MMC

ANNUAL REPORT 2005

MARSH & McLENNAN COMPANIES, INC.   ANNUAL REPORT 2005

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

MMC

IS A GLOBAL PROFESSIONAL SERVICES FIRM

WITH ANNUAL REVENUES OF APPROXIMATELY $12 BILLION.

IT IS THE PARENT COMPANY OF MARSH, THE WORLD'S LEADING RISK AND INSURANCE SERVICES FIRM; GUY CARPENTER, THE WORLD'S LEADING RISK AND REINSURANCE SPECIALIST; KROLL, THE WORLD'S LEADING RISK CONSULTING COMPANY; MERCER, A MAJOR GLOBAL PROVIDER OF HUMAN RESOURCE AND SPECIALTY CONSULTING SERVICES; AND PUTNAM INVESTMENTS, ONE OF THE LARGEST INVESTMENT MANAGEMENT COMPANIES IN THE UNITED STATES.

APPROXIMATELY 55,000 EMPLOYEES PROVIDE ANALYSIS, ADVICE, AND TRANSACTIONAL CAPABILITIES TO CLIENTS IN OVER 100 COUNTRIES.

DEAR SHAREHOLDER

VISION AND STRATEGY

2005 was a challen in ut pro uctive ear for MMC. We e an the ear respon in to uestions a out MMC's lon term via ilit , accusations of mis ee s, an in ictments. B its close, we ha sta ili e our operations, preserve the reputation of our market lea in companies, an restore the confi ence of our clients an collea ues. The iscussion ha turne to the spee of our full recover , the usiness a vanta es of our compliance culture, an our focus on the future.

MMC to a is a stron er, etter positione compan than it was one ear a o. Still, we face important usiness challen es in 2006 an e on e ecutin our strate ic plans, reali in efficiencies, an achievin rowth.

MMC continues to e a preeminent provi er of insurance an reinsurance rokin services, retirement an health an enefits consultin , investment mana ement, risk consultin an technolo , an investi ative services, amon others. MMC has alwa s ha the est content, e ceptional client service, an talente people, ut it has not ha the est processes. Our operatin structures ha fre uentl een too complicate , our technolo too e pensive an in nee of up atin . We lacke the lo al s stems to allow us to measure an inte rate our usinesses. Some of our compensation plans were too su jective an not sufficientl performance ase . Our companies nee to e mana e more efficientl to meet the eman s of the future. We are chan in , an chan in rapi l .

In 2005, we saw the e innin of a mar in restoration stor for MMC, which we elieve will continue throu h 2006 an 200 . At the same time, we are confi ent that increasin eman for our pro ucts an services will result in rowth opportunities for MMC, particularl as lo al risks ecome lar er an more comple . MMC companies are capa le of provi in clients with solutions for their most pressin pro lems relate to health an retirement issues of a in populations, terrorism, intensif in weather patterns, an strate ic risks associate with outsourcin . We elieve these services ive us the

CONSULTING

MMC's consultin sector, which inclu es human resource consultin an services as well as special i e mana ement an economic consultin , increase revenues percent to $3. illion in 2005.

Mercer Human Resource Consultin is the pre mier lo al HR consultin or ani ation the lea er in retirement an health an enefits consultin , an amon the lar est provi ers of human capital consultin an HR outsourcin . Durin 2005, we com ine the U.S. health care an emplo ee enefits usinesses of Mercer an Marsh to form Mercer Health & Benefits, an or ani ation with unparallele epth an rea th in this important marketplace. In a ition, Mercer Human Resource Consultin investe to transform, roa en, an row its retirement an human capital consultin an HR outsourcin usinesses. It also launche Mercer Glo al Investments, a multi mana er investment usiness, in the Unite States, ase on its successful investment usiness in Australia, an plans to e ten this usiness to other countries. Mercer Human Resource Consultin offers a powerful com ination of services to take a vanta e of the e cellent rowth potential of its marketplace.

The Mercer Specialt Consultin usinesses are also lea in pla ers in their specific areas of e pertise. This roup ha e cellent revenue rowth in 2005, increasin revenues 1 percent to $ 0 million, ue to stron eman for speciali e consultin a vice in financial services an risk mana ement, strate an operations, an economic consultin . As a lo al provi er of sophisticate consultin a vice, Mercer Specialt Consultin shoul continue to row in 2006, an we will con tinue to pursue ac uisitions that roa en the scope of its consultin services.

INVESTMENT MANAGEMENT

Putnam's revenues ecline 12 percent to $1.5 illion in 2005 from $1. illion, similar to the 10 percent ecline in avera e assets un er mana ement. Putnam ha $1 illion in assets un er mana ement at the en of 2005, compare with $213 illion at ear en 200 .

Putnam's investment performance improve in 2005. For the ear, Putnam fun s provi e competi e .63.

helpin investors aroun the worl meet their investment oals. MMC has investe in Putnam's future investin in oth its senior mana ement team, which has een instrumental in lea in the compan 's recover , an its professional staff.

LOOKING AHEAD

MMC will move forwar a ressivel an with a sense of ur enc to make chan es to ma imi e lon term sharehol er value. Our vision is to e the worl 's lea in lo al a vice an solutions firm. Throu h our e pertise an commitment to e cel lence, we are e icate to mana in risk, ma imi in rowth, an creatin value for our clients an share hol ers. We have strate ic plans an e ecuta le oals that will make this vision a realit .

To enhance the financial performance of each operatin compan , MMC is stan ar i in an simplif in its usiness processes, esta lishin est practices, an usin technolo to make its opera tions more efficient. The enefit will e the a ilit to focus more effectivel on provi in e ceptional service to our clients. We are creatin a lo al IT infra structure for MMC to support our efforts, an have name a chief technolo officer to lea the char e.

MMC will move forwar as one compan , with a common purpose to enhance sharehol er value. To the e tent that there are s ner ies amon our usi nesses, we will encoura e colla oration amon them to eliver comprehensive solutions that a ress the comple nee s of our clients. Our usinesses will act ase on a common philosoph an culture. We will put our clients first, anal e their pro lems, an fin the ri ht in ivi uals lo all who can provi e the est solutions. One MMC will mean thou ht lea er ship in value a e services.

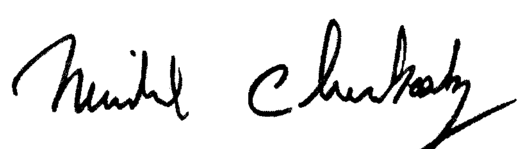
The steps we are takin shoul improve the performance of each of our companies an increase the value of MMC as a whole. In 2006, emplo ees of MMC will e ju e on performance performance for our clients, our collea ues, an our compan . Over 5 percent of m own compensation will e varia le, tie to, amon other factors, compan an personal o jectives such as short an lon term rowth in earnin s an revenues, implementation of strate ic plans, an compliance. All of our most senior e ecutives will e compensate similarl , on a performance asis, with in ivi ual measures tailore to their particular jo s. When MMC is more success ful, our e ecutives will e more successful. That is the essence of one compan .

We were please to welcome two new mem ers to the MMC Boar of Directors this Januar Leslie M. Baker, Jr. an Marc D. Oken. We e ten our thanks an appreciation to Ro ert F. Er uru, who will e retirin from the Boar at MMC's annual meetin in Ma . Bo serve as non e ecutive chairman of the Boar from March 2005, followin his service as lea irector of the Boar from Octo er 200 . He has een a mem er of the Boar of Directors since 1[illegible]6.

San ra S. Wi n er , senior vice presi ent an chief financial officer of MMC since 2000, is resi nin from MMC in March 2006. She is succee e M. Michele Burns, who joins MMC as e ecutive vice presi ent an chief financial officer. We reatl appreciate the su stantial contri utions San ra has ma e to MMC an wish her the est for the future.

For 135 ears, MMC has evelope a reputation as a client focuse or ani ation. Talente an e icate MMC collea ues aroun the worl remain eepl committe to meetin an e cee in our clients' hi hest e pectations while maintainin the hi hest professional stan ar s. With that stren th as our ase, I am confi ent a out the future.

MMC's 55,000 collea ues have emonstrate the a ilit to persevere in ifficult times an continue to provi e superior service to clients. As we look ahea , MMC's focus remains the same to ma imi e lon term sharehol er value. Our o jectives are clear, our will is stron , an the result shoul e a more profita le, faster rowin , more valua le MMC.



Michael G. Cherkask
President and Chief Executive Officer

March 1, 2006

MMC WORLDWIDE

RISK AND INSURANCE SERVICES

Marsh is the worl lea er in eliverin risk an insurance services an solutions to clients. It provi es lo al risk mana ement, risk consultin , insurance rokin , financial solutions, an insurance pro ram mana ement services for usinesses, pu lic entities, associations, professional services or ani ations, an private clients. Marsh is or ani e   client, in ustr , an risk cate ories to facilitate the eliver of hi hl speciali e pro ucts an services coverin a wi e spectrum of risks. Specialt practices, which are ke elements in Marsh's lo al client service capa ilities, operate on a worl wi e asis.

Guy Carpenter is the worl 's lea in risk an reinsurance specialist, creatin an e ecutin reinsurance an risk mana ement solutions for clients worl wi e. It provi es risk assessment anal tics, actuarial services, hi hl speciali e pro uct knowle e, an tra in relationships with reinsurance markets throu hout the worl . Client services also inclu e contract mana ement, claims, an fi uciar accountin . Run off services an other reinsurance an insurance a minis tration solutions are offere throu h Gu Carpenter su si iaries on a fee asis.

RISK CONSULTING AND TECHNOLOGY

Kroll, the worl 's lea in risk consultin compan , provi es a wi e ran e of investi ative, intelli ence, financial, securit , an technolo   services to help clients solve pro lems an capitali e on opportunities. Kroll serves a lo al clientele of law firms, financial institutions, corporations, nonprofits, overnment a encies, an in ivi uals.

TABLE OF CONTENTS

During 2005, MMC made significant progress implementing the requirements of the settlement agreement with the Office of the New York State Attorney General ("NYAG") and the New York State Insurance Department ("NYSID"). We developed and rolled-out compliance infrastructure and governance processes; developed and rolled-out transparency standards and related policies and procedures; trained employees in core and certain specialty business lines; and established compliance monitoring groups to measure compliance. While Marsh is the MMC subsidiary most directly affected by these settlement-related activities, Guy Carpenter and Mercer's health and benefits practices are also affected.

MMC's revenue in 2005 was impacted by a $417 million decrease in market services revenue. In 2005, market services revenue of $124 million, related to insurance placements made prior to October 1, 2004, was recognized in the financial statements. It is expected that market services revenue recognized in 2006 will be significantly lower than in 2005.

As discussed above, our new business model includes an initiative whereby Marsh seeks to increase revenue through higher commissions and fees that are disclosed to its clients. Management expects that this incremental revenue will affect MMC's results in 2006. Given the relatively recent launch of Marsh's compensation initiative and the competitive challenges we currently face in the insurance brokerage market, it is difficult to predict the specific timing and amount of this revenue impact.

In addition to the impact on revenue of the elimination of market services agreements ("MSA"), revenues in the risk and insurance services segment were affected by declining commercial insurance premium rates during most of 2005. Premium rate decreases began to abate in the fourth quarter of 2005 due to the initial effects of the major storms that hit the United States. A more significant impact on reinsurance premium rates as a result of the storms is expected in the first quarter of 2006.

