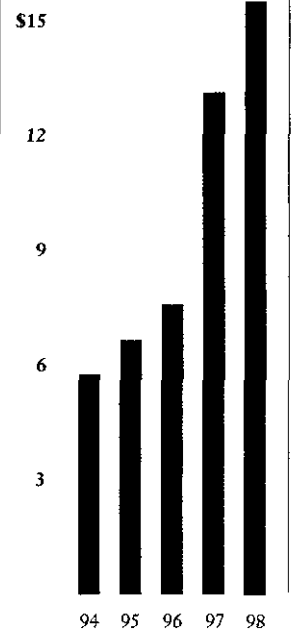


FC 10607

Financial Highlights

Year-end
Market Capitalization
(in billions)

Compound
Annual Growth 28%



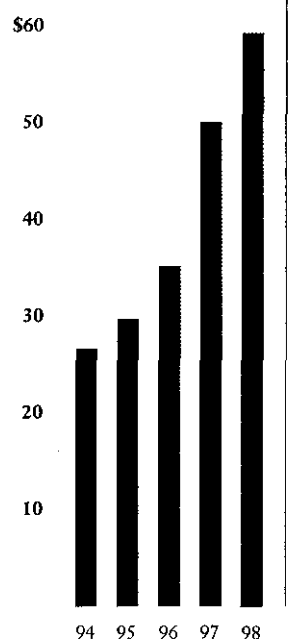
For the Three Years Ended December 31,
(In millions, except per share figures)

	1998	1997	1996
Revenue	\$7,190	\$6,009	\$4,404
Income Before Income Taxes ⁽¹⁾	\$1,305	\$ 715	\$ 668
Net Income ⁽¹⁾	\$ 796	\$ 434	\$ 459
Stockholders' Equity	\$3,659	\$3,233	\$1,889
Diluted Net Income Per Share ⁽¹⁾	\$ 2.98	\$ 1.73	\$ 2.08
Dividends Paid Per Share	\$ 1.46	\$ 1.26	\$ 1.11
Year-end Stock Price	\$58.44	\$49.71	\$34.67

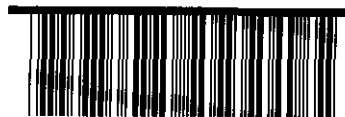
(1) MMC's 1997 operating results include the impact of a special charge principally resulting from the combination with Johnson & Higgins.

Year-end
Share Price

Compound
Annual Growth 22%



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\$15
26361



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

General

Marsh & McLennan Companies, Inc. and Subsidiaries ("MMC") is a professional services firm providing risk and insurance services, investment management and consulting. More than 50,000 employees worldwide provide analysis, advice and transactional capabilities to clients in over 100 countries.

MMC is organized in three principal business segments based on the services that each provides. Segment performance is evaluated based on operating income, which is after deductions for directly related expenses but before special charges. The accounting policies of the segments are identical to those used for the consolidated financial statements, described in Note 1 to the consolidated financial statements.

This management's discussion and analysis of financial condition and results of operations contains certain statements relating to future results which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. See "Cautionary Language Regarding Forward-Looking Information" on the inside back cover page of this annual report.

The consolidated results of operations follow:

<i>(In millions, except per share figures)</i>	1998	1997	1996
Revenue:			
Risk and Insurance Services	\$3,351	\$2,789	\$1,907
Investment Management	2,296	1,882	1,338
Consulting	1,543	1,338	1,159
	7,190	6,009	4,404
Expense:			
Compensation and Benefits	3,565	3,044	2,204
Other Operating Expenses	2,209	1,923	1,425
Special Charges/(Credits), net	(4)	244	60
	5,770	5,211	3,689
Operating Income	\$1,420	\$ 798	\$ 715
Net Income	\$796	\$434	\$459
Net Income Per Share:			
Basic ^(a)	\$3.11	\$1.77	\$2.11
Diluted ^(a)	\$2.98	\$1.73	\$2.08
Average Number of Shares Outstanding:			
Basic ^(a)	256	245	217
Diluted ^(a)	264	251	221

^(a) Information for 1997 and 1996 has been restated to reflect the three-for-two stock distribution in the form of a stock dividend issued on June 26, 1998.

During the third quarter of 1998, MMC announced its offer to acquire Sedgwick Group plc ("Sedgwick"), a London-based holding company of one of the world's leading insurance and reinsurance broking and consulting groups, for total cash consideration of approximately

\$2.2 billion. On November 3, 1998, MMC announced that all conditions of the merger had been satisfied. On November 16, 1998, MMC remitted approximately \$1.9 billion to the United Kingdom receiving agent for immediate distribution to Sedgwick security holders who had tendered outstanding ordinary shares and convertible bonds representing 87.6% and 97.5% of such securities, respectively. The compulsory acquisition of all previously untendered Sedgwick shares was completed in February 1999. MMC has reflected the acquisition of Sedgwick in its results of operations beginning in November 1998.

In 1997, the results of operations reflected MMC's business combination with Johnson & Higgins ("J&H"), completed on March 27, 1997 beginning with the second quarter of 1997.

In 1998, revenue, derived mainly from commissions and fees, rose 20% from 1997 due, in part, to the impact of the J&H transaction, which was not reflected in the results of operations in the first quarter of 1997, as well as the acquisition of Sedgwick in November 1998. Excluding acquisitions and dispositions, revenue grew approximately 11% over 1997. This growth was driven by a 22% increase in revenue in the investment management segment as average assets under management in 1998 were substantially higher than 1997. Risk and insurance services revenue grew 5% for the year reflecting net new business development partially offset by premium rate declines. Also, the consulting segment experienced 12% growth in revenue due to an increased level of services provided in all lines of business.

In 1997, revenue rose 36% from 1996 primarily reflecting the impact of the combination with J&H and the acquisition of Compagnie Européenne De Courtage d'Assurances et de Réassurances ("CECAR") in January 1997. Excluding acquisitions and dispositions, revenue grew approximately 14% over 1996, principally due to a 41% increase in the investment management segment attributable to higher assets under management. In addition, an increased level of services provided in the retirement consulting area contributed to a 10% growth in revenue from MMC's consulting segment.

In 1998, expenses increased 11% over 1997 primarily reflecting higher compensation and client service related costs in the investment management and consulting segments to support a higher volume of business in 1998. The expense growth in 1998 also reflects one additional quarter of J&H operating expenses in 1998 as compared with 1997 as well as the acquisition of Sedgwick in November 1998. These increases were offset, in part, by approximately \$75 million of net integration savings associated with the combination with J&H and the year-over-year impact of the \$244 million of special charges recorded in 1997. Of the \$75 million net integration savings achieved in 1998, approximately \$55 million was realized by risk and insurance services, approximately \$15 million by consulting and approximately \$5 million by corporate.

Expenses increased 41% in 1997 compared with 1996, primarily due to the combination with J&H, the acquisition of CECAR, and special

arges totaling \$244 million. The special charges for 1997 included \$8 million of merger costs predominantly related to the combination of J&H, a charge of \$61 million related to lease abandonment costs associated with the consolidation of various London operations along with costs to abandon and redevelop MMC's London building and \$15 million for the disposal of certain EDP assets, which were written-off in 1997. These charges are explained, in more detail, under the caption Special Charges in this Management's Discussion and Analysis.

Including acquisitions, dispositions, and the special charges, expenses grew 12% in 1997 mostly as a result of staff growth in the investment management and consulting segments as well as higher executive compensation levels in the investment management segment commensurate with very strong operating performance. Investment service related costs for investment management also increased resulting from the higher level of business activity.

Income for 1996 included a tax adjustment that reduced the income tax provision by \$40 million. The tax adjustment primarily related to the permanent deployment of funds outside the United States in a tax-efficient manner and favorable state and local tax developments in the U.S. The net impact of the tax adjustment and net special charges increased earnings per share in 1996 by 11% for the year.

Effective January 1, 1998, MMC adopted Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," which was effective for fiscal years beginning after December 15, 1997. As described more fully in Note 3 to the consolidated financial statements, SFAS No. 130 established standards for reporting and displaying comprehensive income and components; such comprehensive income information is included in Note 3 to the consolidated financial statements.

