | 4,989 |
| Accumulated other comprehensive loss | (1,272) | (756) |
| | 6,118 | 5,937 |
| Less – treasury shares at cost, 8,727,764 in 2006 and 15,057,704 in 2005 | (299) | (577) |
| Total stockholders' equity | 5,819 | 5,360 |
| | \$18,137 | \$17,892 |

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

Marsh & McLennan Companies, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

| For the Years Ended December 31, (In millions of dollars) | 2006 | 2005 | 2004 |
|---|---------|---------|---------|
| Operating cash flows: | | | |
| Net income | \$ 990 | \$ 404 | \$ 176 |
| Adjustments to reconcile net income to cash generated from operations: | | | |
| Depreciation of fixed assets and capitalized software | 391 | 391 | 392 |
| Amortization of intangible assets | 97 | 99 | 64 |
| Provision (benefit) for deferred income taxes | 60 | 36 | (71) |
| Net (gains) losses on investments | (222) | (183) | (200) |
| Disposition of assets | (218) | (19) | — |
| Accrual of stock-based compensation, resulting from adoption of SFAS 123(R) | 116 | 64 | — |
| Changes in assets and liabilities: | | | |
| Net receivables | (157) | 57 | (107) |
| Other current assets | (651) | 122 | 60 |
| Other assets | 19 | (229) | 93 |
| Accounts payable and accrued liabilities | 682 | (35) | 858 |
| Accrued compensation and employee benefits | 94 | (167) | 328 |
| Accrued income taxes | (242) | 4 | (39) |
| Other liabilities | (184) | (72) | 446 |
| Effect of exchange rate changes | 103 | (73) | 69 |
| Net cash provided by operations | 878 | 399 | 2,069 |
| Financing cash flows: | | | |
| Net decrease in commercial paper | — | (129) | (311) |
| Proceeds from issuance of debt | 322 | 2,341 | 4,265 |
| Other repayments of debt | (888) | (1,990) | (2,003) |
| Purchase of treasury shares | — | — | (536) |
| Issuance of common stock | 181 | 269 | 456 |
| Dividends paid | (374) | (363) | (681) |
| Net cash (used for) provided by financing activities | (759) | 128 | 1,190 |
| Investing cash flows: | | | |
| Capital expenditures | (307) | (345) | (376) |
| Net sales (purchases) of long-term investments | (107) | 318 | 120 |
| Proceeds from sales related to fixed assets | 136 | 46 | 23 |
| Dispositions | 375 | 156 | — |
| Acquisitions | (221) | (74) | (2,364) |
| Other, net | (12) | 52 | 41 |
| Net cash (used for) provided by investing activities | (136) | 153 | (2,556) |
| Effect of exchange rate changes on cash and cash equivalents | 73 | (43) | 28 |
| Increase in cash and cash equivalents | 56 | 637 | 731 |
| Cash and cash equivalents at beginning of period | 2,033 | 1,396 | 665 |
| Cash and cash equivalents at end of period | 2,089 | 2,033 | 1,396 |
| Cash and cash equivalents – reported as discontinued operations | (74) | (130) | (145) |
| Cash and cash equivalents – continuing operations | \$2,015 | \$1,903 | \$1,251 |

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

Marsh & McLennan Companies, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity and Comprehensive Income

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

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

Marsh & McLennan Companies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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

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

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

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

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

The investment management segment primarily provides securities investment advisory distribution and administrative services for institutional accounts and a group of publicly held investment companies. MMC conducts business in its investment management segment through Putnam. On February 1, 2007, MMC announced that it had entered into an agreement with Great-West Lifeco Inc. (“GWL”), a majority-owned subsidiary of Power Financial Corporation, pursuant to which GWL agreed to purchase Putnam Investments Trust for \$3.9 billion in cash. The sale includes Putnam’s interest in the T.H. Lee private equity business. The purchase price is subject to possible adjustment based on (i) changes in Putnam’s adjusted stockholders’ equity between September 30, 2006 and closing and (ii) any decline below an agreed threshold in Putnam’s adjusted asset management revenue between December 31, 2006 and closing. MMC expects the sale of Putnam to close in mid-2007. The 2006 and comparative results of Putnam are included in discontinued operations in the accompanying consolidated statements of income and consolidated balance sheets. Putnam comprises the entire investment management segment.

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

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

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

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

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

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

Risk Consulting & Technology compensation consists of fees paid by clients. Such fees are typically charged on an hourly, project, or fixed fee basis, and sometimes on a per service or per unit basis. Revenue is recognized as the services are performed pursuant to the applicable contractual arrangements. Revenue related to time and materials arrangements is recognized in

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

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

MMC has deferred the recognition of performance fee revenue in connection with the management of certain private equity funds of \$48 million at December 31, 2006. This revenue is based on the investment performance over the life of each private equity fund, and future underperformance may result in the forfeiture of such revenue. As noted above, MMC only recognizes performance fee revenue when such fees are no longer subject to forfeiture, which for the \$48 million noted above, may take a number of years to resolve.

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

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

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

The components of fixed assets are as follows:

| December 31, (In millions of dollars) | 2006 | 2005 |
|--|---------------|----------------|
| Furniture and equipment | \$1,290 | \$1,302 |
| Land and buildings | 397 | 457 |
| Leasehold and building improvements | 719 | 719 |
| | <u>2,406</u> | <u>2,478</u> |
| Less-accumulated depreciation and amortization | (1,416) | (1,370) |
| | <u>\$ 990</u> | <u>\$1,108</u> |

Investment Securities: MMC holds investments in both public and private companies, as well as certain private equity funds. Publicly traded investments are classified as available for sale or trading securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"), and carried at market value. Non-publicly traded investments are carried at cost in accordance with APB Opinion No. 18 ("APB 18"). Changes in the fair value of trading securities are recorded in earnings when they occur. Changes in the fair value of available for sale securities are recorded in stockholders' equity, net of applicable taxes, until realized. Securities classified as trading or available for sale under SFAS 115, or carried at cost under APB 18, are included in Long-term investments in the consolidated balance sheets.

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

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

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

Capitalized Software Costs: MMC capitalizes certain costs to develop, purchase, or modify software for the internal use of MMC. These costs are amortized on a straight-line basis over periods ranging from three to ten years. Costs incurred during the preliminary project stage and post implementation stage are expensed as incurred. Costs incurred during the application development stage are capitalized. Costs related to updates and enhancements are only capitalized if they will result in additional functionality. Computer software costs of \$229 million and \$246 million, net of accumulated amortization of \$465 million and \$349 million at December

31, 2006 and 2005, respectively, are included in Other assets in the consolidated balance sheets.