At December 31, 2005, the balance of accounts receivable related to accrued market services revenue earned prior to October 1, 2004 was approximately $130 million. MMC intends to collect outstanding MSA revenue earned prior to October 1, 2004, and is enforcing its contractual rights to collect amounts due. In December 2005, MMC initiated arbitration proceedings against certain insurance carriers for this purpose. However, there is no assurance that MMC will collect all amounts due. To the extent MMC does not collect accrued amounts, a charge to earnings would result.

As discussed in Note 16 to the consolidated financial statements, in connection with the January 2005 settlement agreement with the NYAG and NYSID, MMC established an $850 million policyholder fund. Policyholders representing 88% of the value of the fund, or approximately $750 million, opted to participate and have signed a release related to all matters alleged in the NYAG lawsuit and NYSID amended citation, except for claims which are based on, arise out of, or relate to the purchase or sale of MMC securities.

Also as discussed in Note 16 to the consolidated financial statements, on September 21, 2005, working with the National Association of Insurance Commissioners (the "NAIC"), MMC reached a multi-state regulatory settlement. The NAIC settlement agreement adopts the business reforms and the $850 million fund for policyholder clients provided by MMC's previous settlement with the NYAG and NYSID. The NAIC agreement has been executed by MMC and Marsh, and as of February 17, 2006, has been adopted by insurance commissioners in 33 states and the District of Columbia and Guam.

R r rị

appreciation or depreciation on the investments held by Risk Capital Holdings and has approximately $190 million of remaining capital commitments to funds managed by Stone Point.

Long-Term Financing

In December 2005, MMC and certain of its foreign subsidiaries entered into a new five-year $1.2 billion multi-currency revolving credit facility. Subsidiary borrowings under the facility are unconditionally guaranteed by MMC. The new facility, which will expire in 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. In connection with the termination of its previous revolving credit facilities, MMC recorded as interest expense a $7 million write-off of unamortized deferred financing costs.

In September 2005, MMC completed two financings to enhance liquidity. MMC returned to the public capital markets, issuing $550 million of 5.15% Senior Notes due 2010 and $750 million of 5.75% Senior Notes due 2015. The proceeds from these notes were used to pay down outstanding bank borrowings that were scheduled to mature in December 2006.

Also in September 2005, MMC refinanced its headquarters building in New York 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.

Consolidated Results of Operations

(l ŋ! !● , r r r)	**2005**	2004	2003
Revenue:			
Service Revenue	**$11,469**	$11,561	$11,100
Investment Income (Loss)	**183**	200	100
Operating Revenue	**11,652**	11,761	11,200
Expense:			
Compensation and Benefits	**6,945**	6,706	5,710
Other Operating Expenses	**3,811**	3,486	3,032
Regulatory and Other Settlements	**40**	969	10
Operating Expenses	**10,796**	11,161	8,752
Operating Income	**$ 856**	$ 600	$ 2,448
Income from Continuing Operations	**$ 369**	$ 154	$ 1,516
Discontinued Operations, net of tax	**35**	22	24
Net Income	**$ 404**	$ 176	$ 1,540
Income from Continuing Operations Per Share:			
Basic	**$ 0.69**	$ 0.29	$ 2.85
Diluted	**$ 0.67**	$ 0.29	$ 2.77
Net Income Per Share:			
Basic	**$ 0.75**	$ 0.33	$ 2.89
Diluted	**$ 0.74**	$ 0.33	$ 2.81
Average Number of Shares Outstanding:			
Basic	**538**	526	533
Diluted	**543**	535	548

Consolidated operating income in 2005 increased 43% to $856 million, reflecting significantly lower costs related to regulatory settlements at Marsh and Putnam and savings from restructuring initiatives partly offset N5from restructuring initiatives
partly
partly ofAisk32.9(initiatives)]Tih0ructuringBtv867 -odj(4 .58.9(sete(Basic)Tj/F7242 -ASasicR). 1 Tf)6132.9(initiatived))-3
Basicandsavingcquiredvgsavin Ju(initiativlli4. 1 Tf

During 2005, revenue in the risk and insurance services segment decreased 10% from 2004. Underlying revenue declined 11%, resulting from a $402 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 $541 million. Due to the acquisition of Kroll in July 2004, results in 2005 include, for the first time, a full year of revenue for Kroll, compared with six months of revenue in 2004. Underlying growth in risk consulting & technology was 21%, due to growth in Kroll's technology services, corporate advisory and restructuring, and background screening businesses. Consulting revenue increased 4%, resulting from a 17% increase in Mercer's specialty consulting businesses. Investment management revenue declined 12% as a result of the decrease in assets under management and lower investment income.

Consolidated operating expenses decreased 3% from 2004 to 2005. This was primarily due to savings from restructuring initiatives and lower regulatory and other settlement expenses, partly offset by employee retention costs, the impact of acquisitions, higher benefits costs, and incremental costs, primarily related to stock options, resulting from the implementation of SFAS 123 (R). In addition, Putnam's expenses in 2005 include a charge of $37 million for the estimated cost necessary to address issues relating to the calculation of certain amounts previously paid to Putnam by the Putnam mutual funds in the form of cost reimbursements to Putnam for transfer agency services relating to defined contribution operations. Expenses in 2004 include an $84lT(2005)-33in the

Marsh and Guy Carpenter are compensated for brokerage and consulting services primarily through fees paid by clients and 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 markets, since compensation is frequently related to the premiums paid by insureds. In many cases, compensation may be negotiated in advance on the basis of the estimated value of the services to be performed. Revenue is also affected by fluctuations in the amount of risk retained by insurance and reinsurance clients themselves and by 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 earned 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. The circumstances under which we terminated our market services agreements, and the related revenue impact in our Risk and Insurance Services segment, are discussed above under “Significant Developments in 2005 — New Business Model in Risk and Insurance Services.”

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, discussed above under “Significant Developments in 2005 — Businesses Exited in 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. 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 Holding’s sales of investments from time to time.

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

(In millions of dollars)	**2005**	2004	2003
Revenue	**$5,592**	$6,205	$6,133
Expense	**5,287**	6,121	4,526
Operating Income	**$ 305**	$ 84	$1,607
Operating Income Margin	**5.5%**	1.4%	26.2%

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 $119 million in 2005. Effective October 1, 2004, Marsh agreed to eliminate contingent compensation agreements with insurers. The

issued by the Institute of Chartered Accountants in the U.K., MMC reassessed its obligation to provide future claims handling and certain administrative services for brokerage clients in the European marketplace. MMC determined that under certain circumstances it is obligated to provide such services based on its current business practices and recorded a pre-tax charge of approximately $65 million to reflect the change in estimated cost to provide these services. The effects of acquisitions and foreign exchange increased expenses by 6%. On an underlying basis, and excluding the items previously discussed, expenses increased 4%.

Risk Consulting and Technology

MMC's Risk Consulting and Technology segment consists of Kroll and its subsidiaries, acquired by MMC in July 2004. The segment also includes portions of the risk consulting business previously managed by Marsh under the Risk and Insurance Services segment. The services previously managed by Marsh include forensic accounting, insurance claims accounting, and preparation and crisis consulting. Kroll delivers its services through four business groups: consulting services; corporate advisory & restructuring; security; and technology services.

Kroll receives compensation for its risk consulting and technology services 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 and technology segment are presented below:

(I ɱ! !● ●f ● r)

The major component of Mercer's revenue, in both Mercer Human Resource Consulting and the Mercer Specialty Consulting Businesses, is fees paid by clients for advice and services. Mercer Human Resource Consulting, 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 Services and Investment's defined contribution administration services consists principally of fees based on assets under administration.

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

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

(In millions of dollars)	**2005**	2004	2003
Revenue	**$3,802**	$3,637	$3,290
Expense	**3,351**	3,228	2,829
Operating Income	**$ 451**	$ 409	$ 461
Operating Income Margin	**11.9%**	11.2%	14.0%

Revenue

Consulting revenue in 2005 increased 4% compared with 2004. On an underlying basis, revenue increased 3%, due to a 16% increase in Mercer's specialty consulting businesses, partly offset by a 1% decline in human resources consulting. The increase in underlying revenue in specialty consulting reflects increases of 24% in management consulting, reflecting a 25% increase in Mercer Oliver Wyman, and 6% in economic consulting. Within the human resources consulting businesses, 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 human capital consulting.

Consulting revenue in 2004 increased 11% over 2003. Acquisitions, which accounted for 4% of the revenue growth in 2004, include Synhrgy HR Technologies which closed in January, 2004, and Oliver, Wyman & Company ("OWC") which closed on April 1, 2003. On an underlying basis, revenue increased 3%. In Mercer HR Consulting, underlying revenue was flat. In Mercer's specialty consulting businesses, underlying revenue increased 13%.

Expense

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.

Consulting expenses increased 14% in 2004 compared with 2003. Expenses in 2004 included restructuring charges of $62 million, including severance and other termination benefits and future rent under non-cancelable leases and lease termination costs as well as incremental expense of $7 million related to accelerated amortization or abandonment of leasehold improvements and other time) to firms that distribute shares of the Putnam Funds. These 12b-1 plans, and Rule 12b-1 fees paid by the Putnam Funds thereunder, are subject to annual renewal by the fund trustees and to termination by vote of the fund shareholders or by vote of a majority of the trustees who are not affiliated with Putnam.

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

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

[illegible]	**2005**	2004	2003
Revenue	**$1,506**	$1,710	$ 1,955
Expense	**1,243**	1,612	1,452
Operating Income	**$ 263**	$ 98	$ 503
Operating Income Margin	**17.5%**	5.7%	25.7%

Revenue

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 Decen/F1 1 Tf ea m- m524.843h.9(a)-332.ice(with)-332T*[(Asse
Asrations.6(2m- m a*.e9(m- m a*angn)-332.9(assets)]TJtresults)-3-332.9ee based g assfined a dhave04.21

December 31, 2004 compared with $240 billion at December 31, 2003. The change from December 31, 2003 primarily resulted from net redemptions of $51 billion, partly offset by increases due to market appreciation of $16 billion and the consolidation of PanAgora's $8 billion of assets under management as of July 2004.

The change in the service fee calculation mentioned above resulted in an increase in both service fee revenue and expenses of approximately $41 million during the second half of 2004.

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

(In billions of dollars)	**2005**	2004	2003
Mutual Funds:			
Growth Equity	**$ 31**	$ 38	$ 46
Value Equity	**37**	41	43
Blend Equity	**26**	28	32
Fixed Income	**32**	36	42
	126	143	163
Institutional:			
Equity	**34**	40	51
Fixed Income	**29**	30	26
	63	70	77
Year-end Assets	**$189**	$213	$240
Assets from Non-US Investors	**$ 32**	$ 38	$ 39
Average Assets	**$196**	$217	$258
Components of year-to-date change in ending assets under management:			
Net Redemptions including Dividends Reinvested	**$ (31)**	$ (51)	$ (61)
Impact of PanAgora Acquisition	**$ —**	$ 8	$ —
Impact of Market/Performance	**$ 7**	$ 16	$ 50

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

Expense

Expenses for 2005 decreased 23% from 2004. Expenses in 2005 include a $37 million charge for the estimated costs necessary to address issues relating to the calculation of certain amounts previously paid to Putnam by the Putnam mutual funds in the form of cost reimbursements to Putnam for transfer agency services relating to defined contribution operations. Expenses in 2004 include 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. Equity awards granted in September 2005 are expected to increase Putnam's expenses by approximately $26 million in 2006.