In 1998, MMC adopted SFAS No. 131, "Disclosures About Segments in Enterprise and Related Information," which was effective for fiscal years beginning after December 15, 1997. The required segment disclosure is provided in Note 16 to the consolidated financial statements.

In February 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The new standard did not change the measurement or recognition of those plans, but revised pension and other postretirement benefit plan disclosures. MMC adopted SFAS No. 132 in fiscal 1998 and the required disclosure is provided in Note 16 to the consolidated financial statements.

In 1998, MMC adopted the American Institute of Certified Public Accountants Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This statement provided guidance on accounting for the costs of internal use software and is effective for fiscal years beginning after December 15, 1998, with earlier adoption encouraged.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This standard, which establishes new accounting and reporting requirements for derivative instruments, is effective for fiscal years beginning after June 15, 1999. MMC does not expect the adoption of this standard to have a material effect on its results of operations or consolidated financial condition.

Risk and Insurance Services

The operations within this segment provide risk and insurance services to insureds, insurance underwriters and other brokers. J&H Marsh & McLennan, Inc. is a world leader in providing risk management and insurance broking services. Guy Carpenter & Co. provides reinsurance broking services to insurance and reinsurance risk takers worldwide and Seabury & Smith provides insurance program management services to individuals, businesses and their employees, and associations and other affinity groups and their members. In addition, Marsh & McLennan Capital provides services principally in connection with originating, structuring and managing insurance and related industry investments. The recently acquired Sedgwick operations are being integrated into the various businesses noted above.

Insurance broking services are provided to clients primarily in connection with risk management and the insurance placement process and involve analyzing various types of property and liability loss exposures including large and complex risks that require access to global insurance markets. Services include insurance broking and risk transfer activities and professional consulting services on risk management issues, including risk analysis, coverage requirements, self insurance and alternative insurance and risk financing methods, as well as claims collection, injury management and loss prevention. Insurance placement services include the placement of insurance coverages with insurers worldwide, sometimes involving other intermediaries.

Reinsurance broking services primarily involve acting as an intermediary for insurance and reinsurance organizations on all classes of reinsurance. The intermediary assists the insurer by providing advice, placing reinsurance coverage with reinsurance organizations located around the world, placing risk transfer financing with capital markets, and furnishing related services such as actuarial, financial and regulatory consulting, portfolio analysis and catastrophe modeling. Generally, the purpose of reinsurance is to spread the risk of primary insurance or the reinsurance thereof to lessen the concentration of risk with any one insurance or reinsurance company.

The insurance program management operation primarily designs, places and administers life, health, accident, disability, automobile, homeowners and professional liability and other insurance programs usually on a group marketing basis to individuals, businesses and their employees, and associations and other affinity groups and their members in the United States and Canada. In addition, it provides underwriting management services to insurers in the United States, Canada and the United Kingdom, principally for professional liability coverages.

MMC has been instrumental in the formation of several substantial insurance and reinsurance entities. Marsh & McLennan Capital is also an adviser to The Trident Partnership L.P., an independent private investment partnership formed in 1994 to make private equity investments in the global insurance and reinsurance industry.

Revenue attributable to the risk and insurance services segment consists primarily of fees paid by clients; commissions and fees paid by insurance and reinsurance companies; interest income on funds held in a fiduciary capacity for others, such as premiums and claims proceeds; and placement services revenues earned from insurance carriers. Through Marsh & McLennan Capital, MMC receives compensation in various forms including fees and dividends,

as well as appreciation that has been realized on sales of MMC's holdings in insurance and related industry entities.

Revenue generated by risk and insurance services is fundamentally derived from the value of services provided to clients and markets, and is affected by premium rate levels in the property and casualty insurance markets and available insurance capacity because compensation is frequently related to the premiums paid by insureds. Revenue is also affected by fluctuations in the amount of risk retained by insurance and reinsurance clients themselves and by insured values, the development of new products, markets and services, new and lost business, merging of clients and the volume of business from new and existing clients, as well as by interest rates for fiduciary funds. Placement services revenue includes payments or allowances by insurance companies based upon such factors as the overall volume of business placed by the broker with that insurer, the aggregate commissions paid by the insurer for that book during specific periods, or the loss performance to the insurer of that business.

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

(In millions of dollars)	1998	1997	1996
Revenue	\$3,351	\$2,789	\$1,907
Expense^(a)	2,738	2,293	1,544
Operating Income	\$ 613	\$ 496	\$ 363
Operating Income Margin	18.3%	17.8%	19.0%

^(a) Excluding special charges, which are detailed below.

Revenue

Revenue for the risk and insurance services segment grew 20% over 1997 primarily due to the fact that 1998 was the first full year of combined operations after the merger with J&H, whereas 1997 had only three quarters. Furthermore, the Sedgwick acquisition was completed late in the fourth quarter of 1998, adding somewhat to revenue growth in 1998. Excluding acquisitions and dispositions, risk and insurance services revenue rose approximately 5%. Insurance broking revenue, which represented 74% of risk and insurance services, grew 5% reflecting net new business development partially offset by continued premium rate declines in virtually all lines of coverage. The increased level of net new business development was primarily concentrated in the United States and the United Kingdom. Revenues from reinsurance broking and insurance program management increased by 5% and 6%, respectively, in 1998.

In 1997, risk and insurance services revenue increased 46% primarily due to the J&H transaction, the acquisitions of CECAR, a French insurance and reinsurance broking operation, and the acquisition of Albert H. Wohlers & Co., a U.S.-based insurance program management operation offset, in part, by the year-over-year impact of the sale of Frizzell in 1996. Excluding the effect of acquisitions and dispositions, risk and insurance services revenue grew 4% in 1997, as revenue rose 3% in insurance broking and 6% in insurance program management while reinsurance broking fell 2% in 1997 from 1996 levels. The increase in insurance broking revenue, which represented 76% of risk and insurance services revenue in 1997, primarily reflected net new business development partially offset by declines in commercial property and casualty premium rates.

Expense

Risk and insurance services expenses increased 19%, largely attributable to the business combination with J&H, which was effective as of the end of the first quarter of 1997 resulting in 1998 having one additional quarter of expense, and the acquisition of Sedgwick in November 1998. Excluding acquisitions and dispositions, expenses increased approximately 2% from 1997 reflecting salary progressions for continuing staff and higher technology and systems spending. The increases in spending were offset by the realization of approximately \$55 million of net integration savings related to the J&H transaction.

In 1997, risk and insurance services expenses increased 48% primarily due to the impact of acquisitions. Excluding acquisitions and dispositions, expenses increased approximately 1% from 1996.

Investment Management

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

Putnam's revenue is derived primarily from investment management and 12b-1 fees received from the Putnam Funds and institutional accounts. Fees paid by the Putnam Funds are approved annually by the trustees or shareholders of the Putnam Funds and are charged at various rates depending on the individual mutual fund or account and are usually based upon a sliding scale in relation to the level of assets under management and, in certain instances, are also based on investment performance. The management of Putnam and the trustees of the Putnam Funds regularly review the fund fee structure in light of fund performance, the level and range of services provided, industry

ditions and other relevant factors. Putnam also receives compensation for providing certain shareholder and custody services.

Results of operations for the investment management segment are presented below:

(millions of dollars)	1998	1997	1996
Revenue	\$2,296	\$1,882	\$1,338
Expense	1,619	1,419	1,000
Operating Income	\$ 677	\$ 463	\$ 338
Operating Income Margin	29.5%	24.6%	25.3%

Revenue

Putnam's revenue increased 22% in 1998 reflecting significant growth in the level of average assets under management on which management fees are earned. Assets under management aggregated \$94 billion at December 31, 1998 compared with \$235 billion at December 31, 1997 reflecting \$28 billion of net new sales of mutual funds and net additional investments by institutional accounts, as well as a \$31 billion growth in market value related to an increase in securities market levels during the year.

Putnam's revenue increased 41% in 1997 reflecting record growth in the level of average assets under management. Net new sales of mutual funds and net additional investments by institutional accounts amounted to \$33 billion while higher securities markets contributed \$9 billion to the growth in assets under management.