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

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

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

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

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

effective portions of changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

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

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

Per Share Data: Basic net income per share and income from continuing operations per share are calculated by dividing the respective after tax income by the weighted average number of shares of MMC’s common stock outstanding, excluding unvested restricted stock. Diluted net income per share and income from continuing operations per share are calculated by dividing the respective after tax income by the weighted average common shares outstanding, which have been adjusted for the dilutive effect of potentially issuable common shares. Reconciliation of net income to net income for diluted earnings per share and basic weighted average common shares outstanding to diluted weighted average common shares outstanding is presented below. The reconciling items related to the calculation of diluted weighted average common shares outstanding is the same for continuing operations.

| For the Years Ended December 31, (In millions) | 2006 | 2005 | 2004 |
|---|----------------|---------------|---------------|
| Net Income | \$ 990 | \$ 404 | \$ 176 |
| Less: Potential minority interest expense associated with Putnam Class B Common Shares | (13) | (5) | — |
| Add: Dividend equivalent expense related to common stock equivalents | — | 1 | 2 |
| Net Income for diluted earnings per share | \$ 977 | \$ 400 | \$ 178 |
| Basic weighted average common shares outstanding | 549 | 538 | 526 |
| Dilutive effect of potentially issuable common shares | 8 | 5 | 9 |
| Diluted weighted average common shares outstanding | 557 | 543 | 535 |
| Average stock price used to calculate common stock equivalents | \$29.06 | \$29.65 | \$42.12 |

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

New Accounting Pronouncements: In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132 (R)” (“SFAS 158”). SFAS 158 requires that MMC recognize the funded status of its overfunded defined benefit pension and retiree medical plans (the “Plans”) as a net benefit plan asset and its unfunded and underfunded plans as a net benefit plan liability. The gains or losses and prior service costs or credits that have not been recognized as components of net periodic costs are recorded as a component of Accumulated Other Comprehensive Income (“AOCI”), net of tax, in MMC’s balance sheet. MMC adopted the provisions of SFAS 158, prospectively, on December 31, 2006. The impact of adopting SFAS 158 caused a reduction in assets of \$659 million and an increase in liabilities of \$259 million including a related adjustment to tax benefits of \$424 million. The net impact of adopting SFAS 158 was a reduction to MMC’s stockholders’ equity of \$908 million, \$807 million including the impact of recording a minimum pension credit prior to the adoption of SFAS 158. SFAS 158 also requires companies to measure the funded status of their plans as of their year-end balance sheet date no later than 2008. MMC’s existing policy is to measure the funded status of its Plans as of its year-end balance sheet date and therefore, MMC is not impacted by this requirement.

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

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

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

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

2. Supplemental Disclosures

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

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

The consolidated cash flow statements include the cash flow impact of discontinued operations in each cash flow category. The cash flow impact of discontinued operations from the operating, financing and investing cash flow categories is as follows:

| For the Years Ended December 31, (In millions of dollars) | 2006 | 2005 | 2004 |
|--|--------|--------|--------|
| Net cash provided by (used for) operations | \$ 22 | \$(18) | \$ 76 |
| Net cash (used for) provided by financing activities | \$(52) | \$ 24 | \$(25) |
| Net cash used for investing activities | \$(26) | \$(20) | \$(63) |

An analysis of the allowance for doubtful accounts is as follows:

| For the Years Ended December 31, (In millions of dollars) | 2006 | 2005 | 2004 |
|--|-------|-------|-------|
| Balance at beginning of year | \$157 | \$142 | \$115 |
| Provision charged to operations | 11 | 49 | 30 |
| Accounts written-off, net of recoveries | (23) | (25) | (10) |
| Effect of exchange rate changes | 11 | (9) | 7 |
| Balance at end of year | \$156 | \$157 | \$142 |

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

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

3. Other Comprehensive Income (Loss)

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

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

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

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

4. Acquisitions and Dispositions

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

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

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

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

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

In May 2005, MMC sold the assets of MMC Capital, its private equity manager, to Stone Point Capital LLC, a company controlled by the former managers of MMC Capital, for approximately \$3 million. Stone Point has assumed responsibility for management of the Trident Funds and other private equity funds previously managed by MMC Capital. MMC does not participate in the investment decisions or management of Stone Point or the private equity funds managed by Stone Point. MMC continues to own direct investments in insurance and financial services companies, including Ace Ltd., XL Capital Ltd. and Axis Capital Holdings Ltd., as well as its investments in Trident II and other funds managed by Stone Point.

5. Discontinued Operations

On February 1, 2007, MMC announced that it had entered into an agreement with Great-West Lifeco Inc. ("GWL"), a majority-owned subsidiary of Power Financial Corporation, pursuant to which GWL agreed to purchase Putnam Investments Trust. The account balances and activities of Putnam were segregated and reported as discontinued operations in the accompanying consolidated financial statements.

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

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

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

Price Forbes, Crump and SCMS were part of MMC's risk and insurance services segment, while KSI was part of MMC's risk consulting & technology segment. Putnam represented the entire investment management segment.

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

| | 2006 | 2005 | 2004 |
|---|----------------|---------|---------|
| Revenue | \$1,533 | \$2,037 | \$2,144 |
| Income before provision for income tax | \$ 304 | \$ 306 | \$ 160 |
| Provision for income tax | 118 | 117 | 159 |
| Income from discontinued operations, net of tax | 186 | 189 | 1 |
| Gain on disposal of discontinued operations | 298 | 55 | - |
| Provision for income tax | 126 | 41 | - |
| Gain on disposal of discontinued operations, net of tax | 172 | 14 | - |
| Discontinued operations, net of tax | \$358 | \$203 | \$ 1 |

Summarized Balance Sheet data for discontinued operations is as follows:

| For the Years Ended December 31, (In millions of dollars) | 2006 | 2005 |
|--|----------------|---------|
| Assets of discontinued operations: | | |
| Current assets | \$ 779 | \$ 529 |
| Fixed assets, net | 53 | 101 |
| Goodwill and intangible assets | 180 | 277 |
| Long-term investments | 473 | 124 |
| Other assets | 436 | 442 |
| Total assets of discontinued operations | \$1,921 | \$1,473 |
| Liabilities of discontinued operations | \$ 782 | \$ 384 |

6. Goodwill and Other Intangibles

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

Changes in the carrying amount of goodwill are as follows:

| (In millions of dollars) | 2006 | 2005 |
|---|----------------|---------|
| Balance as of January 1 | \$7,121 | \$7,337 |
| Goodwill acquired | 132 | 42 |
| Disposals | (29) | (95) |
| Purchase accounting adjustments in accordance with SFAS No. 141 | (111) | (38) |
| Other adjustments ^(a) | 93 | (125) |
| Balance as of December 31 | \$7,206 | \$7,121 |

^(a) Primarily includes foreign exchange

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

Amortized intangible assets consist of the cost of client lists, client relationships and trade names acquired. The gross cost and accumulated amortization by major intangible asset class is as follows:

| December 31, (In millions of dollars) | 2006 | | | 2005 | | |
|--|--------------|--------------------------|---------------------|------------|--------------------------|---------------------|
| | Gross Cost | Accumulated Amortization | Net Carrying Amount | Gross Cost | Accumulated Amortization | Net Carrying Amount |
| Total amortized intangibles | \$655 | \$266 | \$389 | \$638 | \$191 | \$447 |

Aggregate amortization expense for the years ended December 31, 2006 and 2005, was \$80 million and \$82 million, respectively, and the estimated future aggregate amortization expense is as follows:

| For the Years Ending December 31, (In millions of dollars) | Estimated Expense |
|---|-------------------|
| 2007 | \$ 59 |
| 2008 | 53 |
| 2009 | 45 |
| 2010 | 37 |
| 2011 | 34 |
| Subsequent years | 161 |
| | \$389 |

7. Income Taxes

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

| For the Years Ended December 31, (In millions of dollars) | 2006 | 2005 | 2004 |
|--|----------------|--------------|---------------|
| Income before income taxes and minority interest: | | | |
| U.S. | \$233 | \$(120) | \$(224) |
| Other | 679 | 422 | 507 |
| | \$912 | \$302 | \$283 |
| Income taxes: | | | |
| Current– | | | |
| U.S. Federal | \$ (68) | \$(158) | \$171 |
| Other national governments | 224 | 123 | 78 |
| U.S. state and local | 65 | 35 | 32 |
| | 221 | - | 281 |
| Deferred– | | | |
| U.S. Federal | 140 | 105 | (212) |
| Other national governments | (59) | (7) | 67 |
| U.S. state and local | (30) | (3) | (36) |
| | 51 | 95 | (181) |
| Total income taxes | \$272 | \$ 95 | \$ 100 |

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

| December 31, (In millions of dollars) | 2006 | 2005 |
|--|----------------|---------------|
| Deferred tax assets: | | |
| Accrued expenses not currently deductible ^(a) | \$ 544 | \$ 643 |
| Differences related to non-U.S. operations | 301 | 172 |
| Accrued retirement & postretirement benefits – non-U.S. operations | 240 | 51 |
| Net operating losses ^(b) | 96 | 31 |
| Income currently recognized for tax | 57 | 51 |
| Other | 31 | 30 |
| | \$1,269 | \$ 978 |
| Deferred tax liabilities: | | |
| Unrealized investment holding gains | \$ 13 | \$ 25 |
| Differences related to non-U.S. operations | 134 | 88 |
| Depreciation and amortization | 180 | 298 |
| Accrued retirement benefits | 12 | 118 |
| Other | 126 | 57 |
| | \$ 465 | \$ 586 |

^(a) Net of valuation allowance of \$0 million and \$6 million, respectively.