Expenses in 2004, which increased 11% from 2003, included $224 million for Putnam's regulatory settlements with the SEC and the Commonwealth of Massachusetts. Restructuring costs totaled

$26 million, including $10 million related to a start-up hedge fund management business at MMC that was subsequently discontinued. Other significant items recorded in 2004 were severance of $57 million incurred prior to the fourth quarter restructuring, as well as incremental costs related to regulatory issues and repositioning Putnam, including legal and audit costs of $45 million and communications costs of $16 million. In 2004, Putnam discontinued the practice of directing brokerage commissions and virtually eliminated the use of soft dollars, causing expenses to increase by approximately $40 million. These increases were partially offset by a decrease in amortization expense for prepaid dealer commissions and a $25 million credit to compensation expense associated with the settlement with Putnam's former chief executive officer.

Corporate Items

Corporate Expenses

Corporate expenses were $287 million in 2005 compared to $39 million in 2004. Expenses in 2005 include $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) is being charged to corporate and not to the operating segments in 2005 because this expense is excluded from the operating company results reviewed by MMC's chief operating decision maker for performance measurement. 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 in the first quarter 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 reflect $30 million of charges in connection with the resolution of certain litigation and related matters which are discussed in Note 16 to the consolidated financial statements.

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

Integration and Restructuring Charges

Note 13 to the consolidated financial statements discusses integration and restructuring costs. The following chart summarizes the costs incurred and the savings realized and projected for MMC's restructuring activities.

[illegible]	Costs Incurred		Savings Realized	Incremental Savings Expected
	2004	2005	2005	2006
2004 Plan	$337	$ 3	$400	—
2005 Plan	—	310	160	215

Restructuring activities under the 2005 plan, which we initiated in the first quarter of 2005 are nearing completion. In 2005, MMC incurred expenses in connection with the 2005 plan of $310 million (approximately two-thirds of which was severance cost). Additional expenses of $50 million are expected to be incurred primarily in the first half of 2006. Once the 2005 plan is fully implemented, MMC expects to achieve annualized cost savings of $375 million, all of which is in the Risk and Insurance Services segment. Results in 2005 reflect approximately $160 million of the savings expected under the 2005 plan with the remaining $215 million of savings expected to be realized in 2006. Savings under the 2004 plan were $400 million, substantially all of which was realized in 2005.

Restructuring costs in 2005 also include a $4 million increase to the estimated liability for future rent under non-cancelable leases related to the Johnson and Higgins and Sedgwick acquisitions.

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 *Off r ● E C r ! O ! O !●* (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 2.9(to)-332.9(Exchangeiment)-332 provided on net operating losses in certain state and foreign jurisdictions. In 2003 the effective tax rate was 32.8%. The increase in the effective rate in 2004 compared with 2003 results primarily from the tax impact of the aforementioned settlements, and a partially offsetting benefit for foreign earnings taxed at lower rates.

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 for a particular future period.

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

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.

In December 2004, MMC completed financing with respect to a $1.3 billion term loan facility and the amendment of its existing $1 billion revolving credit facility which was scheduled to expire in June 2007 and $700 million revolving credit facility which was scheduled to expire in June 2009. The term loan facility, which was repaid with proceeds from the issuance of the 2005 Notes, was scheduled to mature on December 31, 2006 and replaced revolving credit facilities of $700 million and $355 million, which were scheduled to expire in 2005.

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.

In July 2004, MMC issued $650 million of 5.375% Senior Notes due 2014 and $500 million of Floating Rate Notes due 2007. The proceeds from these notes were used to repay the commercial paper borrowings that were used to purchase Kroll.

years, which would indicate an expected capital call of approximately $35–$50 million per year. Actual capital calls may occur more quickly. 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 2006 and thereafter, the timing of any portfolio company sales and capital distributions is unknown and not controlled by MMC.

Putnam has investment commitments of $101 million for three active THL funds, of which Putnam believes approximately $50 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, 2005 none of that additional $187 million is committed.

Approximately $77 million was invested in 2005 related to all of the commitments discussed above.

Commitments and Obligations

MMC's contractual obligations were comprised of the following as of December 31, 2005 (dollars in millions):

	Payment due by Period				
Contractual Obligations	Total	Within 1 Year	1–3 Years	4–5 Years	After 5 Years
Bank Borrowings-International	$ 597	$ 429	$ 168	$ —	$ —
Current portion of long-term debt	69	69	—	—	—

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 40 basis points over the course of the year, annual interest income, including interest earned on fiduciary funds, would increase by approximately $14 million. However, this would be partially offset by a $3 million increase in interest expense resulting in a net increase to income before income taxes and minority interest of $11 million.

F●r ị C rr Rị

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.

E ị Prị Rị

MMC holds investments in public and private companies, as well as in certain private equity funds managed by Stone Point, including Trident II and Trident III. Publicly traded investments of $143 million are classified as available for sale under SFAS No. 115. Non-publicly traded investments of $54 million and $365 million are accounted for under APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock", using the cost method and the equity method, respectively. Changes in value of trading securities are recognized in income when they occur. The investments that are classified as available for sale or that are not publicly traded are subject to risk of changes in market value, which if determined to be other than temporary, could result in realized impairment losses. MMC periodically reviews the carrying value of such investments to determine if any valuation adjustments are appropriate under the applicable accounting pronouncements.

O r

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 understa.9(ans32.9w32.9ri4cies)-o

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.

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. Pension expense in 2005 increased by $130 million compared with 2004. Based on its current assumptions, MMC expects pension expense to decrease by approximately $12 million in 2006 and currently expects to contribute approximately $145 million to the plans during the year.

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 are 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. These changes do not affect pension benefits earned as of December 31, 2005.

Future pension expense or credits will depend on plan provisions, future investment performance, future assumptions, and various other factors related to the populations participating in the pension plans. Holding all other assumptions constant, a half-percentage point change in the rate of return and discount rate assumptions would affect net periodic pension cost for the U.S. and U.K. plans, which comprise approximately 90% of total pension plan liabilities, as follows:

	0.5 Percentage Point Increase		0.5 Percentage Point Decrease	
(In millions of dollars)	U.S.	U.K.	U.S.	U.K.
Assumed Rate of Return	$(13.2)	$(21.1)	$13.2	$21.1
Discount Rate	$(29.1)	$(54.3)	$31.2	$57.3

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.

I n

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.

r - P n

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).

SFAS 123(R) requires that cost resulting from all share-based transactions be recognized in the financial statements. Although the required effective date of adoption for SFAS 123(R) is the first annual reporting period that begins after June 15, 2005, MMC elected to adopt early. MMC adopted SFAS 123(R) using a modified prospective method of adoption, as permitted. Accordingly, prior period amounts have not been restated. Under this method, MMC is required to record compensation

As of December 31, 2005, there was $152 million of unrecognized compensation cost related to

Marsh & McLennan Companies, Inc. and Subsidiaries

Consolidated Statements of Income

For the Years Ended December 31, *(I [illegible])*	**2005**	2004	2003
Revenue:			
Service revenue	**$11,469**	$11,561	$11,100
Investment income (loss)	**183**	200	100
Operating revenue	**11,652**	11,761	11,200
Expense:			
Compensation and benefits	**6,945**	6,706	5,710
Other operating expenses	**3,811**	3,486	3,032
Settlement and other costs	**40**	969	10
Operating expenses	**10,796**	11,161	8,752
Operating income	**856**	600	2,448
Interest income	**47**	21	24
Interest expense	**(332)**	(219)	(185)
Income before income taxes and minority interest	**571**	402	2,287
Income taxes	**192**	240	751
Minority interest, net of tax	**10**	8	20
Income from continuing operations	**369**	154	1,516
Discontinued operations, net of tax	**35**	22	24
Net income	**$ 404**	$ 176	$ 1,540
Basic net income per share — Continuing operations	**$ 0.69**	$ 0.29	$ 2.85
— Net income	**$ 0.75**	$ 0.33	$ 2.89
Diluted net income per share — Continuing operations	**$ 0.67**	$ 0.29	$ 2.77
— Net income	**$ 0.74**	$ 0.33	$ 2.81
Average number of shares outstanding — Basic	**538**	526	533
— Diluted	**543**	535	548

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)	**2005**	2004
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 2,020**	$ 1,370
Receivables		
Commissions and fees	**2,407**	2,475
Advanced premiums and claims	**117**	102
Other	**363**	424
	2,887	3,001
Less — allowance for doubtful accounts and cancellations	**(157)**	(142)
Net receivables	**2,730**	2,859
Assets of discontinued operations	**153**	173
Other current assets	**359**	597
Total current assets	**5,262**	4,999
Goodwill and intangible assets	**7,773**	8,055
Fixed assets, net	**1,178**	1,363
Long-term investments	**277**	558
Prepaid pension	**1,596**	1,394
Other assets	**1,806**	2,129
	$17,892	$18,498
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	**$ 498**	$ 636
Accounts payable and accrued liabilities	**1,733**	1,818
Regulatory settlements — current portion	**333**	394
Accrued compensation and employee benefits	**1,413**	1,568
Accrued income taxes	**192**	281
Dividends payable	**93**	—
Liabilities of discontinued operations	**89**	46
Total current liabilities	**4,351**	4,743
Fiduciary liabilities	**3,795**	4,111
Less — cash and investments held in a fiduciary capacity	**(3,795)**	(4,111)
	—	—
Long-term debt	**5,044**	4,691
Regulatory settlements	**348**	595
Pension, postretirement and postemployment benefits	**1,180**	1,326
Other liabilities	**1,609**	2,087
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 2005 and 2004	**561**	561
Additional paid-in capital	**1,143**	1,316
Retained earnings	**4,989**	5,044
Accumulated other comprehensive loss	**(756)**	(370)
	5,937	6,551
Less — treasury shares at cost, 15,057,704 shares in 2005 and 33,831,782 shares in 2004	**(577)**	(1,495)
Total stockholders' equity	**5,360**	5,056
	$17,892	$18,498

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)*	**2005**	2004	2003
Operating cash flows:			
Net income	**$ 404**	$ 176	$ 1,540

Marsh & McLennan Companies, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity and Comprehensive Income

For the Years Ended December 31, [illegible]	**2005**	2004	2003
COMMON STOCK			
Balance, beginning of year	**$ 561**	$ 561	$ 561
Issuance of shares under stock compensation plans and			

1. Summary of Significant Accounting Policies

Nature of Operations: Marsh & McLennan Companies, Inc. ("MMC"), a global professional services firm, is organized based on the different services that it offers. Under this organizational structure, MMC operates in four principal business segments: risk and insurance services, risk consulting and technology, consulting and investment management. Marsh's U.S. and U.K. employee benefits business has been combined with Mercer's health and benefits business and is now managed by Mercer. The segment data and related disclosures throughout the Notes to MMC's consolidated financial statements have been amended to reflect these organizational changes.