Expense

Putnam's expenses increased 14% in 1998 primarily reflecting increased client service-related costs, including the amortization of deferred commissions, resulting from the higher level of business activity as well as increased incentive compensation.

In 1997, Putnam's expenses increased 42% reflecting the effect of staff growth to support new business, increased incentive compensation levels commensurate with very strong operating performance and increased client service-related costs, including a new service center, resulting from the higher level of business activity.

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

(billions of dollars)	1998	1997	1996
Mutual Funds:			
Domestic Equity	\$153	\$119	\$ 80
Global Bond	38	36	30
Fixed-Free Income	16	16	16
International Equity	14	11	8
	221	182	134
Institutional Accounts:			
Fixed Income	25	22	19
Domestic Equity	32	21	14
International Equity	16	10	6
	73	53	39
Year-end Assets	\$294	\$235	\$173
Average Assets	\$264	\$206	\$149

Assets under management and revenue levels are particularly affected by fluctuations in domestic and international bond and stock market prices and by the level of investments and withdrawals for current and new fund shareholders and clients. They are also affected by investment performance, service to clients, the development and marketing of new investment products, the relative attractiveness of the investment style under prevailing market conditions and changes in the investment patterns of clients. Revenue levels are sensitive to all of the factors above, but in particular, to significant changes in bond and stock market valuations.

Putnam provides individual and institutional investors with a broad range of equity and fixed income investment products and services designed to meet varying investment objectives and which affords its clients the opportunity to allocate their investment resources among various alternative investment products as changing worldwide economic and market conditions warrant.

At the end of 1998, assets held in equity securities represented 73% of assets under management, compared with 69% in 1997 and 62% in 1996. While investments in fixed income products represented 27%, compared with 31% last year and 38% in 1996.

Consulting

Through Mercer Consulting Group, Inc., the operations within this segment provide consulting services to a predominantly corporate clientele from locations around the world, in the areas of human resources and employee benefit programs, including retirement, health care, and compensation; and general management consulting, which comprises strategy, operations and marketing. Economic consulting and analysis services are also provided.

William M. Mercer provides professional advice and services to corporate, government and institutional clients worldwide. Consultants help organizations design, implement, administer and communicate retirement, compensation and other human resource programs, and provide other types of actuarial advice. In addition, William M. Mercer advises the management of health care providers on various business issues.

Mercer Management Consulting, Inc. provides advice and assistance on issues of business strategy, primarily to large corporations in North America, Europe and Asia. Consultants help senior executives more fully understand the behavior of their customers, optimize the economics of their business, and structure their organizations, processes and systems to achieve their strategic goals.

National Economic Research Associates, Inc. ("NERA"), a firm of consulting economists, serves law firms, corporations, trade associations and governmental agencies. NERA provides research and analysis of economic and financial issues arising in litigation, regulation, public policy and management.

The major component of Mercer Consulting Group's revenue is fees paid by clients for advice and services. In addition, commission revenue is received from insurance companies for the placement of individual and group insurance contracts, primarily life, health and accident coverages. A relatively small amount of revenue is derived from brokerage commissions in connection with a registered securities broker dealer.

Revenue in the consulting business is affected by changes in clients' industries including government regulation, as well as new products and services, the stage of the economic cycle and broad trends in employee demographics and in the management of large organizations.

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

(In millions of dollars)	1998	1997	1996
Revenue	\$1,543	\$1,338	\$1,159
Expense^(a)	1,341	1,190	1,040
Operating Income	\$ 202	\$ 148	\$ 119
Operating Income Margin	13.1%	11.1%	10.3%

^(a) Excluding special charges, which are detailed below.

Revenue

Consulting services revenue increased 15% in 1998 reflecting an increase in the level of services provided as well as the impact of the combination with J&H, the Sedgwick acquisition and several small acquisitions. Partially offsetting these increases was the impact of a transfer of certain business lines to Automatic Data Processing ("ADP"), as part of a strategic alliance, in October 1997. Excluding acquisitions and dispositions, consulting's revenue increased approximately 12% in 1998. Retirement consulting revenue, which represented 41% of the consulting segment, grew 11% over 1997 principally due to a higher level of services provided. In addition, revenue rose 22% in the economic consulting practice, 18% in global compensation consulting, 8% in health care consulting and 6% in general management consulting due to a higher volume of business in these practice lines in 1998.

In 1997, consulting services revenue increased 15% reflecting the J&H combination as well as an increase in the level of services provided partially offset by the business transfer to ADP. Adjusting for the impact of acquisitions and dispositions, consulting's revenue increased approximately 10% in 1997. Retirement consulting revenue, which represented 43% of the consulting segment, grew 10% over 1996 reflecting higher worldwide request for services. In addition, revenue rose 24% in the global compensation practice, 8% in general management consulting and 1% in health care consulting in 1997.

Expense

Consulting services expenses increased 13% in 1998. Excluding acquisitions and dispositions, expenses increased approximately 9% reflecting the effect of staff growth to support new business, higher incentive compensation commensurate with strong operating performance along with compensation expense increases. These increases were partially offset by approximately \$15 million of realized net integration savings related to the J&H transaction.

Consulting services expenses increased 14% in 1997. Excluding acquisitions and dispositions, expenses increased approximately 9% reflecting salary progressions, the impact of staff growth to support new business and investments in information technology systems and networks.

Special Charges, net

In 1996, MMC recorded, among others, a \$17 million special charge for costs associated with restructuring certain elements of its insurance and reinsurance back-office operations in London. MMC was committed to implementing this plan; however, within three months of its approval, J&H was acquired. Consequently, the plan was temporarily suspended in order to evaluate it in light of the J&H transaction and its U.K. operation. In the fall of 1997, it was determined that the plan could proceed and negotiations were finalized to lease office space to house the back office group which would enable MMC to achieve the planned economies. After a build-out of the space, the group moved into their new location in the summer of 1998. Before the staff reduction portion of the plan could be implemented, the acquisition of Sedgwick was announced and the plans needed to be evaluated again in light of this potential change in circumstances, which would occur only if the governmental approvals were secured and no other suitor out-bid MMC's offer. The acquisition of Sedgwick became unconditional in the fourth quarter of 1998 and, with Sedgwick's substantial presence in the U.K., it was determined that the remaining staff reduction plan could no longer be executed. As a result, the remaining reserve of \$15 million was reversed in 1998. While MMC still intends to complete a staff reduction plan, the acquisition of Sedgwick will require a total reassessment of the individuals and the severance benefits to be offered and the accrual for such charges will be recorded when all of the appropriate requirements are met. Partially offsetting this credit in 1998 is an \$11 million charge associated with acquisition related stock unit awards issued to certain senior employees of Sedgwick in 1998.

The \$244 million of special charges for 1997 included \$168 million of merger costs predominantly related to the combination with J&H, a charge of \$61 million related to lease abandonment costs associated with the consolidation of various London operations along with costs to abandon and redevelop MMC's London building and \$15 million for the disposal of certain EDP assets, which were written-off in 1997. Of the total \$244 million of special charges, \$224 million was applicable to risk and insurance services, \$17 million related to consulting and \$3 million was recorded in general corporate. The net impact of the special charges was \$158 million after tax, or \$.63 per diluted share.

The \$168 million of merger costs, which related to employees and offices of MMC, included personnel-related expenses principally involving severance and related benefits associated with the reduction of approximately 1,300 positions worldwide (\$117 million), costs related to the planned consolidations of approximately 30 offices (\$38 million) and other integration costs (\$13 million). In addition, \$143 million of merger costs for planned reductions of over 900 positions and consolidations of approximately 50 offices of J&H were allocated to the cost of the acquisition. The utilization of these charges is summarized in Note 4 to the consolidated financial statements. In 1998, the actions contemplated by these plans were substantially completed and the remaining actions are expected to be completed in early 1999.

Of the combined merger-related costs totaling \$311 million, cash payments of approximately \$86 million and \$122 million were made in 1997 and 1998, respectively. Estimated cash payments of

proximately \$40 million are expected to be made in 1999. Some cials, primarily representing future rent under noncancelable leases (of anticipated sublease income), and salary continuance arrangements, primarily in Canada and the Netherlands, are expected to be paid out over several years.