^(b) Net of valuation allowance of \$6 million and \$57 million, respectively.

| December 31, (In millions of dollars) | 2006 | 2005 |
|--|-------|--------|
| Balance sheet classifications: | | |
| Current assets | \$128 | \$ 114 |
| Other assets | \$687 | \$ 278 |
| Other liabilities | \$ 11 | \$ — |

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

| For the Years Ended December 31, | 2006 | 2005 | 2004 |
|--|-------------|-------------|-------------|
| | % | % | % |
| U.S. Federal statutory rate | 35.0 | 35.0 | 35.0 |
| U.S. state and local income taxes— net of U.S. Federal income tax benefit | 2.5 | 7.0 | (4.1) |
| Differences related to non-U.S. operations | (7.9) | (10.3) | (11.6) |
| NYAG lawsuit, including state taxes | — | — | 18.3 |
| Meals and entertainment | 1.1 | 2.6 | 3.5 |
| Dividends paid to employees | (.5) | (2.2) | (4.7) |
| Other | (.4) | (.7) | (1.2) |
| Effective tax rate | 29.8 | 31.4 | 35.2 |

Reversals of valuation allowances recorded in prior years reduced the tax provision by \$26 million in 2006. The valuation allowances had a net decrease of \$56 million in 2006 compared with a net increase of \$24 million in 2005. Approximately 50% of the Company's net operating loss carryforwards expire over various periods from 2007 through 2025, and others are unlimited. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized and adjusts the valuation allowance accordingly. MMC evaluates all significant available positive

and negative evidence, including the existence of losses in recent years and its forecast of future taxable income, in assessing the need for a valuation allowance. The underlying assumptions the Company uses in forecasting future taxable income require significant judgment and take into account the Company's recent performance. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which temporary differences are deductible. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, MMC believes it is more likely than not that it will realize the benefits of the deferred tax assets, net of existing valuation allowances at December 31, 2006. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

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

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

8. Retirement Benefits

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

Implementation of SFAS 158

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

| <i>(In millions of dollars)</i> | Before Application of Statement 158 | Adjustments | After Application of Statement 158 |
|---|---|-------------|--|
| Goodwill and intangible assets | \$7,597 | \$ (2) | \$7,595 |
| Pension related assets | 1,694 | (1,081) | 613 |
| Other assets | 1,415 | 424 | 1,839 |
| Total assets | 18,796 | (659) | 18,137 |
| Accounts payable and accrued liabilities | 2,438 | 48 | 2,486 |
| Pension, postretirement and postemployment benefits | 874 | 211 | 1,085 |
| Accumulated other comprehensive loss ^(a) | (364) | (908) | (1,272) |
| Total stockholders' equity | \$6,727 | \$ (908) | \$5,819 |

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

Combined U.S. and non-U.S. Plans

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

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

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

related value of assets recognizes gains or losses over a five-year period, the future market-related value of the assets will be impacted as previously deferred gains or losses are recorded.

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

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

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

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

U.S. Plans

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

| December 31, (In millions of dollars) | U.S. Pension Benefits | | U.S. Postretirement Benefits | |
|---|-----------------------|---------|------------------------------|---------|
| | 2006 | 2005 | 2006 | 2005 |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | \$3,094 | \$3,013 | \$ 194 | \$ 309 |
| Service cost | 83 | 88 | 4 | 8 |
| Interest cost | 182 | 176 | 11 | 15 |
| Amendments | — | (138) | — | (92) |
| Actuarial loss | 33 | 80 | (5) | (27) |
| Benefits paid | (128) | (125) | (12) | (19) |
| Benefit obligation at end of year | \$3,264 | \$3,094 | \$ 192 | \$ 194 |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | \$3,015 | \$2,635 | \$ — | \$ — |
| Actual return on plan assets | 475 | 276 | — | — |
| Employer contributions | 20 | 229 | 12 | 19 |
| Benefits paid | (128) | (125) | (12) | (19) |
| Fair value of plan assets at end of year | \$3,382 | \$3,015 | \$ — | \$ — |
| Funded status | \$ 118 | \$ (79) | \$(192) | \$(194) |
| Unrecognized net actuarial loss | N/A | 858 | N/A | 38 |
| Unrecognized prior service credit | N/A | (282) | N/A | (93) |
| Net asset (liability) recognized | \$ 118 | \$ 497 | \$(192) | \$(249) |
| Amounts recognized in the Consolidated Balance Sheets under SFAS 158: | | | | |
| Noncurrent assets | \$ 454 | N/A | \$ — | N/A |
| Current liabilities | (19) | N/A | (13) | N/A |
| Noncurrent liabilities | (317) | N/A | (179) | N/A |
| | \$ 118 | N/A | \$(192) | N/A |
| Amounts recognized in the Consolidated Balance Sheets under prior accounting rules: | | | | |
| Prepaid benefit cost | N/A | \$ 746 | N/A | \$ — |
| Accrued benefit liability | N/A | (314) | N/A | (249) |
| Accumulated other comprehensive loss | N/A | 65 | N/A | — |
| Net amount recognized | N/A | \$ 497 | N/A | \$(249) |
| Amounts not yet recognized in net periodic cost and included in accumulated other comprehensive income: | | | | |
| Unrecognized prior service credit | \$ 228 | N/A | \$ 78 | N/A |
| Unrecognized net actuarial loss | (572) | N/A | (29) | N/A |
| Total amounts included in AOCI | \$ (344) | N/A | \$ 49 | N/A |
| Cumulative employer contributions in excess of net periodic cost | 462 | N/A | (241) | N/A |
| Net amount recognized in consolidated balance sheet | \$ 118 | N/A | \$(192) | N/A |
| Accumulated benefit obligation at December 31 | \$3,160 | \$3,021 | \$ — | \$ — |

Estimated amounts that will be amortized from accumulated other comprehensive income in the next fiscal year:

| | U.S. Pension Benefits | | U.S. Postretirement Benefits | |
|-----------------------------|-----------------------|------|------------------------------|------|
| | 2006 | 2005 | 2006 | 2005 |
| Prior service cost (credit) | \$(54) | N/A | \$(13) | N/A |
| Net loss | 79 | N/A | 2 | N/A |
| | \$ 25 | N/A | \$(11) | N/A |

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

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

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

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

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

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

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

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

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

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

Non-U.S. Plans

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

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

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

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

Estimated amounts that will be amortized from accumulated other comprehensive income in the next fiscal year:

| | | | | |
|-----------------------------|--------|-----|------|-----|
| Prior service cost (credit) | \$ (2) | N/A | \$ — | N/A |
| Net loss | 120 | N/A | 1 | N/A |
| | \$118 | N/A | \$ 1 | N/A |

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

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

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

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

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

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

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

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

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

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

Estimated Future Benefits Payments

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

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

Contribution Plans

MMC maintains certain defined contribution plans for its employees, including the Marsh & McLennan Companies Stock Investment Plan ("SIP") that are qualified under U.S. tax laws. Under these plans, eligible employees may contribute a percentage of their base salary, subject to certain limitations. For the SIP, MMC matches a fixed portion of the employees' contributions and may also make additional discretionary contributions. The SIP contains an Employee Stock Ownership Plan under U.S. tax law and plan assets of approximately \$483 million at December 31, 2006 and \$572 million at December 31, 2005 were invested in MMC stock. Effective October 25, 2004, all participants became eligible to direct their Company matching contributions and all of their employee contribution account balances to any of the available investment options. If a participant does not choose an investment direction for his or her future Company matching contributions, they are automatically invested in the Putnam Fixed Income Fund. SIP plan assets of approximately \$1,052 million and \$1,028 million at December 31, 2006 and 2005, respectively, were managed by Putnam. The cost of these defined contribution plans related to continuing operations was \$45 million, \$64 million, and \$62 million for 2006, 2005 and 2004, respectively.