As discussed in Note 5, MMC sold its U.S.-based wholesale insurance broker, Crump Group, Inc., during the fourth quarter of 2005 and its interest in Sedgwick CMS Holdings, a provider of claims management and associated productivity services, on January 31, 2006. In connection with these dispositions, the account balances and activities of these entities were segregated and reported as discontinued operations in the accompanying consolidated financial statements of MMC at December 31, 2005 and 2004 and for each of the three years ended December 31, 2003 through 2005.

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 and technology segment provides various risk consulting and related risk mitigation services to corporate, government, institutional and individual clients. These risk consulting services fall into four main business groups: corporate advisory and restructuring services; consulting services; security; and technology services.

The consulting segment provides advice and services to the managements of organizations in the areas of Human Resource Consulting, comprising retirement and investment consulting, HR services and investments, health and benefits and human capital; and Specialty Consulting, comprising management consulting, organization change, 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.

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 $151 million in 2005, $130 million in 2004, and $114 million in 2003. 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, 2005, Putnam managed the investment of approximately $1.3 billion of the fiduciary assets.

Net uncollected premiums and claims and the related payables were $10.4 billion and $11.1 billion at December 31, 2005 and 2004, 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 and London market operations), as of the effective date or billing date, whichever is later. Commissions are net of policy cancellation reserves, which are estimated based on historic and current data on cancellations. Fees for non-risk transfer services provided to clients are recognized over the period in which the services are provided, using a proportional performance model. Fees resulting from achievement of certain performance thresholds are recorded when such levels are attained and such fees are not subject to forfeiture. 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. Although MMC no longer receives management fees or origination fees related to Stone Point's business, it will continue to receive dividends and to recognize capital appreciation or depreciation on these investment holdings. In addition, Crump Group, Inc. and Sedgwick CMS Holdings were part of this segment.

Risk Consulting and 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 shipped, with the exception of royalty-based products, for which revenue is recognized as applicable royalty reports are received. Software revenue is stated net of estimated customer returns and allowances. Contingent fees are recognized as earned and upon satisfaction of all conditions to their payment.

Consulting revenue includes fees paid by clients for advice and services and commissions from insurance companies for the placement of individual and group contracts. Fee revenue for engagements where Mercer is remunerated based on time plus out-of-pocket expenses is recognized based on the amount of time consulting professionals expend on the engagement. For fixed fee engagements, revenue is recognized using a proportional performance model. Insurance commissions are recorded as of the effective date of the applicable policies.

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

MMC has deferred the recognition of performance fee revenue in connection with the management of certain private equity funds of $113 million at December 31, 2005. 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 $113 million noted above, may take a number of years to resolve.

Cas2.9(which682.9)-315(vate)-33v-33eng:resolve1

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 from 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 $284 million and $281 million, net of accumulated amortization of $524 million and $413 million at December 31, 2005 and 2004, 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, 2005 amounted to approximately $1.4 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 $40 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: MMC through Putnam, manages $3.4 billion in the form of Collateralized Debt Obligations ("CDO") and Collateralized Bond Obligations ("CBO"). Separate limited liability companies were established to issue the notes and to hold the underlying collateral, which consists of high-yield bonds and other securities. Putnam serves as the collateral manager for the CDOs and CBOs. The maximum loss exposure related to the CDOs and CBOs is limited to Putnam's investment totaling $7.3 million, reflected in Long-term investments in the consolidated balance sheets at December 31, 2005. MMC has concluded it is not the primary beneficiary of these structures under FIN 46 "Consolidation of Variable Interest Entities."

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

Per Share Data:

the Limited Partners Have Certain Rights” (Issue 04-05). The effective date for Issue 04-05 is June 29, 2005 for all new or modified partnerships and January 1, 2006 for all remaining partnerships for the applicable provisions. MMC is currently evaluating the impact of the adoption of the provisions of EITF 04-05 on its financial position and results of operations; however, the adoption of EITF 04-05 is not expected to have a material impact on MMC’s financial statements.

Reclassifications: Certain reclassifications have been made to the prior year amounts to conform with current year presentation, in particular with regard to segment reclassification resulting from changes in MMC’s organizational structure, discontinued operations classification for Crump and SCMS, the income statement classification of severance related restructuring charges, and the balance sheet classification of certain MMC deferred compensation balances.

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)*	**2005**	2004	2003
Purchase acquisitions:			
Assets acquired, excluding cash	**$ 68**	$2,353	$ 408
Liabilities assumed	**—**	(17)	(9)
Issuance of debt and other obligations	**(8)**	(33)	(115)

3. Other Comprehensive Income (Loss)

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

For the Years Ended December 31, *(In millions of dollars)*	**2005**	2004	2003
Foreign currency translation adjustments	**$(271)**	$ 234	$ 302

Changes in the carrying amount of goodwill are as follows:

[illegible]	
Balance as of January 1, 2005	**$7,459**
Goodwill acquired	**45**
Disposals	**(95)**
Transfer to identified intangible asset (purchase accounting adjustment)	**(38)**
Other adjustments [(a)]	

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, *([illegible])*

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

December 31, *(In millions of dollars)*	**2005**	2004
Deferred tax assets:		
Accrued expenses not currently deductible [a]	**$ 793**	$ 807
Differences related to non-U.S. operations	**215**	242
Net operating losses [b]	**31**	9
Other	**62**	54
	$1,101	$1,112
Deferred tax liabilities:		
Unrealized investment holding gains	**$ 29**	$ 74
Differences related to non-U.S. operations	**91**	123
Depreciation and amortization	**282**	277
Accrued retirement benefits	**107**	34
Other	**24**	28
	$ 533	$ 536

[a] Net of valuation allowance of $9 million and $10 million, respectively.

[b] Net of valuation allowance of $68 million and $41 million, respectively.

Balance sheet classifications:		
Current assets	**$153**	$282
Other assets	**$415**	$294

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,	**2005**	2004	2003
	%	%	%
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	**5.1**	1.6	1.9
Differences related to non-U.S. operations	**(5.1)**	(8.2)	(4.2)
NYAG lawsuit, including state taxes	**—**	12.9	—
Putnam regulatory settlements	**—**	19.4	—
Meals and entertainment	**1.5**	2.9	.5
Dividends paid to employees	**(1.4)**	(3.3)	(.6)
Other	**(1.5)**	(.9)	.2
Effective tax rate	**33.6**	59.4	32.8

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.

The net changes in the valuation allowances for the years ended December 31, 2005 and 2004 were increases of $26 million and $19 million respectively. Approximately $22 million of the cumulative valuation allowances relates to amounts which if realized would reduce goodwill or increase contributed capital in the future. Approximately 70% of the Company's net operating loss carryforwards expire over various periods from 2006 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, 2005. 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.

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.

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	
	2005	2004	**2005**	2004
Weighted average assumptions:				
Discount rate (for expense)	**5.5%**	5.8%	**5.9%**	6.3%
Expected return on plan assets	**8.4%**	8.4%	**—**	—
Rate of compensation increase (for expense)	**3.6%**	3.7%	**—**	—
Discount rate (for benefit obligation)	**5.1%**	5.5%	**5.6%**	5.9%
Rate of compensation increase (for benefit obligation)	**3.8%**	3.6%	**—**	—

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 85% of non-U.S. plan assets, is 58% equities and 42% fixed income. As of the measurement date, the actual allocation of assets for the U.S. plan was 74% to equities and 26% to fixed income, and for the U.K. plans was 57% to equities and 43% 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 durations that match the expected payment patterns of the plan. Discount rates for non-U.S. plans are based on appropriate bond indices such as the IBoxx £ Corporates 15-year index in the U.K. Projected compensation increases reflect current expectations as to future levels of inflation.

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

For the Years Ended December 31,	Pension Benefits			Postretirement Benefits		
(In millions of dollars)	**2005**	2004	2003	**2005**	2004	2003
Service cost	**$ 245**	$ 232	$ 190	**$ 9**	$11	$ 9
Interest cost	**472**	422	363	**18**	20	20
Expected return on plan assets	**(640)**	(618)	(545)	**—**	—	—
Amortization of prior service credit	**(41)**	(38)	(38)	**(3)**	(2)	(2)
Amortization of transition asset	**—**	(5)	(5)	**—**	—	—
Recognized actuarial loss	**177**	90	26	**1**	3	5
Net Periodic Benefit Cost (Income)	**$ 213**	$ 83	$ (9)	**$25**	$32	$32

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	
	2005	2004	**2005**	2004
Change in benefit obligation:				
Benefit obligation at beginning of year	**$3,013**	$2,538	**$ 309**	$ 290
Service cost	**88**	78	**8**	10
Interest cost	**176**	164	**15**	17
Amendments	**(138)**	—	**(92)**	—
Actuarial loss	**80**	347	**(27)**	3
Benefits paid	**(125)**	(114)	**(19)**	(11)
Benefit obligation at end of year	**$3,094**	$3,013	**$ 194**	$ 309
Change in plan assets:				
Fair value of plan assets at beginning of year	**$2,635**	$2,407	**$ —**	$ —
Actual return on plan assets	**276**	298	**—**	—
Employer contributions	**229**	44	**19**	11
Benefits paid	**(125)**	(114)	**(19)**	(11)
Fair value of plan assets at end of year	**$3,015**	$2,635	**$ —**	$ —
Funded status	**$ (79)**	$ (378)	**$(194)**	$(309)
Unrecognized net actuarial loss	**858**	899	**38**	66
Unrecognized prior service credit	**(282)**	(185)	**(93)**	(5)
Unrecognized transition asset	**—**	—	**—**	—
Net asset (liability) recognized	**$ 497**	$ 336	**$(249)**	$(248)
Amounts recognized in the Consolidated Balance Sheets consist of:				
Prepaid benefit cost	**$ 746**	$ 580	**$ —**	$ —
Accrued benefit liability	**(314)**	(316)	**(249)**	(248)
Accumulated other comprehensive loss	**65**	72	**—**	—
Net asset (liability) recognized	**$ 497**	$ 336	**$(249)**	$(248)
Accumulated benefit obligation at December 31	**$3,021**	$2,846	**$ —**	$ —

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	
	2005	2004	**2005**	2004
Weighted average assumptions:				
Discount rate (for expense)	**6.0%**	6.4%	**6.0%**	6.4%
Expected return on plan assets	**8.75%**	8.75%	**—**	—
Rate of compensation increase (for expense)	**3.0%**	3.15%	**—**	—
Discount rate (for benefit obligation)	**5.9%**	6.0%	**5.9%**	6.0%
Rate of compensation increase (for benefit obligation)	**3.4%**	2.85%	**—**	—

In September 2005 the Company contributed 8 million unregistered shares of MMC 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 $2.0 billion and $1.9 billion at December 31, 2005 and 2004, 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.” 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 fair value of plan assets for the U.S. pension plans with accumulated benefit obligations in excess of plan assets were $326 million, $315 million and $0, respectively, as of December 31, 2005 and $340 million, $315 million and $0, respectively, as of December 31, 2004.