Management believes the gross annual savings associated with the J&H integration should approximate \$200 million when it is completed at the end of 1999, most of which will result from reduced compensation and benefits expense reflecting the elimination of approximately 2,200 positions and lower facilities costs reflecting consolidation of approximately 80 offices, primarily in the United States. Net annual savings are expected to be approximately \$125 million for the full year 1999 after giving effect to incremental goodwill amortization. Net savings of approximately \$75 million were realized in 1998.

During 1996, MMC completed the sale of Frizzell for approximately \$90 million which resulted in a \$33 million pretax gain. In addition, special charges aggregating \$93 million were recorded representing a provision of approximately \$34 million principally for London real estate consolidations; \$27 million primarily for severance and related benefits associated with the planned reduction of over 600 employees relating to restructuring certain elements of MMC's insurance and insurance back-office operations in London and several office closings; \$17 million for goodwill write-offs; and \$15 million related to the J&H's Reconstruction and Renewal Plan. The net impact of the gain on the sale, the special charges and the 1996 tax adjustment discussed in Note 5 increased diluted net income per share by \$.01 for the year.

The London insurance and reinsurance operations were restructured because there were duplicative back office groups performing similar functions which could be consolidated into shared services departments at an estimated annual savings of between \$20 and \$25 million. Of the net \$60 million special charge, \$49 million was allocable to risk and insurance services, \$9 million related to consulting and \$2 million was recorded in general corporate.

Of the total charge of \$93 million, \$25 million of assets were written-down and cash payments of \$20 million were made during 1997.

During 1998, an additional \$6 million of payments were made and \$5 million of the reserve was reversed as part of the 1998 net special charge described above. The remaining balance of \$27 million is allocable primarily to the London real estate reserve and it is expected to be paid out over several years. Estimated cash payments of approximately \$7 million are expected to be made in 1999.

During 1997, MMC continued the evaluation of its London real estate assets and in the fourth quarter recorded an additional special charge of \$61 million relating to the further consolidation of offices and the closing and redevelopment of its London building.

The above actions did not result in any meaningful disruptions of MMC's operations.

MMC is currently in the process of completing its integration plans associated with the acquisition of Sedgwick. This initiative will result in a special charge that will be recorded in 1999. Since this process has not been finalized, the amount of the special charge cannot be ascertained at this time. However, MMC expects to achieve gross

synergy savings of approximately \$200 million associated with the integration of Sedgwick and net annual savings should be similar to that achieved as part of the J&H integration.

Interest

Interest income earned on corporate funds increased to \$25 million in 1998 from \$24 million in 1997. Interest expense increased to \$140 million in 1998 from \$107 million in 1997 primarily due to interest expense associated with the incremental debt incurred in November 1998 to finance the Sedgwick acquisition as well as the additional quarter of interest expense in 1998 related to increased bank borrowings associated with the J&H transaction.

Interest income earned on corporate funds increased to \$24 million in 1997 compared with \$14 million in 1996 due, in large part, to the J&H combination. Interest expense increased to \$107 million in 1997 from \$61 million in 1996 as a result of increased bank borrowings used to finance the acquisitions of J&H and CECAR as well as the assumption of J&H's long-term debt.

Income Taxes

MMC's consolidated tax rate was 39.00% of income before income taxes in 1998 compared with 39.30% in 1997. In 1997, excluding the tax effect of the special charges, the underlying rate was 38.25%. In 1996, the underlying tax rate was 37.25% (prior to the tax adjustment described below). Comparing the underlying tax rates, the increase in the tax rate was largely attributable to the nondeductibility of goodwill associated with the J&H acquisition and other acquisitions. The overall tax rates are higher than the U.S. federal statutory rate primarily because of provisions for state and local income taxes.

In 1996, MMC recorded a tax adjustment that reduced the income tax provision by \$40 million. The tax adjustment primarily related to the permanent deployment of funds outside the United States in a tax-efficient manner and favorable state and local tax developments in the U.S.

Liquidity and Capital Resources

MMC's cash and cash equivalents aggregated \$610 million at the end of 1998, an increase of \$186 million from the end of 1997.

Operating Cash Flows

MMC generated \$1.1 billion of cash from operations in 1998 compared with \$415 million in 1997. These amounts reflect the net income earned by MMC in those years adjusted for non-cash charges and working capital changes. Included in the cash flow from operations are the net cash requirements of Putnam's prepaid dealer commissions, which amounted to \$75 million in 1998 compared with \$140 million in 1997. The tax benefit associated with these prepaid dealer commissions is recorded as a deferred tax liability.

As further explained in Note 15 to the consolidated financial statements, certain present and former English subsidiaries are under review by the Personal Investment Authority concerning the disclosure and advice given to clients regarding certain private pension transactions. The contingent exposure for pension redress and related cost is estimated to be approximately \$355 million of which \$170 million is expected to be recovered from insurers. Approximately two-thirds of the contingent exposure is associated

with the recently completed Sedgwick acquisition while the balance is associated with other current and former subsidiaries of MMC. All amounts in excess of anticipated insurance recoveries have been reserved for in the accompanying balance sheet. Although the timing and amount of payments relating to the pension review process cannot be predicted with certainty, it may be that MMC will temporarily fund such payments by drawing upon its existing credit lines.

Financing Cash Flows

As previously mentioned, during the fourth quarter, MMC acquired Sedgwick, a London-based holding company of one of the world's leading insurance and reinsurance broking and consulting groups, for total cash consideration of £1.25 billion or approximately \$2.2 billion. MMC has initially financed the transaction with commercial paper that has been supported by a committed bank facility comprising 19 banks and led by J. P. Morgan. MMC intends to finalize a permanent financing arrangement, consisting of a combination of long-term debt and equity, during 1999.

MMC completed its business combination with J&H, a leading insurance broker, on March 27, 1997 for total consideration of approximately \$1.8 billion. Approximately one-third of the total consideration was cash and two-thirds MMC's common stock. MMC also purchased CECAR for approximately \$200 million during January 1997. The cash portion of these transactions is being financed with bank borrowings.

Financing activities for MMC used cash of \$366 million in 1998 and contributed cash of \$399 million in 1997. Dividends paid by MMC amounted to \$375 million in 1998 (\$1.46 per share) and \$306 million in 1997 (\$1.26 per share). MMC periodically purchases shares of its common stock to meet the requirements of the various stock compensation and benefit programs. MMC purchased 4.1 million shares in 1998 and 3.7 million shares in 1996.

MMC, in connection with the Sedgwick transaction, assumed debt amounting to \$108 million at December 31, 1998. This debt consists of \$60 million of 7.68% Senior Loan notes, \$36 million related to capital leases and \$12 million of other borrowings.

During 1997, MMC executed a revolving credit facility with several banks to support its commercial paper borrowings and to fund other general corporate requirements. This noncancelable facility, which expires June 2002, provides that MMC may borrow up to \$1.2 billion at market rates of interest which may vary depending upon the level of usage of the facility and MMC's credit ratings. Outstanding borrowings under revolving credit facilities at December 31, 1998 and 1997 amounted to \$583 million and \$709 million, respectively. Borrowings under revolving credit facilities have been classified as long-term debt based on MMC's intent and ability to maintain or refinance these obligations on a long-term basis. MMC also maintains other credit facilities with various banks, primarily related to operations located outside the United States, aggregating \$553 million as of December 31, 1998. MMC has borrowed \$25 million under these facilities at December 31, 1998 and has included \$15 million of these borrowings in long-term debt in the Consolidated Balance Sheet.

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

Also related to the purchase and renovation of the building, MMC has an interest rate swap that fixes the interest rate at approximately 9.5% on \$100 million of variable rate borrowings. This swap expired in February 1999.

During 1997, in connection with the J&H transaction, MMC assumed a note payable due 2012 which has an outstanding balance of \$86 million at December 31, 1998. Interest on this debt is fixed at 8.62%.

Investing Cash Flows

Investing activities for MMC reduced cash by \$587 million in 1998 and by \$676 million in 1997. In 1998, cash used for acquisition activity, related to several insurance and reinsurance broking, insurance program management and consulting businesses, was \$302 million. In 1997, cash used for acquisition activity, primarily related to J&H and CECAR, was \$473 million. MMC's capital expenditures, which amounted to \$297 million in 1998 and \$202 million in 1997 have primarily related to computer equipment purchases and the refurbishing and modernizing of office facilities.