9. Stock Benefit Plans

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

accordance with the provisions of SFAS 123 (R). In addition, MMC's stock purchase plan was considered compensatory during the third quarter of 2005, the effect of forfeitures on restricted stock, restricted stock units and deferred stock units is required to be estimated when recognizing compensation cost and dividend equivalents on restricted stock units and deferred stock units expected to vest are required to be classified as dividends. Results for periods prior to July 1, 2005 have not been restated.

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

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

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

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

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

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

net income for the years ended 2005 and 2004 would have amounted to \$340 million and \$44 million.

MMC Incentive and Stock Award Plans

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

Stock Options: Options granted under the 2000 Plans may be designated as either incentive stock options or non-qualified stock options. The Compensation Committee determines the terms and conditions of the option, including the time or times at which an option may be exercised, the methods by which such exercise price may be paid, and the form of such payment. Options are generally granted with an exercise price equal to the market value of MMC's stock at the date of grant. These option awards generally vest 25% per annum and have a contractual term of 10 years. On March 16, 2005, MMC began granting options that provide for a market-based triggering event before a vested option can be exercised. The terms and conditions of these stock option awards provide that (i) options will vest at a rate of 25% a year beginning one year from the date of grant and (ii) each vested tranche will only become exercisable if the market price of MMC's stock appreciates to a level of 15% above the exercise price of the option and maintains that level for at least ten (10) consecutive trading days after the award has vested. MMC accounts for these awards under SFAS 123(R) as market-condition options. The effect of the market condition is reflected in the grant-date fair value of such awards. Compensation cost is recognized over the requisite service period and is not subsequently adjusted if the market condition is not met. For awards without a market-based triggering event, compensation cost is generally recognized on a straight-line basis over the requisite service period which is normally the vesting period.

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

and conditions of the new options are substantially similar to those of the tendered options they replaced.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MMC Stock Purchase Plans

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

Putnam Investments Equity Partnership Plan

Under the Putnam Investments Equity Partnership Plan as amended, (the "Equity Plan") Putnam is authorized to grant or sell shares to certain employees of Putnam or its subsidiaries restricted common shares of Putnam Investments Trust, the parent of Putnam Investments, LLC ("Class B Common Shares") and grant options to acquire the Class B Common Shares.

Such awards or options generally vest over a period of two to four years. Holders of Putnam Class B Common Shares are not entitled to vote and have no rights to convert their shares into any other securities of Putnam. Awards of restricted stock and/or options may be made under the Equity Plan with respect to a maximum of 16,500,000 shares of Class B Common Shares, which would represent approximately 16% of the outstanding shares on a fully diluted basis, as increased for certain issuances of Putnam Class A Common Stock to MMC.

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

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

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

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

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

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

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

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

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

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

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

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

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

10. Long-term Commitments

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

The consolidated statements of income include net rental costs of \$509 million, \$448 million and \$458 million for 2006, 2005 and 2004, respectively, after deducting rentals from subleases (\$26 million in 2006, \$20 million in 2005 and \$19 million in 2004).

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

| For the Years Ending December 31, <i>(In millions of dollars)</i> | Gross Rental Commitments | Rentals from Subleases | Net Rental Commitments |
|---|--------------------------------|------------------------------|------------------------------|
| 2007 | \$485 | \$ 43 | \$ 442 |
| 2008 | 435 | 41 | 394 |
| 2009 | 379 | 39 | 340 |
| 2010 | 334 | 36 | 298 |
| 2011 | 296 | 35 | 261 |
| Subsequent years | 1,946 | 280 | 1,666 |
| | \$3,875 | \$474 | \$3,401 |

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

| For the Years Ending December 31, <i>(In millions of dollars)</i> | Future Minimum Commitments |
|--|----------------------------------|
| 2007 | \$ 94 |
| 2008 | 62 |
| 2009 | 32 |
| Subsequent years | 37 |
| | \$225 |

11. Debt

MMC's outstanding debt is as follows:

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

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

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

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

The incremental proceeds from the refinancing, net of mortgage prepayment costs were used to repay outstanding short-term debt. In the event the mortgage is foreclosed following a default, MMC would be entitled to remain in the space and would be obligated to pay rent sufficient to

cover interest on the notes or at fair market value if greater. Mortgage prepayment costs of \$34 million related to this transaction are included in interest expense in the consolidated statement of income for the year ended December 31, 2005.

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

Additional credit facilities, guarantees and letters of credit are maintained with various banks, primarily related to operations located outside the United States, aggregating \$269 million at December 31, 2006 and \$354 million at December 31, 2005. There was \$8 million outstanding at December 31, 2006 and there was \$83 million outstanding under these facilities at December 31, 2005.

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

12. Financial Instruments

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

| December 31, (In millions of dollars) | 2006 | | 2005 | |
|--|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and cash equivalents | \$2,015 | \$2,015 | \$1,903 | \$1,903 |
| Long-term investments | \$ 124 | \$ 124 | \$ 153 | \$ 153 |
| Short-term debt | \$1,111 | \$1,111 | \$ 498 | \$ 498 |
| Long-term debt | \$3,860 | \$3,810 | \$5,044 | \$5,062 |

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

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

MMC had available for sale securities and trading investments with an aggregate fair value of \$50 million and \$99 million at December 31, 2006 and 2005, respectively, which are carried at market value under SFAS 115. Gross unrealized gains amounting to \$53 million and \$82 million at December 31, 2006 and 2005, respectively, have been excluded from earnings and reported, net of deferred income taxes, in accumulated other comprehensive loss, which is a component of stockholders' equity.

MMC recorded net gains associated with its available for sale securities of \$35 million, \$157 million and \$83 million, in 2006, 2005 and 2004, respectively. Proceeds from the sale of available for sale securities for the years ended December 31, 2006, 2005 and 2004 were \$52 million, \$236 million and \$95 million, respectively. Gross realized gains on available for sale securities sold during 2006, 2005 and 2004 amounted to \$35 million, \$157 million and \$83 million, respectively. In 2006, 2005 and 2004, MMC recorded losses of \$0 million 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 \$166 million, \$27 million and \$65 million in 2006, 2005 and 2004, respectively, is included in Investment income (loss) in the consolidated statements of income.

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

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

13. Integration and Restructuring Costs

2006 Plan

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

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

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

facilities. In the fourth quarter of 2006, MMC incurred costs of \$14 million related to Phase 2 of the 2006 Plan, primarily related to severance and exit costs for facilities. Utilization of the plan charges for Phase 2 of the 2006 Plan is as follows:

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

2005 Plan

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

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

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

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

2004 Plan

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

| <i>(In millions of dollars)</i> | Accrued in 2004 and 2005 | Utilized in 2004 and 2005 | Utilized in 2006 | Additions/ Changes in Estimates 2006 | Remaining Liability at 12/31/06 |
|--------------------------------------|--------------------------------|---------------------------------|------------------------|---|---------------------------------------|
| Severance and benefits | \$250 | \$(223) | \$(24) | \$(2) | \$1 |
| Future rent on non-cancelable leases | 23 | (16) | (2) | (1) | 4 |
| Lease termination costs | 19 | (2) | (17) | - | - |
| Other exit costs (credits) | 22 | (17) | (4) | - | 1 |
| | \$314 | \$(258) | \$(47) | \$(3) | \$6 |

Actions under the 2004 and 2005 Plans are completed.