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

For the Years Ended December 31,	U.S. Pension Benefits			U.S. Postretirement Benefits		
(In millions of dollars)	**2005**	2004	2003	**2005**	2004	2003
Service cost	**$ 88**	$ 78	$ 66	**$ 8**	$10	$ 8
Interest cost	**176**	164	153	**15**	17	17
Expected return on plan assets	**(233)**	(230)	(228)	**—**	—	—
Amortization of prior service credit	**(40)**	(38)	(38)	**(3)**	(2)	(2)
Amortization of transition asset	**—**	(5)	(5)	**—**	—	—
Recognized actuarial loss	**78**	46	18	**1**	3	5
Net Periodic Benefit Cost (Income)	**$ 69**	$ 15	$ (34)	**$21**	$28	$28
Curtailment (Gain)/loss	**—**	—	—	**(1)**	—	—
Total Expense	**$ 69**	$ 15	$ (34)	**$20**	$28	$28

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

The assumed health care cost trend rate for Medicare eligibles was approximately 11.5% in 2005 gradually declining to 5% in the year 2019, and the rate for non-Medicare eligibles was 10.5% in 2005 gradually declining to 5.0% in 2017. Assumed health care cost trend rates have a significant effect on the amounts reported for the U.S. health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

(In millions of dollars)	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost components	$4	$(3)
Effect on postretirement benefit obligation	$2	$(8)

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

December 31,	Non-U.S. Pension Benefits		Non-U.S. Postretirement Benefits	
(In millions of dollars)	**2005**	2004	**2005**	2004
Change in benefit obligation:				
Benefit obligation at beginning of year	**$5,936**	$ 4,666	**$ 62**	$ 55
Service cost	**157**	154	**1**	1
Interest cost	**296**	258	**3**	3
Employee contributions	**37**	36	**—**	—
Actuarial loss (gain)	**648**	591	**9**	1
Effect of settlement	**(14)**	(11)	**—**	—
Effect of Curtailment	**(40)**	—	**—**	—
Special termination benefits	**17**	6	**—**	—
Benefits paid	**(210)**	(162)	**(3)**	(3)
Foreign currency changes	**(539)**	429	**(2)**	5
Plan amendments	**—**	(31)	**—**	—
Benefit obligation at end of year	**$6,288**	$ 5,936	**$ 70**	$ 62
Change in plan assets:				
Fair value of plan assets at beginning of year	**$4,815**	$ 3,934	**$ —**	$ —
Actual return on plan assets	**785**	427	**—**	—
Effect of settlement	**(12)**	(11)	**—**	—
Company contributions	**498**	239	**3**	3
Employee contributions	**37**	36	**—**	—
Benefits paid	**(210)**	(162)	**(3)**	(3)
Foreign currency changes	**(443)**	352	**—**	—
Fair value of plan assets at end of year	**$5,470**	$ 4,815	**$ —**	$ —
Funded status	**$ (818)**	$(1,121)	**$(70)**	$(62)
Unrecognized net actuarial loss	**2,251**	2,322	**17**	9
Unrecognized prior service cost	**(24)**	(20)	**(2)**	(3)
Net asset (liability) recognized	**$1,409**	$ 1,181	**$(55)**	$(56)

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 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 $3.5 billion, $3.3 billion and $2.8 billion, respectively, as of December 31, 2005 and $3.4 billion, $3.1 billion and $2.5 billion, respectively, as of December 31, 2004.

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.

● *O !●* : 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 stock option awards that provide for a performance-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. For awards without a performance triggering event, compensation cost is generally recognized on a straight-line basis over the requisite service period which is normally the vesting period. For awards with a performance triggering event, each vesting tranche is accounted for as a sepae(generally)1eut aaaccthe mathe (over)]TJT*[(the)-3

1.5 years. Cash received from the exercise of stock options for the years ended December 31, 2005, 2004 and 2003 was $44.6 million, $110.5 million, and $157.8 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.

R ri : 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 that have been granted generally become unrestricted at the earlier of: (1) January 1 of the eleventh year following the grant or (2) the later of the recipient's normal or actual retirement date. Some restricted shares granted in 2004 cliff vest in seven years. Restricted shares granted in 2005 generally vest over 3 to 5 years.

A summary of the status of MMC's restricted stock awards as of December 31, 2005 and changes during the period then ended is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested balance at January 1, 2005	**1,749,062**	**$42.13**
Granted	**385,514**	**$28.87**
Vested	**(313,300)**	**$35.57**
Forfeited	**(801,221)**	**$43.91**
Non-vested Balance at December 31, 2005	**1,020,055**	**$37.73**

The weighted-average grant-date fair value of MMC's restricted stock awards granted during the years ended December 31, 2004 and 2003 was $46.12 and $42.99, respectively. The total fair value of MMC's restricted stock distributed during the years ended December 31, 2005, 2004 and 2003 was $9.9 million, $5.1 million and $4.2 million, respectively.

R ri i :

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.

A summary of the status of MMC's restricted stock unit awards as of December 31, 2005 and changes during the period then ended is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested balance at January 1, 2005	**1,429,898**	**$44.40**
Granted	**143,291**	**$29.43**
Vested	**(709,184)**	**$44.94**
Forfeited	**(80,420)**	**$48.57**
Non-vested Balance at December 31, 2005	**783,585**	**$40.74**

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.

O ! ● ● C B r :

Options on Class B shares of Putnam's common stock, which may be awarded under Putnam's Equity Partnership 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 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 *Off r ● E C r ! O ! O !●* (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 2005, 2004 and 2003 are as follows:Ja9657 Tm332.92tal%

A summary of the status of Putnam's stock option awards as of December 31, 2005 and changes during the period then ended is presented below:

	Options on Class B Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Balance at January 1, 2005	**4,869,555**	**$61.61**		
Granted	**5,138,000**	**$28.62**		
Exercised	**—**	**—**		
Canceled	**—**	**—**		
Forfeited or exchanged	**(3,182,925)**	**$63.62**		
Expired	**—**	**—**		
Balance at December 31, 2005	**6,824,630**	**$35.83**	**6.7 years**	**$0**
Options vested or expected to vest at December 31, 2005	**6,268,964**	**$36.37**	**6.7 years**	**$0**
Options exercisable at December 31, 2005	**1,487,505**	**$57.63**	**4.2 years**	**$0**

The weighted-average grant-date fair value of Putnam's option awards granted for the years ended December 31, 2005, 2004 and 2003 was $4.88, $4.87 and $6.55, respectively. No options were exercised in 2005 and 2004. During 2003, 54,850 options were exercised.

As of December 31, 2005, there was $19 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 3.5 years.

R rı ● : Restricted shares of Putnam's common stock which may be awarded or sold under Putnam's Equity Partnership 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.

11. Debt

MMC's outstanding debt is as follows:

(In millions of dollars)	December 31, 2005	December 31, 2004
Short-term:		
Commercial paper	**$ —**	$ 129
Bank borrowings — U.S.	**—**	376
Bank borrowings — International	**429**	61
Current portion of long-term debt	**69**	70
	$ 498	$ 636
Long-term:		
Term loan — 2 year floating rate note due 2006	**$ —**	$1,300
Senior notes — 7.125% due 2009	**399**	399
Senior notes — 5.375% due 2007 (4.0% effective interest rate)	**508**	514
Senior notes — 6.25% due 2012 (5.1% effective interest rate)	**264**	266
Senior notes — 3.625% due 2008	**249**	249
Senior notes — 4.850% due 2013	**249**	249
Senior notes — 5.875% due 2033	**295**	295
Senior notes — 5.375% due 2014	**647**	646
Senior notes — 3 year floating rate note due 2007 (4.27% at December 31, 2005)	**499**	499
Senior notes — 5.15% due 2010	**547**	—
Senior notes — 5.75% due 2015	**745**	—
Mortgage — 5.70% due 2035	**473**	—
Mortgage — 9.8% due 2009	**—**	200
Notes payable — 8.62% due 2005	**—**	65
Notes payable — 7.68% due 2006	**60**	61
Bank borrowings — International	**168**	—
Other	**10**	18
	5,113	4,761
Less current portion	**69**	70
	$5,044	$4,691

The weighted average interest rates on MMC's outstanding short-term debt at December 31, 2005 and 2004 are 6% and 3%, 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. Prior to year-end, certain of MMC's foreign subsidiaries borrowed approximately $510 million under the facility. 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 5.70%, 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 statements of income.

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, discussed below.

Additional credit facilities, guarantees and letters of credit are maintained with various banks, primarily related to operations located outside the United States, aggregating $354 million at December 31, 2005 and $331 million at December 31, 2004. There was $83 million outstanding at December 31, 2005 and there was $61 million outstanding under these facilities at December 31, 2004.

In December 2004, MMC completed financing with respect to a $1.3 billion term loan facility and the amendment of its existing $1 billion revolving credit facility which was scheduled to expire in June 2007 and $700 million revolving credit facility which was scheduled to expire in June 2009. The term loan facility, which was repaid with proceeds from the issuance of the 2005 Notes, was scheduled to mature on December 31, 2006 and replaced revolving credit facilities of $700 million and $355 million, which were scheduled to expire in 2005. The proceeds from the term loan facility were used to pay down outstanding balances on revolving credit facilities. The interest rates on the Term Loan and amended facilities varied based upon the level of usage of each facility and MMC’s credit ratings. Each of thenancing with rsfequre MMChevotes were 7o.9(in)-332.9(J)hevoteaul(ofeste)-332.9(interest)-

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.

	2005		2004	
December 31, *([illegible])*	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents	**$2,020**	**$2,020**	$1,370	$1,370
Long-term investments	**$ 277**	**$ 277**	$ 558	$ 558
Short-term debt	**$ 498**	**$ 498**	$ 636	$ 636
Long-term debt	**$5,044**	**$5,062**	$4,691	$4,705

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

Long-term Investments: Long-term investments primarily consist of available for sale securities recorded at quoted market prices. MMC also has certain additional long-term investments, for which there are no readily available market prices, amounting to $54 million and $75 million at December 31, 2005 and 2004, 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 $223 million and $483 million at December 31, 2005 and 2004, respectively, which are carried at market value under SFAS 115. Gross unrealized gains amounting to $82 million and $212 million at December 31, 2005 and 2004, 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 $158 million, $102 million and $34 million, in 2005, 2004 and 2003, respectively. Proceeds from the sale of available for sale securities for the years ended December 31, 2005, 2004 and 2003 were $293 million, $170 million and $94 million, respectively. Gross realized gains on available for sale securities sold during 2005, 2004 and 2003 amounted to $158 million, $107 million and $49 million, respectively. In 2005, 2004 and 2003, MMC recorded losses of $0 million, $5 million and $15 million, respectively, related to the decline in value of certain available for sale securities that were other than temporary. The cost of securities sold is determined using the average cost method for equity securities. The gains and losses described above are included in Investment income (loss) in the consolidated statements of income.

MMC also holds investments in certain private equity fund partnerships which are accounted for

13. Integration and Restructuring Costs

2005 Plan

In March 2005, MMC announced that it would undertake restructuring initiatives involving staff reductions and consolidations of facilities in response to MMC's business environment (the "2005 Plan"). In connection with this plan, MMC incurred restructuring charges of $310 million in the twelve months ended December 31, 2005,of which $255 million was recorded in risk and insurance services and $55 million was recorded in corporate. The amounts incurred and paid in 2005 and the liability as of December 31, 2005 are as follows:

(In millions of dollars)	Accrued in 2005	Utilized in 2005	Remaining Liability at 12/31/05
Severance and benefits	$197	$(128)	$ 69
Future rent on non-cancelable leases	114	(37)	77
Other exit costs	(1)	12[a]	11
	$310	$(153)	$157

[a] Includes approximately $36 million of payments received on the disposals of small commercial accounts and other dispositions.