Market Risk

Certain of MMC's recorded revenues, expenses, assets and liabilities are exposed to the impact of interest rate changes and fluctuations in foreign currency exchange rates. MMC manages its net exposure to interest rate changes by utilizing a mixture of variable and fixed rate borrowings to finance MMC's asset base. Interest rate swaps are utilized on a very limited basis. MMC does not enter into foreign currency or interest rate transactions for trading or other speculative purposes.

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

Year Ended December 31, (in millions of dollars)	1998
Cash and cash equivalents invested in certificates of deposit and time deposits	\$ 520
Fiduciary cash and investments	\$3,257
Variable rate debt outstanding	\$3,396
Interest rate swaps	\$ 140

MMC's results of operations are affected by changes in short-term interest rates and their impact on the above-noted items. Based on the above balances, if short-term interest rates increase by 25 basis points, annual interest income would increase by approximately \$9 million; however, this would be partially offset by an \$8 million increase in interest expense resulting in a net increase to income before income taxes of \$1 million.

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. However, the net impact of these fluctuations on MMC's results of operations or cash flows has not been material.

Forward contracts and options are periodically utilized by MMC to limit foreign currency exchange rate exposure on net income and cash flows for specific, clearly defined transactions arising in the ordinary course of its business. At December 31, 1998, MMC primarily had open forward exchange contracts to both sell U.S. dollars for sterling

and purchase U.S. dollars for sterling for underlying principal amounts of \$28 million and \$70 million, respectively. These contracts were entered into by Sedgwick principally to hedge both firm commitments and anticipated transactions.

Year 2000 Issue

MMC is in the final stages of updating its systems in preparation for the Year 2000. For this purpose, the term "systems" includes computer equipment and software that are commonly thought of as information technology ("IT") systems including accounting, data processing, telephone and other miscellaneous systems, as well as non-information technology ("non-IT") systems, such as embedded technology in MMC's facilities and equipment.

In connection with this project, which began in 1995, MMC and each of its operating segments has undertaken a five-step process consisting of (1) taking an inventory of all technical areas, including hardware, software (application and system), data, third-party services and infrastructure that could potentially be affected by the Year 2000 issue, (2) assessing the scope and severity of the issue, performing necessary remediation, (4) testing/implementation and (5) preparing contingency plans for internal and external failures. Working committees have been established comprising executive and management in each operating segment, and at the MMC level. An Audit Committee of MMC's Board of Directors is regularly updated on the status of MMC's Year 2000 efforts.

Each operating segment has already enhanced or replaced a number of systems to ensure their Year 2000 readiness. At this time, all of MMC's operating segments are predominantly in the testing/implementation phase of the process for mission critical and non-IT systems.

A detailed review and evaluation of Sedgwick's Year 2000 plans has also been conducted. That review determined that the approach adopted by Sedgwick was broadly consistent with MMC's. In January 1999, the individual components of the Sedgwick plans were incorporated into the Year 2000 project plans of the existing operating segments with which they will be aligned. As a result of the integration analysis, it is anticipated that Sedgwick's pre-existing plans will be carried out to completion or, where appropriate, Sedgwick's non-compliant systems will be replaced by MMC's compliant systems. The incremental costs of the Sedgwick plans are included in the amounts shown below.

The total cost of the Year 2000 project is estimated to be \$65 million. Of the total cost, \$22 million is anticipated to be incurred in 1999, \$3 million was expensed during 1998 and \$17 million prior to 1998. Such costs do not include expenses incurred in replacing systems and applications in the ordinary course which have the effect of making such systems and applications Year 2000 compliant, but which were incurred for that specific purpose. Costs of modifying computer software for Year 2000 conversion are being charged to expense as they are incurred and are funded from operating cash flows. No projects have been deferred or canceled as a result of Year 2000 efforts. In 1998, Year 2000 expenses represented approximately 5% of MMC's overall information technology budget. Future costs associated with addressing this issue are not expected to have a material adverse impact on MMC's financial position or results of operations.

MMC expects that all of its mission critical IT and non-IT systems, including those associated with supporting the Sedgwick operations, will be Year 2000 compliant by mid-1999. Non-mission critical IT and non-IT systems that could impact MMC's ability to serve clients and conduct business beyond January 1, 2000 have been assessed and are expected to be Year 2000 ready before the end of 1999. MMC recognizes that there may be some non-mission critical IT and non-IT systems utilized for internal purposes that may not be compliant by the end of 1999. It is expected that these systems will be replaced or phased out of use.

In addition, MMC is continuing its inquiries as to the state of readiness of its significant third party relationships including clients and vendors. This process has included a review of third parties' Year 2000 readiness and the incorporation of certain third party dependencies into MMC's test plans. Although MMC is unable to verify the Year 2000 readiness of third parties, where MMC has been unable to validate the status of a third party, but has received information such that the timing or status of that third party's Year 2000 project does not align with its own, if significant, that supplier has or will be replaced. For example, J&H Marsh & McLennan is notifying clients when responses are not received from insurance companies.

The individual operating segments of MMC are currently in the process of analyzing the operational problems and costs (including loss of revenues) that would be reasonably likely to result from MMC's failure or the failure of certain third parties to complete efforts necessary to achieve Year 2000 readiness on a timely basis. For internal systems, although our expectation is that no significant disruption will occur, MMC's 1999 test plans and contingency processes have been designed to address such a risk. For third party risks, every effort is being made to assess and test those risks. For example, Putnam is actively involved in industry-wide Year 2000 testing. In July 1998, Putnam participated in the "Street-wide Test" carried out under the auspices of the Securities Industry Association. Putnam will participate in all future testing, which will include the simulation of a trading cycle from order entry to settlement in a Year 2000 environment.

MMC is in the process of completing a contingency plan for dealing with the most reasonably likely worst case scenarios presented by the Year 2000 problem. This process has been based, in part, upon MMC's existing disaster recovery process. These analyses and contingency plans will be completed during 1999. While MMC expects its Year 2000 efforts to reduce the scope and likelihood of potential Year 2000 failures, due to the overall uncertainty of the effect of a potential failure in Year 2000 readiness, particularly with respect to MMC's business partners or the communities in which MMC operates, MMC is unable specifically to determine whether any particular failure or groups of failures will have a material adverse impact on MMC.

Other

MMC has been instrumental in developing new sources of insurance capacity. MMC, through Marsh & McLennan Capital, maintains ownership interest in various entities it assisted in organizing. These investments have been classified as available for sale securities and, as discussed more fully in Note 11 to the consolidated financial statements, the aggregate fair value of these holdings is included in long-term securities in the Consolidated Balance Sheets. Marsh & McLennan Capital expects to continue to manage and develop further these activities.

The insurance coverage for potential liability resulting from alleged errors and omissions in the professional services provided by MMC includes elements of both risk retention and risk transfer. MMC believes it has adequately reserved for the self-insurance contingencies. Payments related to the respective self-insured layers are made as legal fees are incurred and claims are resolved and generally extend over a considerable number of years. The amounts paid in that regard vary in relation to the severity of the claims and the number of claims active in any particular year. The long-term portion of this liability is included in other liabilities in the Consolidated Balance Sheets.

MMC's policy for funding its tax qualified U.S. defined benefit retirement plan is to contribute amounts at least sufficient to meet the funding requirements set forth in U.S. employee benefit and tax laws. As illustrated more fully in Note 6 to the consolidated financial statements, the plan has been and continues to be well funded; consequently, MMC has not been able to make a tax deductible contribution since 1986. Because this situation is expected to continue, a 1999 cash contribution is currently not anticipated.

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.