The expenses associated with the restructuring plans are included in Compensation and benefits or in Other operating expenses in the consolidated statements of income, and liabilities

associated with these initiatives are classified on the consolidated balance sheets as Accounts payable, Other liabilities, or Accrued salaries, depending on the nature of the items.

14. Common Stock

MMC did not repurchase common stock in 2006 and 2005.

15. Stockholder Rights Plan

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

16. Claims, Lawsuits and Other Contingencies

Claims, Lawsuits and Other Contingencies

MMC and Marsh Litigation and Regulatory Matters

Brokerage Compensation Practices Settlement

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

Pursuant to the Settlement Agreement, MMC established a fund of \$850 million (the "Fund"), payable over four years, for policyholder clients in the U.S who placed insurance

through Marsh between 2001 and 2004. Approximately 70,000 eligible policyholders have elected to receive an aggregate distribution of approximately \$750 million under the Fund. Clients who elected to participate in the Fund tendered a release relating to the matters alleged in the NYAG Lawsuit and the Citation, except for claims that are based upon, arise out of or relate to the purchase or sale of MMC securities. No portion of the Fund represents a fine or penalty against MMC or Marsh and no portion of the Fund will revert to MMC or Marsh.

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

Related Litigation

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

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

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

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

- In January 2005, the State of Connecticut brought an action against MMC, Marsh and certain Marsh subsidiaries in Connecticut Superior Court. As subsequently amended, the State's complaint alleges that the defendants violated Connecticut's Unfair Trade Practices Act by accepting \$50,000 from an insurer in connection with a

placement Marsh made for the State; violated Connecticut's antitrust and unfair trade practices acts by engaging in bid rigging and other improper conduct that purportedly damaged particular customers and inflated insurance premiums; improperly accepted contingent commissions and concealed these commissions from their clients; and engaged in negligent misrepresentation and breach of fiduciary duty. The State seeks various monetary damages and injunctive relief. Discovery has been stayed pending motions on the pleadings.

- On March 14, 2006, the State of Florida brought an action against MMC, Marsh and certain Marsh subsidiaries in Florida state court, alleging that the defendants violated Florida's RICO and antitrust laws by engaging in bid rigging and other improper conduct which inflated insurance premiums, and by receiving undisclosed additional compensation. The complaint alleges that these actions caused damage to the State, Florida governmental entities and Florida businesses and residents, and seeks the forfeiture of all undisclosed compensation, treble damages, civil penalties, attorneys' fees and costs and injunctive and other equitable relief. Discovery has commenced in this action.
- A consolidated purported class action is pending in the United States District Court for the Southern District of New York on behalf of individuals and entities who purchased or acquired MMC's publicly-traded securities during the purported class period of October 14, 1999 to October 13, 2004 (the "MMC SDNY Securities Case"). The pending complaint of the lead plaintiffs in this action names MMC, Marsh, MMC's former CEO and one former Marsh officer as defendants. The plaintiffs allege, among other things, that MMC artificially inflated its share price by making misrepresentations and omissions relating to Marsh's market service agreements and business practices. Plaintiffs allege that MMC also failed to disclose alleged anti-competitive and illegal practices at Marsh, such as "bid rigging" and soliciting fictitious quotes.

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

- A number of individual shareholder actions against MMC and others are pending in various state courts. One such action filed in California state court has been removed and transferred for inclusion in the MMC SDNY Securities case. A number of related actions that were commenced in New York state court have been removed and transferred for inclusion in the MMC SDNY Securities Case; plaintiffs have moved to remand the actions back to state court.
- Several shareholder derivative actions are pending against MMC's current and former directors and officers. Six have been consolidated as a single action in the Court of Chancery of the State of Delaware (the "Delaware Derivative Action"), and

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

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

- A proceeding consolidating twenty purported class actions alleging violations of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), is pending in the United States District Court for the Southern District of New York on behalf of participants and beneficiaries of the Marsh & McLennan Companies Stock Investment Plan (the “Plan”). The consolidated class action complaint names MMC and various current and former employees, officers and directors as defendants and alleges, among other things, that in view of the purportedly fraudulent bidding activity and the receipt of contingent commissions pursuant to the market service agreements referred to above, the defendants knew or should have known that the investment of the Plan’s assets in MMC stock was imprudent. The consolidated complaint also asserts that certain defendants failed to provide the Plan’s participants with complete and accurate information about MMC stock, that certain defendants responsible for selecting, removing and monitoring other fiduciaries did not comply with ERISA, and that MMC knowingly participated in other defendants’ breaches of fiduciary duties. The consolidated complaint seeks, among other things, unspecified compensatory damages, injunctive relief and attorneys’ fees and costs. The amount of Plan assets invested in MMC stock at October 13, 2004 (immediately prior to the announcement of the NYAG Lawsuit) was approximately \$1.2 billion. The consolidated complaint alleges that during the purported class period, which extends from July 1, 2000 until January 31, 2005, MMC’s stock price fell from \$52.22 to \$32.50. In December 2006, the court granted in part and denied in part the motions to dismiss filed by MMC and the other defendants. Discovery is commencing in this matter.
- In February 2005, the plaintiffs in a shareholder derivative suit pending in the Delaware Court of Chancery (the “AIG Delaware Suit”) against the directors and officers of American International Group, Inc. (“AIG”) filed a consolidated complaint which, as subsequently amended, names as additional defendants MMC, Marsh, Marsh USA Inc., Marsh Global Broking Inc. (collectively, the “MMC Corporate Defendants”), MMC’s former CEO, and five former Marsh employees who have pleaded guilty to certain criminal charges (the former CEO and former employees, together with the MMC Corporate Defendants, the “MMC Defendants”). The AIG Delaware Suit alleges, among other things, that the MMC Defendants, certain AIG employees and others engaged in conspiracy and common law fraud with respect to

the alleged misconduct described in the NYAG Lawsuit, including, but not limited to, illegal bid rigging and kickback schemes, and that AIG was harmed thereby. This action further alleges that the MMC Corporate Defendants aided and abetted the current and former directors and officers of AIG in breaching their fiduciary duties to AIG with respect to AIG's participation in the alleged misconduct and that the MMC Corporate Defendants were unjustly enriched. The consolidated complaint asserts that the MMC Defendants are liable to AIG for damages and also seeks the return of all contingent commission payments made by AIG to the MMC Corporate Defendants.

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

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

Related Regulatory Matters

- Following the filing of the NYAG Lawsuit, MMC and certain of its subsidiaries received notices of investigations and inquiries, together with requests for documents and information, from attorneys general, departments of insurance and other state and federal governmental entities in a number of jurisdictions (other than New York) that relate to the allegations in the NYAG Lawsuit. MMC and its subsidiaries have cooperated with these requests from regulators. MMC has been contacted by certain of the above state entities indicating that they may file civil actions or otherwise seek additional monetary or other remedies from MMC.
- In September 2005, the National Association of Insurance Commissioners (the "NAIC") issued a press release indicating that over 30 state insurance regulators (including several referred to in the preceding paragraph) working collaboratively through the NAIC had reached a multi-state regulatory settlement with MMC and Marsh. The NAIC settlement agreement reaffirms MMC's commitment, under the Settlement Agreement with NYAG and the NYSID, to establish a no-fault compensation fund for policyholder clients across the United States, and provides for state-by-state enforcement of the business reforms agreed to be implemented

pursuant to the Settlement Agreement. The NAIC settlement agreement has been executed by MMC and Marsh, and the NAIC has advised that the agreement has been adopted by insurance commissioners in 33 states, the District of Columbia and Guam.