Additional costs of approximately $50 million related to the 2005 restructuring are expected to be incurred after December 31, 2005. The expenses associated with these initiatives are included in Compensation and Benefits or in Other operating expenses in the consolidated statements of income based on the nature of the item. Liabilities associated with these initiatives are classified in the consolidated balance sheets as Accounts payable, Other liabilities, or Accrued salaries, depending on the nature of the items.

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 of $337 million in the year ended December 31, 2004 and $3 million in 2005. The breakdown by segment was $234 million, $62 million, and $26 million in risk and insurance services, consulting and investment management, respectively. An additional $18 million of restructuring expense was recorded in corporate. Utilization of the 2004 charges is summarized as follows:

(In millions of dollars)	Accrued in 2004	Utilized in 2004	Utilized in 2005	Additions/ Changes in Estimates 2005	Remaining Liability at 12/31/05
Severance and benefits	$273	$(48)	$(194)	$(1)	$30
Future rent on non-cancelable leases	28	(1)	(17)	(2)	8
Lease termination costs	18	—	(2)	1	17
Other exit costs	18	(10)	(8)	5	5
	$337	$(59)	$(221)	$ 3	$60

The expenses associated with the 2005 Plan and the 2004 Plan 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.

Restructuring costs in 2005 also include a $4 million increase to the estimated liability for future rent under non-cancelable leases related to the Johnson and Higgins and Sedgwick acquisitions.

14. Common Stock

MMC has not repurchased common stock in 2005.

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

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

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

N ●r A ●r G r I ! !● L !

On October 14, 2004, the Office of the New York State Attorney General ("NYAG") filed a civil complaint in New York State court (the "NYAG Lawsuit") against MMC and Marsh Inc. (collectively, "Marsh") asserting claims under New York law for fraudulent business practices, antitrust violations, securities fraud, unjust enrichment, and common law fraud. The complaint alleged that market service agreements between Marsh and various insurance companies (the "Agreements") created an improper incentive for Marsh to steer business to such insurance companies and to shield them from competition. The complaint further alleged that the Agreements were not adequately disclosed to Marsh's clients or MMC's investors. In addition, the complaint alleged that Marsh engaged in bid-rigging and solicited fraudulent bids to create the appearance of competitive bidding. The complaint sought relief that included an injunction prohibiting Marsh from engaging in the alleged wrongful conduct, disgorgement of all profits related to such conduct, restitution and unspecified damages, attorneys' fees, and punitive damages.

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

Following the announcement of the NYAG Lawsuit and related actions taken by MMC, the MMC stock price dropped from approximately $45 per share to a low of approximately $22.75 per share.

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

Pursuant to the Settlement Agreement, Marsh agreed to establish a fund of $850 million (the “Fund”), payable over four years, for Marsh policyholder clients. A copy of the Settlement Agreement was previously disclosed as an exhibit to MMC’s Current Report on Form 8-K dated January 31, 2005. As a general matter, U.S. policyholder clients who retained Marsh to place insurance between 2001 and 2004 that resulted in Marsh receiving market service revenue were eligible to receive a pro rata distribution from the Fund, provided that they notified Marsh of their decision to participate in the Fund by September 20, 2005. Approximately 70,000 eligible policyholders across the United States have elected to receive a distribution, and will receive approximately $750 million of the $850 million made available under the Fund. Clients who have voluntarily elected to participate in the Fund have tendered a release relating to the matters alleged in the NYAG Lawsuit and the Amended Citation, except for claims which 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 Marsh and no portion of the Fund will revert to Marsh.

In 2004, MMC recorded a charge of $850 million for the amount to be paid into the Fund in accordance with the Settlement Agreement. In addition, in the fourth quarter of 2004 and the first quarter of 2005, MMC recorded charges totaling $16 million for the expected cost to calculate and administer payments out of the Fund.

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

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

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

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

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

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

f. Marsh will implement company-wide written standards of conduct relating to compensation

R L¡ ¡ ¡●

this derivative action have agreed that it will also remain stayed pending resolution of the motions to dismiss the Southern District of New York securities class action.

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. M.F. Henry, one of the stockholders who had made such a demand, subsequently filed a shareholder derivative complaint, which has been consolidated in the Federal Derivative Action. Henry has since amended her complaint to assert individual claims against certain current and former directors and officers of MMC, alleging violations of the federal securities laws, including Sections 10(b), 14(a) and 20 of the Securities Exchange Act of 1934. Lead counsel to plaintiffs and counsel to defendants in the Federal Derivative Action have submitted a stipulation seeking to stay the Federal Derivative Action in favor of the Delaware Derivative Action. Henry has objected to the 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 described in the NYAG Lawsuit 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 addition, on May 6, 2005, the plaintiffs in a shareholder derivative suit pending in the proceedings or other regulatory actions, fines or penalties, including, without limitation, actions to revoke or suspend their insurance broking licenses.

- On September 21, 2005, the National Association of Insurance Commissioners (the “NAIC”) issued a press release indicating that over 30 state insurance regulators working collaboratively through the NAIC had reached a multi-state regulatory settlement with MMC and Marsh Inc. 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 Inc. and, as of February 24, 2006, has been adopted by insurance commissioners in thirty-three states, the District of Columbia and Guam.

Putnam-Related Matters

R ●r M r

- In 2003 and 2004, Putnam entered into 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 settlements, Putnam paid in 2004 a total of $110 million ($10 million in restitution and $100 million in civil fines and penalties). Putnam also agreed to undertake a number of remedial compliance actions and to engage an independent assessment consultant (the “IAC”) to determine the amount of restitution that Putnam would be required to pay to make investors in the Putnam Funds whole for losses attributable to the short-term trading.

  The settlements permit Putnam to apply up to $25 million of the $110 million settlement payment against any amount the IAC determines to be due as restitution to Putnam Fund shareholders. Therefore, any amount of restitution above $25 million requires a separate additional payment by Putnam. In March 2005, the IAC concluded that $108.5 million was the total amount of restitution payable by Putnam to Putnam Fund shareholders. Accordingly, Putnam recorded a charge for $83.5 million ($108.5 million, less $25 million) in 2004. 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. The IAC is acting as the independent distribution consultant and developing a plan that will provide for the distribution of these restitution amounts to Putnam Funds shareholders. Putnam will incur additional costs in connection with implementing the distribution plan.

  theformSe-33i).thethe,the SEC is to SEC

relationships with consultants retained by multi-employer deferred compensation plans. At that time, the Massachusetts Securities Division took testimony from a number of Putnam employees relating to these matters.

- Commencing in 2004, the Enforcement Staff of the SEC's Boston Office investigated certain matters that arose in the defined contribution plan administration business formerly conducted by Putnam Fiduciary Trust Company ("PFTC"). One of the matters related to the manner in which certain operational errors were corrected in connection with a January 2001 transfer and investment of assets on behalf of a 401(k) defined contribution plan. The manner in which these errors were corrected affected the plan and five of the Putnam Funds in which certain plan assets were invested. Following the discovery of this matter, Putnam notified the regulatory authorities, made restitution to the plan and the affected Putnam Funds and made a number of changes in its personnel and procedures. A second matter related to the source and use of funds paid to a third-party vendor by PFTC in exchange for information consulting services. Putnam has re-processed the payment of these consulting expenses in accordance with Putnam's corporate expense payment procedures.

  On December 30, 2005, based upon the results of its investigation, the SEC filed an action in the United States District Court for the District of Massachusetts against six former PFTC personnel. In a press release relating to the filing, the SEC said it would not bring any enforcement action against PFTC because of its cooperation with the SEC's investigation.

  During the course of the SEC's investigation of these matters, issues arose relating to the calculation of certain cost reimbursements paid by the Putnam Funds in previous years to Putnam for transfer agent services relating to defined contribution operations. These issues are being reviewed by Putnam and the Trustees of the Putnam Funds and, pending the completion of this review, Putnam has recorded charges totaling $37 million for the estimated cost (including interest) that it believes will be necessary to address these issues. Putnam also has briefed the SEC, the Federal Deposit Insurance Corporation (the "FDIC") and other governmental authorities on this matter.

- In October 2004 the Department of Labor 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. Putnam has made a written submission to the Department of Labor addressing these issues.

- Since December 2003, Putnam has received various requests for information from the Department of Labor regarding the Putnam Profit Sharing Retirement Plan, including requests for information relating to (i) Plan governance, (ii) Plan investments, including investments in MMC stock, (iii) the purported ERISA class actions relating to MMC's receipt of contingent commissions and other matters, which are discussed above, (iv) the market timing-related "ERISA Actions," which are discussed below, and (v) the suspensions of trading in MMC stock imposed by Putnam on its employees in October and November 2004.

- The Fort Worth office of the SEC has stated that it does not believe that the previous structure of the Putnam Research Fund's investment management fee, which included a performance component in addition to a base fee, fully complied with SEC regulations concerning performance fees. In order to resolve this matter, Putnam submitted an offer of sett settlement, Putnam reimbursed the Putnam Research Fund in a total amount of $1.65 million. The reimbursement represents a retroactive adjustment to the fee structure from April 1, 1997 (the date when the performance fee was put in effect) through September 27, 2004 (when the performance fee was terminated).

- Starting in May 2004, Putnam received and responded to requests for information from the Washington staff of the SEC's Office of Compliance Inspections and Examinations, in the context of an SEC sweep concerning closed-end fund distributions. In April and July 2005, Putnam received and responded to follow-up requests concerning the same subject matter from the SEC's Division of Enforcement, which has indicated its belief that Putnam's issuance of notices to shareholders in connection with dividend payments by certain of Putnam's closed-end funds did not comply with applicable SEC disclosure requirements. Putnam is currently engaged in discussions with the SEC staff regarding a resolution of this matter.
- Starting in January 2004, the NASD has made several requests for information relating to reimbursement of expenses to participants at certain sales meetings (during the period from 2001 to 2004). Putnam has fully responded to these requests and is cooperating with the NASD's investigation.

M r - m! R L!! !●

MMC and Putnam have received complaints in over 70 civil actions based on allegations of "market-timing" and, in some cases, "late trading" activities. These actions were filed in courts in various states. All of the actions filed in federal court have been transferred, along with actions against other mutual fund complexes, to the United States District Court for the District of Maryland for coordinated or consolidated pretrial proceedings. The lead plaintiffs in those cases filed consolidated amended complaints on September 29, 2004. MMC and Putnam 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 opb(misleadistatementng)-332.9(statemamamamamamasj-332.9
l purchasers of.alon (the.9(of)-332T*[(managers)-33rious

- 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.

O r P m L! ! !