In September 1997, Putnam adopted the Putnam Investments, Inc. Equity Partnership Plan ("Plan") pursuant to which Putnam is authorized to grant or sell to certain key employees of Putnam or its subsidiaries restricted shares of a new class of common stock of Putnam ("Class B Common Stock") and options to acquire the Class B Common Stock. Such awards or options generally vest over a four-year period. Holders of Putnam Class B shares are not entitled to vote and have no rights to convert their shares into any other securities of Putnam. However, in the event of certain change in control events, Class B shares will be converted into Class A Common Stock on a share for share basis. Awards of restricted stock and/or options may be made under the Plan with respect to a maximum of 12,000,000 shares of Class B Common Stock, which would represent approximately 12% of the outstanding shares on a fully diluted basis. Through December 31, 1998, Putnam has made awards pursuant to the Plan with respect to approximately 7,660,000 shares of Class B Common Stock, including 3,830,000 shares of restricted stock and 3,830,000 shares subject to options. The purpose of the Plan is to foster and promote the long-term success of Putnam and to increase shareholder value by enabling Putnam to attract and retain the services of an outstanding management team and professional staff. Pursuant to an executive compensation agreement, Putnam has also awarded 300,000 restricted stock units and 325,000 options related to Class B Common Stock to a key executive of Putnam.

CONSOLIDATED STATEMENTS OF INCOME

For the Three Years Ended December 31, 1998

<i>(millions, except per share figures)</i>	1998	1997	1996
Revenue	\$7,190	\$6,009	\$4,404
Expense	5,770	5,211	3,689
Operating income	1,420	798	715
Interest income	25	24	14
Interest expense	(140)	(107)	(61)
Income before income taxes	1,305	715	668
Income taxes	509	281	209
Net income	\$ 796	\$ 434	\$ 459
Basic net income per share	\$3.11	\$1.77	\$2.11
Diluted net income per share	\$2.98	\$1.73	\$2.08
Average number of shares outstanding—Basic	256	245	217
Average number of shares outstanding—Diluted	264	251	221

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

CONSOLIDATED BALANCE SHEETS

December 31, 1998 and 1997

(in millions of dollars)

	1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents (including interest-bearing amounts of \$520 in 1998 and \$378 in 1997)	\$ 610	\$ 424
Receivables—		
Commissions and fees	1,584	1,296
Advanced premiums and claims	129	95
Other	294	160
	2,007	1,551
Less—allowance for doubtful accounts	(98)	(53)
Net receivables	1,909	1,498
Prepaid dealer commissions—current portion	315	283
Deferred tax assets	76	166
Other current assets	335	196
Total current assets	3,245	2,567
Long-term securities	828	720
Fixed assets, net	1,287	957
Intangible assets	4,826	2,417
Prepaid dealer commissions	799	756
Other assets	886	495
	\$11,871	\$7,912
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 2,234	\$ 237
Accounts payable and accrued liabilities	1,438	1,223
Accrued compensation and employee benefits	841	564
Accrued income taxes	385	234
Dividends payable	104	85
Total current liabilities	5,002	2,343
Fiduciary liabilities	3,257	2,282
Less—cash and investments held in a fiduciary capacity	(3,257)	(2,282)
	—	—
Long-term debt	1,590	1,240
Other liabilities	1,620	1,096
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, \$1 par value, authorized 6,000,000 shares, none issued	—	—
Common stock, \$1 par value, authorized 400,000,000 shares, issued 258,867,125 shares in 1998 and 258,586,766 shares in 1997	259	172
Additional paid-in capital	889	994
Retained earnings	2,412	2,010
Accumulated other comprehensive income	206	167
	3,766	3,343
Less—treasury shares, at cost 1,956,825 shares in 1998 and 3,661,256 shares in 1997	(107)	(110)
Total stockholders' equity	3,659	3,233
	\$11,871	\$7,912

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Years Ended December 31, 1998

(in millions of dollars)

	1998	1997	1996
Operating cash flows:			
Net income	\$ 796	\$ 434	\$ 459
Gain on sale of businesses	—	(13)	(33)
Special charges (credits)	(4)	244	93
Depreciation of fixed assets	169	149	119
Amortization of intangible assets	82	50	21
Provision (benefit) for deferred income taxes	79	(139)	(21)
Prepaid dealer commissions	(75)	(140)	(339)
Other liabilities	18	22	19
Other, net	(23)	(1)	(11)
Net changes in operating working capital other than cash and cash equivalents—			
Receivables	(171)	(155)	(95)
Other current assets	63	(3)	(61)
Accrued compensation and employee benefits	175	160	137
Accounts payable and accrued liabilities	(121)	(111)	(21)
Accrued income taxes	147	(79)	29
Effect of exchange rate changes	(2)	(3)	21
Net cash generated from operations	1,133	415	317
Financing cash flows:			
Net increase (decrease) in commercial paper	425	(161)	(165)
Other borrowings	52	2,358	255
Repayments of other borrowings	(411)	(1,702)	(91)
Purchase of treasury shares	(242)	—	(230)
Issuance of common stock	185	210	143
Dividends paid	(375)	(306)	(239)
Other, net	—	—	2
Net cash provided by (used for) financing activities	(366)	399	(325)
Investing cash flows:			
Additions to fixed assets	(297)	(202)	(157)
Net cash proceeds from sale of businesses	—	54	242
Acquisitions	(302)	(473)	(7)
Other, net	12	(55)	(92)
Net cash used for investing activities	(587)	(676)	(14)
Effect of exchange rate changes on cash and cash equivalents	6	(14)	(6)
Increase (decrease) in cash and cash equivalents	186	124	(28)
Cash and cash equivalents at beginning of year	424	300	328
Cash and cash equivalents at end of year	\$ 610	\$ 424	\$ 300

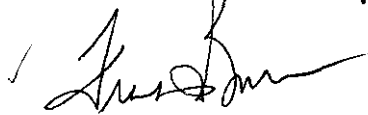
The accompanying notes are an integral part of these consolidated statements.

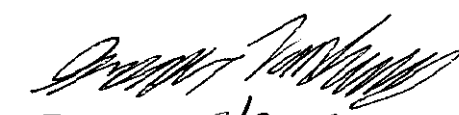
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

For the Three Years Ended December 31, 1998 (In millions of dollars, except per share figures)	1998	1997	1996
COMMON STOCK			
Balance, beginning of year	\$ 172	\$ 77	\$ 77
Acquisitions	—	9	—
Common stock split	87	86	—
Balance, end of year	\$ 259	\$ 172	\$ 77
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	\$ 994	\$ 148	\$ 155
Acquisitions	—	908	—
Common stock split	(87)	(86)	—
Exercise of stock options and related tax benefits	(11)	15	(10)
Issuance of shares under compensation plans and related tax benefits	7	10	8
Issuance of shares under employee stock purchase plans and related tax benefits	(14)	(1)	(5)
Balance, end of year	\$ 889	\$ 994	\$ 148
RETAINED EARNINGS			
Balance, beginning of year	\$2,010	\$1,902	\$1,689
Net income	796 ^(a)	434 ^(a)	459 ^a
Cash dividends declared—(per share amounts: \$1.53 in 1998, \$1.29 in 1997 and \$1.14 in 1996)	(394)	(326)	(246)
Balance, end of year	\$2,412	\$2,010	\$1,902
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Balance, beginning of year	\$ 167	\$ 145	\$ 62
Foreign currency translation adjustments	18 ^(b)	(66) ^(b)	11 ^c
Unrealized securities holding gains, net of reclassification adjustments	45 ^(c)	88 ^(c)	72 ^c
Minimum pension liability adjustment	(24) ^(d)	—	—
Balance, end of year	\$ 206	\$ 167	\$ 145
TREASURY SHARES			
Balance, beginning of year	\$ (110)	\$ (383)	\$ (317)
Acquisitions	—	47	—
Purchase of treasury shares	(242)	—	(230)
Exercise of stock options	97	147	95
Issuance of shares under compensation plans	29	15	10
Issuance of shares under employee stock purchase plans	119	64	59
Balance, end of year	\$ (107)	\$ (110)	\$ (383)
TOTAL STOCKHOLDERS' EQUITY	\$3,659	\$3,233	\$1,889
TOTAL COMPREHENSIVE INCOME (a+b+c+d)	\$ 835	\$ 456	\$ 542

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

CERTIFIED TO BE A TRUE COPY OF THE ACCOUNTS
SENT TO SHAREHOLDERS


DIRECTOR


DIRECTOR/SECRETARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Summary of Significant Accounting Policies

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Marsh & McLennan Companies, Inc. and all its subsidiaries ("MMC"). Various subsidiaries and affiliates have transactions with each other in the ordinary course of business. All significant intercompany accounts and transactions 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 revenue, amounted to \$137 million in 1998, \$111 million in 1997 and \$94 million in 1996.