Putnam-Related Matters

On February 1, 2007, MMC entered into a stock purchase agreement (the "Putnam Sale Agreement") with Great-West Lifeco Inc. ("GWL"), a majority-owned subsidiary of Power Financial Corporation, pursuant to which GWL has agreed to purchase Putnam Investments Trust. The Putnam Sale Agreement provides that MMC will indemnify GWL with respect to certain Putnam-related litigation and regulatory matters following the closing of this transaction, as indicated below. MMC expects the sale of Putnam to close in mid-2007.

Regulatory Matters

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

"Market-Timing"-Related Litigation

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

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

alleges that the members of MMC's Board of Directors violated the fiduciary duties they owed to MMC and its shareholders by failing to provide oversight regarding market-timing in the Putnam Funds, as a result of which MMC suffered damages. The suit seeks unspecified damages and equitable relief. Pursuant to an agreement of the parties, the MMC Derivative Action was stayed in May 2005.

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

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

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

Other Putnam Litigation

- Putnam and Putnam Retail Management Limited Partnership have been sued in the United States District Court for the District of Massachusetts for alleged violations of Section 36(b) of the Investment Company Act of 1940 in connection with the receipt of purportedly excessive advisory and distribution fees paid by certain Putnam Funds in which plaintiffs purportedly owned shares (the “Putnam Excessive Fee Litigation”). Plaintiffs seek, among other things, to recover certain advisory and distribution fees paid to defendants by those funds beginning one year prior to the filing of the complaint, rescission of the management and distribution agreements between defendants and the funds, and a prospective reduction in fees. In January 2006, the court granted defendants' motion for partial summary judgment, limiting the scope of the suit to the fees paid by five Putnam Funds. Plaintiffs filed a new complaint which seeks the same form of relief as the original complaint, is limited to the fees paid by the five funds at issue, and seeks relief for a period after the filing of the original complaint. In February 2007, the Court denied defendants' motion to stay the new complaint and granted plaintiffs' motion to consolidate the two cases. The parties are engaged in fact discovery.

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

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

Other Governmental Inquiries Relating to MMC and its Subsidiaries

- Since early 2003, the SEC has issued two subpoenas to MMC or its affiliates and has made additional requests for information relating to the SEC's investigation of loss mitigation products. MMC and its subsidiaries have received similar inquiries from regulators and other authorities in several states. In April 2005, the Office of Insurance Regulation in the State of Florida issued a subpoena to MMC's subsidiary Guy Carpenter & Company, Inc. concerning certain reinsurance products. In May 2005, the Office of Insurance and Fire Safety Commissioner in the State of Georgia issued a subpoena to MMC that requested, among other things, information relating to finite insurance placements. In May 2005, the Office of the Attorney General in the State of Connecticut issued a subpoena to MMC concerning finite insurance. MMC and its subsidiaries are cooperating with these and other informal inquiries relating to loss mitigation products.
- In February 2005, the DOL served a subpoena on MMC seeking documents pertaining to services provided by MMC subsidiaries to employee benefit plans,

including documents relating to how such subsidiaries have been compensated for such services. The request also sought information concerning market service agreements and the solicitation of bids from insurance companies in connection with services to employee benefit plans. MMC is cooperating with the DOL.

- In December 2004, MMC received a request for information pursuant to a formal investigation commenced by the SEC. The request for information seeks documents concerning related-party transactions of MMC or MMC subsidiaries in which transactions a director, executive officer or 5% stockholder of MMC had a direct or indirect material interest. In April 2005, MMC received a subpoena from the SEC broadening the scope of the original request. MMC is cooperating in the investigation. Certain current and former employees of MMC have testified in connection with this matter.

Other Matters Relating to MMC and its Subsidiaries

- The governor of Alaska has introduced a bill in the state legislature seeking funding to institute a lawsuit against Mercer HR. We understand that the lawsuit, if instituted, would seek potentially significant damages relating to Mercer HR's performance of consulting services for Alaska's public employee pension fund.
- MMC and its subsidiaries are subject to a significant number of other claims, lawsuits and proceedings in the ordinary course of business. Such claims and lawsuits consist principally of alleged errors and omissions (known as E&O's) in connection with the performance of professional services. Some of these claims seek damages, including punitive damages, in amounts that could, if awarded, be significant. MMC provides for these exposures by a combination of third-party insurance and self-insurance. For policy years 2000-2001 and prior, substantial third-party insurance is in place above the annual aggregate limit of MMC's self-insured retention, which was \$50 million annually for policy years 1998-1999, 1999-2000 and 2000-2001. To the extent that expected losses exceed MMC's self-insured retention in any policy year, MMC records an asset for the amount that MMC expects to recover under its third-party insurance programs. The policy limits and coverage terms of the third-party insurance vary to some extent by policy year, but MMC is not aware of coverage defenses or other obstacles to coverage that would limit recoveries in those years in a material amount. In policy years subsequent to 2000-2001, the availability of third-party insurance has declined substantially, which has caused MMC to assume increasing levels of self-insurance. MMC utilizes internal actuarial and other estimates, and case level reviews by inside and outside counsel, to establish loss reserves which it believes are adequate to provide for this self-insured retention. These reserves are reviewed quarterly and adjusted as developments warrant.
- In connection with its acquisition of U.K.-based Sedgwick Group in 1998, MMC acquired several insurance underwriting businesses that were already in run-off, including River Thames Insurance Company Limited ("River Thames"), which MMC sold in 2001. Sedgwick guaranteed payment of claims on certain policies underwritten through the Institute of London Underwriters (the "ILU") by River Thames (such guarantee being hereinafter referred to as the "ILU Guarantee"). The policies covered by the ILU Guarantee are reinsured up to £40 million by a related party of River Thames. Payment of claims under the reinsurance agreement is collateralized by segregated assets held in a trust. As of December 31, 2006, the reinsurance coverage exceeded the best estimate of the projected liability of the

policies covered by the ILU Guarantee. To the extent River Thames or the reinsurer is unable to meet its obligations under those policies, a claimant may seek to recover from MMC under the ILU Guarantee.

- From 1980 to 1983, MMC owned indirectly the English & American Insurance Company (“E&A”), which was a member of the ILU. The ILU required MMC to guarantee a portion of E&A’s obligations. After E&A became insolvent in 1993, the ILU agreed to discharge the guarantee in exchange for MMC’s agreement to post an evergreen letter of credit that is available to pay claims by policyholders on certain E&A policies issued through the ILU and incepting between July 3, 1980 and October 6, 1983. In April, 2006, a lawsuit was commenced in the Commercial Court in London against MMC and the ILU by an assignee of an E&A policyholder that purports to have a claim against the MMC letter of credit in the amount of approximately \$8.5 million and seeks a judicial declaration of its rights as an assignee of a policyholder claim. MMC is contesting the claim. MMC anticipates that additional claimants may seek to recover against the letter of credit.

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

17. Segment Information

MMC’s organization structure and segment reporting is based on the types of services provided. Under this organizational structure, MMC’s business segments are:

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

The accounting policies of the segments are the same as those used for the consolidated financial statements described in Note 1. The information in the following table excludes the results of Putnam, Kroll Securities International, Crump, Price Forbes and SCMS, which are classified as discontinued operations. Revenues are attributed to geographic areas on the basis of where the services are performed. Segment performance is evaluated based on segment operating income, which includes investment income and losses attributable to each segment, directly related expenses, and charges or credits related to integration and

restructuring but not MMC corporate-level expenses. Starting in the first quarter of 2006 segment results also include stock option expense, described in more detail below.