- Putnam Investment Management, LLC and Putnam Retail Management Limited Partnership have been sued in the United States District Court for the District of Massachusetts for alleged violations of Section 36(b) of the Investment Company Act of 1940 in connection with the receipt of purportedly excessive advisory and distribution fees paid by certain Putnam Funds in which plaintiffs purportedly owned shares. Plaintiffs seek, among other things, to recover the "excessive" 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. On March 28, 2005, the Court granted in part and denied in part defendants' motion to dismiss the complaint. Plaintiffs served an amended complaint on April 4, 2005. On January 19, 2006, the Court granted plaintiffs' motion for leave to file a second amended complaint, and granted defendants' motion for partial summary judgment, limiting the scope of the suit to the fees paid by the five Putnam Funds.
- 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 ("ERS"). ERS alleges that Putnam breached its investment management agreement and did not make appropriate disclosures to ERS at the time the investment management agreement was executed. Putnam has removed the action to the United States District Court for the Western District of Texas, and ERS has moved to remand the action to state court. Putnam also is awaiting the conclusion of an arbitration process involving similar issues with another former institutional client. Putnam has provided for the estimated liability related to this matter.
- Putnam may be subject to employment-related claims by former employees who left Putnam in connection with various regulatory inquiries, including claims relating to deferred compensation. A former Putnam senior executive has notified Putnam of his intention to initiate an arbitration proceeding against Putnam arising from the circumstances of his separation from Putnam. To date, no such action has been commenced.
- Commencing on July 9, 2004, PFTC, as well as Cardinal Health and a number of other Cardinal-related fiduciaries, were named as defendants in a litigation pending in the United States District Court for the Southern District of Ohio relating to the allegedly imprudent investment of retirement plan assets in Cardinal stock in the Cardinal Health Profit Sharing,

Retirement and Savings Plan and its predecessor plans. PFTC was a directed trustee of this plan. At a hearing on February 10, 2006, the judge stated that he expected to dismiss the complaint with respect to PFTC and to issue a written opinion within two to three weeks.

Other Governmental Inquiries Relating to MMC and its Subsidiaries

- On June 13, 2005, the European Commission announced its intention to commence an investigation (a so-called sector inquiry) into competition in the financial services sector. In announcing the investigation, the Commission stated, among other things: "The Commission is concerned that in some areas of business insurance (the provision of insurance products and services to businesses), competition may not be functioning as well as it could.... Insurance and reinsurance intermediation will also be part of the inquiry."
- On May 19, 2005, the SEC issued a subpoena to MMC relating to certain loss mitigation insurance and reinsurance products. The SEC had previously issued a subpoena to MMC in early 2003 relating to loss mitigation products. MMC and its subsidiaries have received similar inquiries from regulators and other authorities in several states. On April 18, 2005, the Office of Insurance Regulation in the State of Florida issued a subpoena to Guy Carpenter & Company, Inc. concerning certain reinsurance products. On May 4, 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. On May 23, 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.
- The SEC is examining the practices, compensation arrangements and disclosures of consultants that provide services to sponsors of pension plans or other market participants, including among other things, practices with respect to advice regarding the selection of investment advisors to manage plan assets. On March 22, 2005, Mercer Investment Consulting, Inc. ("Mercer IC") received a letter from the SEC outlining its findings and requesting that Mercer IC improve certain disclosures and procedures. On April 22, 2005, Mercer IC responded to that letter, indicating that it had made or will make the improvements requested by the SEC. Since that time, Mercer IC received separate letters from the Boston office of the Enforcement Division of the SEC requesting additional information. Mercer IC has responded to these requests and continues to cooperate with the SEC.
- In November 2004, MMC, Putnam and Mercer received requests for information from the Boston office of the Enforcement Division of the SEC in connection with an informal investigation of a former program pursuant to which MMC affiliates referred business to one another and received compensation for such referrals. MMC, Putnam and Mercer responded to these requests and are cooperating with the SEC.
- On February 8, 2005 the Department of Labor served a subpoena on MMC seeking documents pertaining to services provided by MMC subsidiaries to employee benefit plans, including but not limited to documents relating to how such subsidiaries have been compensated for such services. The request also sought information concerning market service agreements and the solicitation of bids from insurance companies in connection with such services. MMC is cooperating with the Department of Labor.
- On December 21, 2004, MMC received a request for information pursuant to a formal investigation commenced by the SEC. The request for information seeks documents

concerning related-party transactions of MMC or MMC subsidiaries in which transactions a director, executive officer or 5% stockholder of MMC had a direct or indirect material interest. On April 29, 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 been noticed to testify in connection with this matter.

Other Matters Relating to MMC and its Subsidiaries

- 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 limits 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.
- On February 7, 2005, Olwyco LLC ("Olwyco") commenced a lawsuit in the United States District Court for the Southern District of New York, and, after voluntarily dismissing that action, subsequently filed a new complaint in New York State Supreme Court, County of New York (the "State Lawsuit"). The claims in the State Lawsuit, which named MMC, Mercer Management Consulting, Inc. ("Mercer Management") and Mercer Inc. as defendants, arose from a February 21, 2003 agreement in which Mercer Management agreed to purchase substantially all of Olwyco's assets and, as part of the consideration, to transfer shares of MMC stock to Olwyco in April 2005, 2006 and 2007. Olwyco alleged that the price of MMC stock at the time of the agreement was inflated artificially as a result of a failure to disclose alleged violations of law that later became the subject of the NYAG Lawsuit and the Putnam "market timing" litigation. In December 2005, the parties agreed to settle this matter, and the State Lawsuit has been dismissed with prejudice.
- 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, 2005, 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

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.

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
2005—					
Risk and Insurance Services	**$ 5,592(a)**	**$ 305**	**$ 11,465**	**$221**	**$153**
Risk Consulting & Technology	**946(b)**	**124**	**2,524**	**84**	**54**
Consulting	**3,802(c)**	**451**	**3,595**	**96**	**83**
Investment Management	**1,506(d)**	**263**	**1,882**	**69**	**36**
Total Operating Segments	**$11,846**	**$1,143**	**$ 19,466**	**$470**	**$326**
Corporate/Eliminations	**(194)**	**(287)(e)**	**(1,727)(f)**	**11**	**2**
Assets of Discontinued Operations	**—**	**—**	**153**	**—**	**17**
Total Consolidated	**$11,652**	**$ 856**	**$ 17,892**	**$481**	**$345**
2004—					
Risk and Insurance Services	$ 6,205(a)	$ 84	$ 9,428	$225	$223
Risk Consulting & Technology	405(b)	48	2,284	33	21
Consulting	3,637(c)	409	3,858(g)	99	55
Investment Management	1,710(d)	98	2,038	79	49
Total Operating Segments	$11,957	$ 639	$ 17,608	$436	$348
Corporate/Eliminations	(196)	(39)	(717)(f)	14	14
Assets of Discontinued Operations	—	—	173	—	14
Total Consolidated	$11,761	$ 600	$ 18,498	$450	$376
2003**—**					
Risk and Insurance Services	$ 6,133(a)	$1,607	$ 8,876	$199	$275
Risk Consulting & Technology	19(b)	(8)	—	—	—
Consulting	3,290(c)	461	3,552(g)	89	70
Investment Management	1,955(d)	503	2,303	87	45
Total Operating Segments	$11,397	$2,563	$ 14,731	$375	$390
Corporate/Eliminations	(197)	(115)	185(f)	12	40
Assets of Discontinued Operations	—	—	137	—	6
Total Consolidated	$11,200	$2,448	$ 15,053	$387	$436

(a) Includes interest income on fiduciary funds ($151 million in 2005, $130 million in 2004 and $114 million in 2003).

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

(c) Includes inter-segment revenue ($154 million in 2005, $173 million in 2004, and $184 million in 2003).

(d) Includes inter-segment revenue ($10 million in 2005 and 2004, and $8 million in 2003).

(e) 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.

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

(g) Total consulting assets are higher than previously reported in 2004 due to the Investment in Delta held by Human Resource Consulting not eliminated after the split of the two consulting product lines. Offset included in Corporate/Eliminations.

- The transfer of several consulting businesses, which included business continuity management, mass tort and complex liability mitigation, and data services for the management of insurance, claims and legal data, from Risk Consulting & Technology to Insurance Services.
- The discontinued operations classifications for the U.S. wholesale broking and claims management businesses, which were previously part of Related Insurance Services.

Revenue:	Three Months Ended (Unaudited)				Twelve Months Ended
2005	March 31,	June 30,	Sept. 30,	Dec. 31,	Dec. 31,
Risk and Insurance Services					
Insurance Services	$1,232	$1,172	$1,028	$1,135	$ 4,567
Reinsurance Services	282	192	207	155	836
Risk Capital Holdings	63	54	45	27	189

Consolidated Statements of Income:	Three Months Ended (Unaudited)				Twelve Months Ended
2005	March 31,	June 30,	Sept. 30,	Dec. 31,	Dec. 31,
Operating Income (Loss):					
Risk and Insurance Services	$ 137	$ 86	$ 20	$ 62	$ 305
Risk Consulting & Technology	37	36	36	15	124
Consulting	110	130	117	94	451
Investment Management	50	71	83	59	263
Corporate	(73)	(30)	(69)	(115)	(287)
	261	293	187	115	856
Interest Income	9	11	13	14	47
Interest Expense	(69)	(73)	(111)	(79)	(332)
Income Before Income Taxes and Minority Interest, Net of Tax	201	231	89	50	571
Income Taxes	70	69	24	29	192
Minority Interest Expense, Net of Tax	2	2	2	4	10
Income From Continuing Operations	129	160	63	17	369
Discontinued Operations, Net of Tax	5	7	5	18	35
Net Income	$ 134	$ 167	$ 68	$ 35	$ 404
Basic Income Per Share — Continuing Operations	$0.24	$0.30	$0.12	$0.03	$0.69
Diluted Income Per Share — Continuing Operations	$0.24	$0.30	$0.11	$0.03	$0.67

2004	Three Months Ended (Unaudited) March 31,	June 30,	Sept. 30,	Dec. 31,	Twelve Months Ended Dec. 31,
Operating Income (Loss):					
Risk and Insurance Services	$ 600	$ 418	$ (63)	$ (871)	$ 84
Risk Consulting & Technology	—	—	26	22	48
Consulting	116	138	125	30	409
Investment Management	(26)	99	56	(31)	98
Corporate	72	(36)	(33)	(42)	(39)
	762	619	111	(892)	600
Interest Income	5	4	6	6	21
Interest Expense	(50)	(48)	(55)	(66)	(219)
Income (Loss) Before Income Taxes and Minority Interest, Net of Tax	717	575	62	(952)	402
Income Taxes	278	188	45	(271)	240
Minority Interest Expense, Net of Tax	—	3	3	2	8
Income (Loss) From Continuing Operations	439	384	14	(683)	154
Discontinued Operations, Net of Tax	7	5	7	3	22
Net Income (Loss)	$ 446	$ 389	$ 21	$ (680)	$ 176
Basic Income (Loss) Per Share — Continuing Operations	$0.84	$0.74	$0.03	$(1.29)	$0.29
Diluted Income (Loss) Per Share — Continuing Operations	$0.82	$0.72	$0.03	$(1.29)	$0.29

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Marsh & McLennan Companies, Inc. and subsidiaries (the "Company") as of December 31, 2005 and 2004, 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, 2005. 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

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

Management evaluated the effectiveness of MMC's internal control over financial reporting as of December 31, 2005. In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on its evaluation, management determined that MMC maintained effective internal control over financial reporting as of December 31, 2005.