Net uncollected premiums and claims and the related payables, amounting to \$10.0 billion at December 31, 1998 and \$5.2 billion at December 31, 1997, 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: Revenue includes insurance commissions, fees for services rendered, placement services revenue earned from insurance carriers, compensation for services provided in connection with the formation or capitalization of various insurers and reinsurers and related firms, including gains from sales of interests in such entities, commissions on the sale of mutual fund shares and interest income on fiduciary funds. Insurance commissions 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. Fees for services rendered are recorded as earned. Sales of mutual fund shares are recorded on a settlement date basis and commissions thereon are recorded on a trade date basis, in accordance with industry practice.

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

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

Depreciation of buildings, building improvements, furniture and equipment is provided on a straight-line basis over the estimated useful lives of these assets. Leasehold improvements are amortized on a straight-line basis over the periods covered by the applicable leases or the estimated useful life of the improvement, whichever is less.

The components of fixed assets are as follows:

December 31, 1998 and 1997 (In millions of dollars)	1998	1997
Land and buildings	\$ 628	\$ 471
Furniture and equipment	1,011	878
Leasehold and building improvements	468	406
	2,107	1,755
Less—accumulated depreciation and amortization	(820)	(798)
	\$1,287	\$ 957

Intangible Assets: Acquisition costs in excess of the fair value of net assets acquired are amortized on a straight-line basis over periods up to 40 years. Other intangible assets are amortized on a straight-line basis over their estimated lives. MMC periodically assesses the recoverability of intangible assets by comparing expected undiscounted future cash flows from the underlying business operation with recorded intangible asset balances. If such assessments indicate that the undiscounted future cash flows are not sufficient to recover the related carrying value, the assets are adjusted to fair values.

Prepaid Dealer Commissions: Essentially all of the mutual funds marketed by MMC's investment management segment are also made available with a contingent deferred sales charge in lieu of a front end load. The related commissions, initially paid by MMC to broker/dealers for distributing the funds, are recovered through charges and fees received over a number of years. The prepaid dealer commissions are generally amortized over a six year period.

Capitalized Software Costs: MMC capitalizes certain costs to develop, purchase or modify software for the internal use of MMC in accordance with American Institute of Certified Public Accountants Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which was adopted in 1998. These costs are amortized on a straight-line basis not to exceed five years. Unamortized computer software costs amounting to \$110 million and \$53 million at December 31, 1998 and 1997, respectively, are included in other assets in the Consolidated Balance Sheets.

Income Taxes: Income taxes provided reflect the current and deferred tax consequences of events that have been recognized in MMC's financial statements or tax returns. U.S. Federal income taxes are provided on unremitted foreign earnings except those that are considered permanently reinvested, which at December 31, 1998 amounted to approximately \$500 million. 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 \$60 million.

Risk Management Instruments: Net amounts received or paid under interest rate swaps and foreign exchange contracts are included in the Consolidated Statements of Income as incurred.

Concentrations of Credit Risk: Financial instruments which potentially subject MMC to concentrations of credit risk consist primarily of cash and cash equivalents and commissions receivable. MMC maintains a policy providing for the diversification of cash and cash equivalents 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 limited due to the large number of clients and markets in which MMC does business, as well as the dispersion across many geographic areas.

Per Share Data: Basic net income per share is calculated by dividing net income by the average number of shares of MMC's common stock outstanding. Diluted net income per share is calculated by reducing net income for the potential minority interest associated with unvested shares under the Putnam Equity Partnership Plan. This result is then divided by the average common shares outstanding which have been adjusted for the dilutive effect of potential common shares.

The following reconciles net income to net income for diluted earnings per share and basic weighted average common shares outstanding to diluted weighted average common shares outstanding:

For the Three Years Ended December 31, 1998 (In millions)	1998	1997	1996
Net income	\$796	\$434	\$459
Less: Potential minority interest associated with Putnam Equity Partnership Plan	(10)	—	—
Net income for diluted earnings per share	\$786	\$434	\$459
Basic weighted average common shares outstanding	256	245	217
Dilutive effect of stock options	8	6	4
Diluted weighted average common shares outstanding	264	251	221

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

New Accounting Pronouncements: In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial

Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This standard, which establishes new accounting and reporting requirements for derivative instruments, is effective for fiscal years beginning after June 15, 1999. MMC does not expect the adoption of this standard to have a material impact on its results of operations or consolidated financial condition.

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

2 Supplemental Disclosure to the Consolidated Statements of Cash Flows

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

For the Three Years Ended December 31, 1998 (In millions of dollars)	1998	1997	1996
Purchase acquisitions:			
Assets acquired, excluding cash	\$ 3,345	\$ 2,832	\$ 10
Liabilities assumed	(852)	(1,165)	(3)
Issuance of debt and other obligations	(2,191)	(221)	—
Shares issued	—	(973)	—
Net cash outflow for acquisitions	\$ 302	\$ 473	\$ 7
Interest paid	\$ 164	\$ 92	\$ 60
Income taxes paid	\$ 305	\$ 471	\$200

3 Comprehensive Income

Effective January 1, 1998, MMC adopted SFAS No. 130, "Reporting Comprehensive Income," which requires the reporting and display of comprehensive income and its components. The adoption of SFAS No. 130 had no impact on MMC's results of operations or consolidated financial condition. Net unrealized gains and losses on MMC's available for sale securities as well as foreign exchange gains or

losses, which prior to adoption were reported separately in stockholders' equity, are now included in other comprehensive income. Prior year consolidated financial statements have been reclassified to conform to the requirements of SFAS No. 130.

The components of other comprehensive income are as follows:

For the Three Years Ended December 31, 1998 (in millions of dollars)	1998	1997	1996
Foreign currency translation adjustments	\$ 18	\$(66)	\$ 11
Unrealized securities holding gains, net of income taxes of \$39, \$60 and \$45 in 1998, 1997 and 1996	71	111	83
Loss: Reclassification adjustment for gains included in net income, net of income taxes of \$14, \$13 and \$6 in 1998, 1997 and 1996	(26)	(23)	(11)
Minimum pension liability adjustment, net of income taxes of \$16	(24)	—	—
	\$ 39	\$ 22	\$ 83

The components of accumulated other comprehensive income are as follows:

December 31, 1998 and 1997 (in millions of dollars)	1998	1997
Foreign currency translation adjustments	\$(124)	\$(142)
Unrealized securities holding gains	354	309
Minimum pension liability adjustment	(24)	—
	\$ 206	\$ 167

4 Acquisitions and Dispositions

Acquisitions: In the fourth quarter of 1998, MMC consummated a business combination with Sedgwick Group plc ("Sedgwick"), a London-based holding company of one of the world's leading insurance and reinsurance broking and consulting groups, for total cash consideration of approximately \$2.2 billion, which has been initially funded with commercial paper borrowings. The business combination is being accounted for using the purchase method of accounting. Accordingly, goodwill of approximately \$2.0 billion resulting from the preliminary purchase price allocation is being amortized over 40 years. Assets acquired and liabilities assumed have been recorded at their estimated fair values and are subject to adjustment when purchase accounting is finalized in 1999.

On March 1997, MMC consummated a business combination with Johnson & Higgins ("J&H"), a privately-held risk and insurance services and employee benefit consulting firm. MMC agreed to pay total consideration of approximately \$1.8 billion consisting of \$600 million in cash and approximately \$1.2 billion (or 29.4 million shares adjusted to reflect subsequent stock splits) of MMC's common stock. Approximately \$1.3 billion was paid at closing or shortly thereafter and approximately \$500 million is being paid in annual installments over the four years following the closing. The business combination is

being accounted for using the purchase method of accounting. Accordingly, goodwill of approximately \$1.7 billion which resulted from the purchase price allocation is being amortized over 40 years. In arriving at fair value, MMC discounted the market value of the \$1.2 billion stock issuance by \$120 million reflecting certain transfer restrictions associated with the shares issued. MMC allocated the cost of the acquisition to assets acquired and liabilities assumed based on its estimate of fair values. No intangible assets, other than goodwill, were acquired as part of the business combination with J&H.