Change in Segment Measurement

MMC adopted SFAS 123(R), "Share-Based Payment" effective July 1, 2005. As a result, MMC incurred incremental costs, primarily related to stock options, of \$64 million for the third and fourth quarters of 2005. These costs are recorded in Corporate. Starting in the first quarter of 2006, MMC changed the measurement of its segment results to include the cost of stock options. For the twelve months ended December 31, 2006, expenses charged to continuing operations related to stock options totaled \$102 million: Risk and Insurance Services - \$47 million, Risk Consulting & Technology - \$2 million, Consulting - \$41 million, and Corporate - \$12 million.

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

| For the Years Ended December 31, (In millions of dollars) | Revenue | Operating Income | Total Assets | Depreciation and Amortization | Capital Expenditures |
|---|-------------|---------------------|-----------------|-------------------------------------|-------------------------|
| 2006- | | | | | |
| Risk and Insurance Services | \$ 5,463(a) | \$ 677 | \$ 9,651 | \$230 | \$133 |
| Risk Consulting & Technology | 979(b) | 149 | 2,363 | 90 | 46 |
| Consulting | 4,225(c) | 466 | 3,804 | 92 | 88 |
| Total Operating Segments | \$10,667 | \$1,292 | \$15,818 | \$412 | \$267 |
| Corporate/Eliminations | (120) | (137)(d) | 398(e) | 11 | 6 |
| Assets of Discontinued Operations | — | — | 1,921 | — | 34 |
| Total Consolidated | \$10,547 | \$1,155 | \$18,137 | \$423 | \$307 |
| 2005- | | | | | |
| Risk and Insurance Services | \$ 5,592(a) | \$ 305 | \$11,465 | \$221 | \$153 |
| Risk Consulting & Technology | 872(b) | 121 | 2,524 | 84 | 54 |
| Consulting | 3,802(c) | 451 | 3,595 | 96 | 83 |
| Total Operating Segments | \$10,266 | \$ 877 | \$17,584 | \$401 | \$290 |
| Corporate/Eliminations | (184) | (287) (d) | (1,165)(e) | 11 | 2 |
| Assets of Discontinued Operations | — | — | 1,473 | — | 53 |
| Total Consolidated | \$10,082 | \$ 590 | \$17,892 | \$412 | \$345 |
| 2004- | | | | | |
| Risk and Insurance Services | \$ 6,205(a) | \$ 84 | \$ 9,428 | \$225 | \$223 |
| Risk Consulting & Technology | 371(b) | 45 | 2,284 | 33 | 21 |
| Consulting | 3,637(c) | 409 | 3,858 | 99 | 55 |
| Total Operating Segments | \$10,213 | \$ 538 | \$15,570 | \$357 | \$299 |
| Corporate/Eliminations | (187) | (56) (d) | 1,316(e) | 14 | 14 |
| Assets of Discontinued Operations | — | — | 1,612 | — | 63 |
| Total Consolidated | \$10,026 | \$ 482 | \$18,498 | \$371 | \$376 |

- (a) Includes interest income on fiduciary funds (\$180 million in 2006, \$151 million in 2005 and \$130 million in 2004).
- (b) Includes inter-segment revenue (\$12 million in 2006, \$27 million in 2005 and \$2 million in 2004).
- (c) Includes inter-segment revenue (\$108 million in 2006, \$154 million in 2005 and \$173 million in 2004).
- (d) Corporate expenses in 2006 include a \$74 million credit for the gain from the sale of five (5) floors of MMC's New York headquarters building. Corporate expenses in 2005 include \$64 million of incremental expense, primarily related to stock options, resulting from the implementation of SFAS 123(R) effective July 1, 2005. Corporate expenses in 2004 include a credit of \$105 million related to an insurance settlement.
- (e) Corporate assets primarily include unallocated goodwill, insurance recoverables, pension related assets, a portion of MMC's headquarters building and intercompany eliminations.

Operating Segment Revenue by Product is as follows:

| For the Years Ended December 31, (In millions of dollars) | 2006 | 2005 | 2004 |
|--|-----------------|-----------------|-----------------|
| Risk & Insurance Services | | | |
| Insurance Services | \$ 4,390 | \$ 4,567 | \$ 5,166 |
| Reinsurance Services | 880 | 836 | 859 |
| Risk Capital Holdings | 193 | 189 | 180 |
| Total Risk & Insurance Services | 5,463 | 5,592 | 6,205 |
| Risk Consulting & Technology | 979 | 872 | 371 |
| Consulting | | | |
| Human Resource Consulting | 3,021 | 2,794 | 2,786 |
| Specialty Consulting | 1,204 | 1,008 | 851 |
| Total Consulting | 4,225 | 3,802 | 3,637 |
| Total Operating Segments | \$10,667 | \$10,266 | \$10,213 |
| Corporate/Eliminations | (120) | (184) | (187) |
| Total | \$10,547 | \$10,082 | \$10,026 |

Information by geographic area is as follows:

| For the years ended December 31, (In millions of dollars) | 2006 | 2005 | 2004 |
|--|----------|----------|----------|
| Geographic Area: | | | |
| External Revenue – | | | |
| United States | \$ 5,436 | \$5,351 | \$5,369 |
| United Kingdom | 1,990 | 1,941 | 2,018 |
| Continental Europe | 1,540 | 1,452 | 1,443 |
| Other | 1,701 | 1,522 | 1,383 |
| | \$10,667 | \$10,266 | \$10,213 |
| Corporate/Eliminations | (120) | (184) | (187) |
| | \$10,547 | \$10,082 | \$10,026 |
| December 31, (In millions of dollars) | | | |
| Fixed Assets – | | | |
| | | \$ | |
| United States | \$ 593 | \$ 715 | \$ 799 |
| United Kingdom | 224 | 229 | 305 |
| Continental Europe | 80 | 74 | 85 |
| Other | 93 | 90 | 86 |
| | \$ 990 | \$ 1,108 | \$ 1,275 |

Segment Reclassifications for Discontinued Operations

The following table provides reclassified prior period reported amounts to reflect discontinued operations classification for Putnam.