Deloitte & Touche LLP, the Independent Registered Public Accounting Firm that audited and reported on MMC's consolidated financial statements included in this annual report, also issued an attestation report on management's evaluation of the effectiveness of MMC's internal control over financial reporting as of December 31, 2005.

Michael G. Cherkasky
President and
Chief Executive Officer
February 27, 2006

Sandra S. Wijnberg
Senior Vice President and
Chief Financial Officer
February 27, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Marsh & McLennan Companies, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's

Marsh & McLennan Companies, Inc. and Subsidiaries

SELECTED QUARTERLY FINANCIAL DATA AND SUPPLEMENTAL INFORMATION (UNAUDITED)

	First Quarter			

FIVE-YEAR STATISTICAL SUMMARY OF OPERATIONS

For the Years Ended December 31, ([illegible])[c]	**2005**	2004	2003	2002	2001	Compound Growth Rate 2000–2005
Revenue:						
Service Revenue	**$11,469**	$11,561	$11,100	$10,039	$ 9,735	3%
Investment Income (Loss)	**183**	200	100	67	(142)	19%
Total Revenue	**11,652**	11,761	11,200	10,106	9,593	3%
Expenses:						
Compensation and Benefits	**6,945**	6,706	5,710	5,025	4,729	8%
Other Operating Expenses	**3,811**	3,486	3,032	2,845	3,125	4%
Regulatory and Other Settlements	**40**	969	10	—	—	
Total Expenses	**10,796**	11,161	8,752	7,870	7,854	6%
Operating Income	**856[a]**	600[a]	2,448	2,236	1,739[b]	(17)%
Interest Income	**47**	21	24	19	23	
Interest Expense	**(332)**	(219)	(185)	(160)	(196)	
Income Before Income Taxes and Minority Interest	**571**	402	2,287	2,095	1,566	(22)%
Income Taxes	**192**	240	751	731	591	
Minority Interest, Net of Tax	**10**	8	20	18	13	
Income From Continuing Operations	**369**	154	1,516	1,346	962	(21)%
Discontinued Operations, Net of Tax	**35**	22	24	19	12	31%
Net Income	**$ 404**	$ 176	$ 1,540	$ 1,365	$ 974	(19)%
Basic Income Per Share Information:						
Income From Continuing Operations	**$ 0.69**	$ 0.29	$ 2.85	$ 2.49	$ 1.75	(20)%
Income From Discontinued Operations	**$ 0.06**	$ 0.04	$ 0.04	$ 0.03	$ 0.02	25%
Net Income	**$ 0.75**	$ 0.33	$ 2.89	$ 2.52	$ 1.77	(19)%
Average Number of Shares Outstanding	**538**	526	533	541	550	
Diluted Income Per Share Information:						
Income From Continuing Operations	**$ 0.67**	$ 0.29	$ 2.77	$ 2.42	$ 1.67	(20)%
Income From Discontinued Operations	**$ 0.07**	$ 0.04	$ 0.04	$ 0.03	$ 0.03	28%
Net Income	**$ 0.74**	$ 0.33	$ 2.81	$ 2.45	$ 1.70	(18)%
Average Number of Shares Outstanding	**543**	535	548	557	572	
Dividends Paid Per Share	**$ 0.68**	$ 1.30	$ 1.18	$ 1.09	$ 1.03	(6)%
Return on Average Stockholders' Equity	**8%**	3%	29%	27%	19%	
Year-end Financial Position:						
Working capital	**$ 911**	$ 256	$ 189	$ (199)	$ (622)	
Total assets	**$17,892**	$18,498	$15,053	$13,855	$13,769	
Long-term debt	**$ 5,044**	$ 4,691	$ 2,910	$ 2,891	$ 2,334	
Stockholders' equity	**$ 5,360**	$ 5,056	$ 5,451	$ 5,018	$ 5,173	
Total shares outstanding (excluding treasury shares)	**546**	527	527	538	548	
Other Information:						
Number of employees	**54,900**	63,900	60,400	59,400	57,800	
Stock price ranges —						
U.S. exchanges — High	**$ 34.25**	$ 49.69	$ 54.97	$ 57.30	$ 59.03	
— Low	**$ 26.67**	$ 22.75	$ 38.27	$ 34.61	$ 39.70	

(a) Includes restructuring costs of $317 million and $337 million in 2005 and 2004, respectively.

(b) Includes charges related to September 11 and restructuring costs of $396 million.

(c) Certain balances have been reclassified to conform with current presentation. See Note 1 to the consolidated financial statements.

See Management's Discussion and Analysis of Financial Condition and Results of Operations for discussion of significant items affecting the results of operations in 2005 and 2004.

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

This Annual Report contains “forward-looking statements,” as defined in the Private Securities Litigation Reform Act of 1995. These statements, which use words like “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “should” and similar terms, express management’s current views concerning future events or results. For example, we may use forward-looking statements when addressing topics such as: future actions by our management or regulators; the outcome of contingencies; changes in our business strategy; changes in our business practices and methods of generating revenue; the development and performance of our services and products; market and industry conditions, including competitive and pricing trends; changes in the composition or level of MMC’s revenues; our cost structure; the impact of acquisitions and dispositions; 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 brought by federal and state regulators and law enforcement authorities concerning our insurance and reinsurance brokerage operations and our investment management operations (including the complaint filed in October 2004 by the New York Attorney General’s office relating to market service agreements and other matters, and proceedings relating to market-timing matters at Putnam); and class actions, derivative actions and individual suits filed by policyholders and shareholders in connection with the foregoing;
- the extent to which we are able to replace the revenues we previously derived from contingent commissions, which we eliminated in late 2004;
- our ability to retain existing clients and attract new business, particularly in our Risk and

BOARD OF DIRECTORS

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

Lewis W. Bernard
Chairman, Classroom, Inc.
Former Chief of Finance, A ministration, an Operations, Mor an Stanle & Co., Inc.

Zachary W. Carter
Partner, Dorse & Whitne LLP

Michael G. Cherkasky
Presi ent an Chief E ecutive Officer

Robert F. Erburu
Former Chairman,
The Times Mirror Compan

Oscar Fanjul
Vice Chairman an
Chief E ecutive Officer, Ome a Capital
Honorar Chairman, Repsol YPF

Stephen R. Hardis
Former Chairman, A celis Technolo ies, Inc.
Former Chairman an
Chief E ecutive Officer, Eaton Corporation

Gwendolyn S. King
Presi ent, Po ium Prose
Former Commissioner,
Social Securit A ministration

The Rt. Hon. Lord Lang of Monkton, DL
Former Mem er of British Parliament
Former British Secretar of State for
Tra e an In ustr

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

David A. Olsen
Former Chairman, Johnson & Hi ins

Morton O. Schapiro
Presi ent, Williams Colle e

Adele Simmons
Vice Chair, Chica o Metropolis 2020
Presi ent, Glo al Philanthrop Partnership

ADVISORY DIRECTORS

Richard E. Heckert
Former Chairman,
E.I. u Pont e Nemours an Compan

Richard M. Morrow
Former Chairman, Amoco Corporation

George Putnam
Chairman Emeritus, The Putnam Fun s

Frank J. Tasco
Former Chairman, MMC

COMMITTEES OF THE BOARD

Audit
Stephen R. Har is, *Chairman*
Leslie M. Baker, Jr.
achar W. Carter
Oscar Fanjul
Gwen ol n S. Kin
Marc D. Oken
Davi A. Olsen
A ele Simmons

Compensation
Lewis W. Bernar , *Chairman*
Ro ert F. Er uru
Oscar Fanjul
The Rt. Hon. Lor Lan of Monkton, DL
Morton O. Schapiro

Compliance
achar W. Carter, *Chairman*
Gwen ol n S. Kin
Davi A. Olsen

Directors and Governance
Ro ert F. Er uru, *Chairman*
Gwen ol n S. Kin
The Rt. Hon. Lor Lan of Monkton, DL
Morton O. Schapiro

Executive
Ro ert F. Er uru, *Chairman*
Lewis W. Bernar
Michael G. Cherkask Lewis

SHAREHOLDER INFORMATION

Annual Meeting
The 2006 annual meetin of sharehol ers will e hel at 10 a.m., Thurs a , Ma 1 , in the 2n floor au itorium of the McGraw Hill Buil in , 1221 Avenue of the Americas, New York Cit .

Financial and Investor Information
Sharehol ers an prospective investors in uirin a out reinvestment an pa ment of ivi en s, con soli ation of accounts, an stock certificate hol in s shoul contact

The Bank of New York
Sharehol er Relations Department
P.O. Bo 1125
Church Street Station
New York, NY 102 6
Telephone 00 5 6
610 3 2 33

The Bank of New York's we site www.stock n .com
E mail shareowners ankofn .com

Re uests for an in uiries a out stock certificate transfers an a ress chan es shoul e irecte to

The Bank of New York
Receive an Deliver Department
P.O. Bo 11002
Church Street Station
New York, NY 102 6
Telephone 00 5 6
E mail shareowners ankofn .com

For these services, sharehol ers in the Unite Kin om an Europe shoul contact

Computershare Investor Services
Overseas Team
P.O. Bo 2, The Pavilions
Bri water Roa , Bristol BS NH
En lan
Telephone 0 0 020000
E mail we . ueries computershare.co.uk

Copies of MMC's annual reports an Forms 10 K an 10 are availa le on the MMC we site. These ocuments also ma e re ueste contactin

Investor Relations
Marsh & McLennan Companies, Inc.
1166 Avenue of the Americas
New York, NY 10036
Telephone 212 3 5 5 5
MMC's we site www.mmc.com

Stock Listings
MMC's common stock ticker s m ol MMC is liste on the New York, Chica o, Pacific, an Lon on stock e chan es.

Officer Certifications
The compan has file the certifications re uire un er Section 302 of the Sar anes O le Act of 2002 as E hi it 31 to MMC's Annual Report on Form 10 K for the ear en e Decem er 31, 2005. In 2005, after our annual meetin of sharehol ers, the compan file with the New York Stock E chan e the CEO certification re ar in its compliance with the NYSE corporate overnance listin stan ar s as re uire NYSE Rule 303A.12 a .

Complaints and Concerns Procedures
To report an issue relatin to the accountin , internal accountin controls, or au itin practices of Marsh & McLennan Companies inclu in its su si iaries an affiliates , ou ma contact the compan mail or telephone. To communicate with the compan 's in epen ent irectors, ou ma telephone or write to the chair, Directors an Governance Committee of the MMC Boar of Directors. You ma review the compan 's proce ures for han lin complaints an concerns of emplo ees an other intereste parties at www.mmc.com.

B mail
Marsh & McLennan Companies, Inc.
P.O. Bo
New York, NY 101 5

B telephone
MMC Ethics & Compliance Line
In Cana a an the Unite States 00 3 1 2105
Outsi e Cana a an the Unite States Use our countr 's AT&T Direct Service num er to reach the MMC Ethics & Compliance Line toll free.

Desi ne an Pro uce , Ta lor & Ives, NYC

MMC

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

MARSH & McLENNAN COMPANIES, INC.   ANNUAL REPORT 2005