| | Three Months Ended (unaudited) | | | | Twelve Months Ended |
|---|-----------------------------------|----------------|----------------|------------------|------------------------|
| | March 31, | June 30, | Sept. 30, | Dec. 31, | Dec. 31, |
| 2006 | | | | | |
| Operating Income (Loss): | | | | | |
| Risk and Insurance Services | \$ 268 | \$ 139 | \$ 143 | \$ 127 | \$ 677 |
| Risk Consulting & Technology | 24 | 42 | 38 | 45 | 149 |
| Consulting | 113 | 124 | 112 | 117 | 466 |
| Corporate | (68) | (42) | (49) | 22 | (137) |
| | <u>337</u> | <u>263</u> | <u>244</u> | <u>311</u> | <u>1,155</u> |
| Interest Income | 15 | 12 | 15 | 18 | 60 |
| Interest Expense | <u>(78)</u> | <u>(78)</u> | <u>(75)</u> | <u>(72)</u> | <u>(303)</u> |
| Income Before Income Taxes and Minority Interest, Net of Tax | 274 | 197 | 184 | 257 | 912 |
| Income Taxes | 73 | 64 | 48 | 87 | 272 |
| Minority Interest Expense, Net of Tax | 1 | 2 | 3 | 2 | 8 |
| Income From Continuing Operations | 200 | 131 | 133 | 168 | 632 |
| Discontinued Operations, Net of Tax | <u>216</u> | <u>41</u> | <u>43</u> | <u>58</u> | <u>358</u> |
| Net Income | <u>\$ 416</u> | <u>\$ 172</u> | <u>\$ 176</u> | <u>\$ 226</u> | <u>\$ 990</u> |
| Basic Income Per Share – Continuing Operations | <u>\$ 0.37</u> | <u>\$ 0.24</u> | <u>\$ 0.24</u> | <u>\$ 0.31</u> | <u>\$1.15</u> |
| Diluted Income Per Share – Continuing Operations | <u>\$ 0.36</u> | <u>\$ 0.24</u> | <u>\$ 0.24</u> | <u>\$ 0.30</u> | <u>\$1.14</u> |
| 2005 | | | | | |
| Operating Income (Loss): | | | | | |
| Risk and Insurance Services | \$ 137 | \$ 86 | \$ 20 | \$ 62 | \$ 305 |
| Risk Consulting & Technology | 37 | 34 | 34 | 16 | 121 |
| Consulting | 110 | 130 | 117 | 94 | 451 |
| Corporate | (73) | (30) | (69) | (115) | (287) |
| | <u>211</u> | <u>220</u> | <u>102</u> | <u>57</u> | <u>590</u> |
| Interest Income | 9 | 10 | 12 | 13 | 44 |
| Interest Expense | <u>(69)</u> | <u>(73)</u> | <u>(111)</u> | <u>(79)</u> | <u>(332)</u> |
| Income Before Income Taxes and Minority Interest, Net of Tax | 151 | 157 | 3 | (9) | 302 |
| Income Taxes | 46 | 40 | (14) | 23 | 95 |
| Minority Interest Expense, Net of Tax | 1 | 1 | 2 | 2 | 6 |
| Income From Continuing Operations | 104 | 116 | 15 | (34) | 201 |
| Discontinued Operations, Net of Tax | <u>30</u> | <u>50</u> | <u>54</u> | <u>69</u> | <u>203</u> |
| Net Income | <u>\$ 134</u> | <u>\$ 166</u> | <u>\$ 69</u> | <u>\$ 35</u> | <u>\$ 404</u> |
| Basic Income Per Share – Continuing Operations | <u>\$ 0.19</u> | <u>\$ 0.22</u> | <u>\$ 0.03</u> | <u>\$ (0.06)</u> | <u>\$ 0.37</u> |
| Diluted Income Per Share – Continuing Operations | <u>\$ 0.19</u> | <u>\$ 0.22</u> | <u>\$ 0.03</u> | <u>\$ (0.06)</u> | <u>\$ 0.37</u> |

18. Subsequent Event

On February 1, 2007, MMC entered into a stock purchase agreement with Great-West Lifeco Inc. ("GWL"), a majority-owned subsidiary of Power Financial Corporation, pursuant to which GWL will purchase Putnam Investments Trust for \$3.9 billion in cash. The sale includes Putnam's interest in the T.H. Lee private equity business. The purchase price is subject to possible adjustment based on (i) changes in Putnam's adjusted stockholders' equity between September 30, 2006 and closing and (ii) any decline below an agreed threshold in Putnam's adjusted asset management revenue between December 31, 2006 and closing. MMC expects the sale of Putnam to close in mid-2007.

The following table provides reclassified prior period reported amounts to reflect discontinued operations classification for Investment Management:

| 2006 | Three Months Ended | | | | Full Year |
|--------------------------------|---------------------------|-----------------|------------------|-----------------|------------------|
| | (Unaudited) | | | | |
| | March 31, | June 30, | Sept. 30, | Dec. 31, | |
| Segment Revenue as Reported | \$3,053 | \$3,000 | \$2,915 | \$3,084 | \$12,052 |
| Less: Putnam | (345) | (339) | (342) | (359) | (1,385) |
| Corporate Eliminations | (34) | (27) | (41) | (18) | (120) |
| Total Revenue | <u>\$2,674</u> | <u>\$2,634</u> | <u>\$2,532</u> | <u>\$2,707</u> | <u>\$10,547</u> |
| Segment Expense as Reported | \$2,652 | \$2,661 | \$2,594 | \$2,687 | \$10,594 |
| Less: | | | | | |
| Putnam Compensation & Benefits | (156) | (152) | (146) | (144) | (598) |
| Putnam Other Expenses | (125) | (111) | (119) | (129) | (484) |
| Corporate Eliminations | (34) | (27) | (41) | (18) | (120) |
| Total Expenses | <u>\$2,337</u> | <u>\$2,371</u> | <u>\$2,288</u> | <u>\$2,396</u> | <u>\$ 9,392</u> |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

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

As discussed in Note 1 to the financial statements, the accompanying financial statements have been retrospectively adjusted for discontinued operations.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report (not presented herein) dated February 28, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, New York
February 28, 2007
June 1, 2007 as to Notes 1, 2, 5, 6, 7, 8, 10, 12, 13, 17, and 18

Marsh & McLennan Companies, Inc. and Subsidiaries
SELECTED QUARTERLY FINANCIAL DATA AND
SUPPLEMENTAL INFORMATION (UNAUDITED)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--|---|-------------------|------------------|-------------------|
| | <i>(In millions of dollars, except per share figures)</i> | | | |
| 2006: | | | | |
| Revenue | \$2,674 | \$2,634 | \$2,532 | \$2,707 |
| Operating income | \$ 337 | \$ 263 | \$ 244 | \$ 311 |
| Income from continuing operations | \$ 200 | \$ 131 | \$ 133 | \$ 168 |
| Income from discontinued operations | \$ 216 | \$ 41 | \$ 43 | \$ 58 |
| Net income | \$ 416 | \$ 172 | \$ 176 | \$ 226 |
| Basic Per Share Data: | | | | |
| Income from continuing operations | \$ 0.37 | \$ 0.24 | \$ 0.24 | \$ 0.31 |
| Income from discontinued operations | \$ 0.39 | \$ 0.07 | \$ 0.08 | \$ 0.10 |
| Net income | \$ 0.76 | \$ 0.31 | \$ 0.32 | \$ 0.41 |
| Diluted Per Share Data: | | | | |
| Income from continuing operations | \$ 0.36 | \$ 0.24 | \$ 0.24 | \$ 0.30 |
| Income from discontinued operations | \$ 0.39 | \$ 0.07 | \$ 0.07 | \$ 0.10 |
| Net income | \$ 0.75 | \$ 0.31 | \$ 0.31 | \$ 0.40 |
| Dividends Paid Per Share | \$ 0.17 | \$ 0.17 | \$ 0.17 | \$ 0.17 |
| 2005: | | | | |
| Revenue | \$2,657 | \$2,581 | \$2,391 | \$2,453 |
| Operating income | \$ 211 | \$ 220 | \$ 102 | \$ 57 |
| Income (loss) from continuing operations | \$ 104 | \$ 116 | \$ 15 | \$ (34) |
| Income from discontinued operations | \$ 30 | \$ 50 | \$ 54 | \$ 69 |
| Net income | \$ 134 | \$ 166 | \$ 69 | \$ 35 |
| Basic Per Share Data: | | | | |
| Income (loss) from continuing operations | \$ 0.19 | \$ 0.22 | \$ 0.03 | \$ (0.06) |
| Income from discontinued operations | \$ 0.06 | \$ 0.09 | \$ 0.10 | \$ 0.12 |
| Net income | \$ 0.25 | \$ 0.31 | \$ 0.13 | \$ 0.06 |
| Diluted Per Share Data: | | | | |
| Income (loss) from continuing operations | \$ 0.19 | \$ 0.22 | \$ 0.03 | \$ (0.06) |
| Income from discontinued operations | \$ 0.06 | \$ 0.09 | \$ 0.09 | \$ 0.12 |
| Net income | \$ 0.25 | \$ 0.31 | \$ 0.12 | \$ 0.06 |
| Dividends Paid Per Share | \$ 0.17 | \$ 0.17 | \$ 0.17 | \$ 0.17 |

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

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