An agreed upon number of shares issued in connection with the J&H transaction carry restrictions and, consequently, cannot be sold in the first and second years following the closing. In addition, approximately 2.4 million of the 29.4 million shares of common stock were placed in escrow for a period of up to two years in order to secure indemnification obligations with respect to representations and warranties.

The following unaudited pro forma summary presents the consolidated results of operations of MMC as if the Sedgwick business combination had occurred on January 1, 1997 and as if the J&H combination had occurred on January 1, 1996. The pro forma results are shown for illustrative purposes only and do not purport to be

indicative of the results which would have been reported if the business combinations had occurred on the dates indicated or which may occur in the future. The pro forma information reflected below includes the impact of pretax special charges in 1998 of \$201 million recorded by Sedgwick prior to its being acquired by MMC, primarily related to pension redress issues discussed in Note 15, and pretax special charges recorded by MMC of \$244 million in 1997 and \$60 million in 1996 discussed in Note 12.

Year Ended December 31, (in millions of dollars, except per share figures)	1998	1997	1996
Revenue	\$8,646	\$7,902	\$5,552
Net Income	641	427	482
Basic net income per share	2.42	1.63	1.96
Diluted net income per share	2.31	1.60	1.93

During 1998, MMC also acquired or increased its interest in several other insurance and reinsurance broking, insurance program management, and consulting businesses for a total cost of \$413 million in transactions accounted for as purchases. The cost of these acquisitions exceeded the fair value of net assets acquired by \$422 million.

During 1997, MMC also acquired or increased its interest in several other insurance and reinsurance broking and consulting businesses for a total cost of \$285 million in transactions accounted for as purchases. The cost of these acquisitions exceeded the fair value of net assets acquired by \$317 million. In addition, MMC issued approximately 1.4 million shares of common stock (adjusted to reflect subsequent stock splits) in connection with the acquisition of an insurance program management business accounted for as a pooling of interests.

During 1996, MMC acquired an insurance broking business and various other insurance and reinsurance broking assets for a total cost of \$13 million in transactions accounted for as purchases. The cost of these acquisitions exceeded the fair value of net assets acquired by \$8 million.

Dispositions: As part of the combination with Sedgwick, MMC acquired several insurance underwriting companies that were already in run-off along with consulting businesses not compatible with its existing operations. MMC intends to sell these operations in the near future and accordingly, \$84 million of net assets of these businesses at December 31, 1998 are included in other current assets in the Consolidated Balance Sheet as assets to be sold. The net assets at December 31, 1998 are stated at their estimated realizable value.

During 1997, MMC sold an insurance program management business and a consulting operation for \$54 million and recognized pretax gains of \$13 million.

During 1996, MMC sold The Frizzell Group Limited ("Frizzell") for approximately \$290 million and recognized a pretax gain of \$33 million.

In 1997, as part of the integration of J&H, MMC adopted plans to consolidate duplicative offices and reduce staff. The estimated cost of the plans relating to employees and offices of J&H ("J&H Plan") amounted to \$143 million and was allocated to the cost of the acquisition. Merger related costs for employees and offices of MMC ("MMC Plan") amounted to \$168 million and were recorded as part of a special charge in 1997.

The \$143 million allocated to the cost of the J&H acquisition included \$69 million of costs principally related to the planned consolidations of approximately 50 offices and \$74 million for employee related costs, primarily severance and related benefits associated with the reduction of over 900 positions worldwide. The \$168 million recorded as part of the MMC special charge included \$117 million of severance and related benefits associated with the reduction of approximately 1,300 positions worldwide; \$38 million of costs principally related to the planned consolidations of approximately 30 offices; and \$13 million for other integration related costs. The office consolidation costs primarily represent future rent under noncancelable leases (net of anticipated sublease income) and lease termination payments.

The utilization of the charges is summarized as follows:

(in millions of dollars)	Initial Balance	Utilized in 1997	Utilized in 1998	Balance Dec. 31, 1998
J&H Plan:				
Termination payments to employees	\$ 70	\$ (17)	\$ (37)	\$ 16
Other employee related costs	4	(2)	(1)	1
Future rent under noncancelable leases	45	(1)	(5)	39
Leasehold termination costs	24	(4)	(13)	7
	\$143	\$ (24)	\$ (56)	\$ 63
Number of employee terminations	900	(600)	(250)	50
Number of office consolidations	50	(10)	(35)	5
MMC Plan:				
Termination payments to employees	\$117	\$ (44)	\$ (58)	\$15
Future rent under noncancelable leases	21	(2)	(4)	15
Leasehold termination costs	17	(10)	(2)	5
Other integration related costs	13	(6)	(2)	5
	\$168	\$ (62)	\$ (66)	\$40
Number of employee terminations	1,300	(800)	(450)	50
Number of office consolidations	30	(10)	(17)	3

In January 1999, the final group of nearly 100 employees who were determined to be redundant under the Plans were severed from employment with MMC. The remaining real estate actions are expected to be completed during 1999. The remaining balances, primarily representing future rent under noncancelable leases and salary continuance arrangements, primarily in Canada and the Netherlands, are expected to be paid out over several years.

5 Income Taxes

Income before income taxes 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 Three Years Ended December 31, 1998			
(In millions of dollars)			
	1998	1997	1996
Income before income taxes:			
U.S.	\$ 897	\$ 510	\$437
Other	408	205	231
	\$1,305	\$ 715	\$668
Income taxes:			
Current—			
U.S. Federal	\$ 284	\$ 218	\$ 94
Other national governments	89	141	97
U.S. state and local	57	61	39
	430	420	230
Deferred—			
U.S. Federal	30	(55)	48
Other national governments	49	(71)	(40)
U.S. state and local	—	(13)	(29)
	79	(139)	(21)
Total income taxes	\$ 509	\$ 281	\$209

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

December 31, 1998 and 1997		
(In millions of dollars)		
	1998	1997
Deferred tax assets:		
Accrued expenses not currently deductible	\$ 752	\$616
Accrued retirement benefits	137	117
Differences related to non-U.S. operations	215	119
Depreciation and amortization	—	11
Other	18	15
	\$1,122	\$878
Deferred tax liabilities:		
Depreciation and amortization	\$ 43	\$ —
Prepaid dealer commissions	401	376
Safe harbor leasing	10	14
Unbilled revenue	14	18
Unrealized securities holding gains	192	167
Differences related to non-U.S. operations	71	36
Other	56	18
	\$ 787	\$629
Balance sheet classifications:		
Current assets	\$ 76	\$166
Other assets	359	181
Accrued income taxes	(100)	(98)

A reconciliation from the U.S. Federal statutory income tax rate to MMC's effective income tax rate is as follows:

For the Three Years Ended			
December 31, 1998			
	1998	1997	1996
U.S. Federal statutory rate	35.00%	35.00%	35.00%
U.S. state and local income taxes—			
net of U.S. Federal income			
tax benefit	2.90	4.40	3.90
Differences related to non-U.S.			
operations	(.40)	(.20)	(1.25)
Tax adjustment	—	—	(6.00)
Other	1.50	.10	(.40)
Effective tax rate	39.00%	39.30%	31.25%

During 1996, MMC recorded a tax adjustment that reduced the income tax provision by \$40 million. The tax adjustment primarily related to the permanent deployment of funds outside of the United States in a tax efficient manner and favorable state and local tax developments in the U.S.

In 1997, MMC received a Notice of Proposed Adjustment from a local field office of the Internal Revenue Service ("IRS") challenging its tax treatment related to 12b-1 fees paid by the Putnam Funds. The notice reflected the preliminary thinking of the IRS field office and did not constitute a formal assertion of liability by the IRS. The notice in question asserts a position contrary to the position enunciated in an IRS 1993 Technical Advice Memorandum. The IRS field office withdrew the Notice of Proposed Adjustment and submitted the matter to the national office of the IRS for consideration in a request for technical advice. Consequently, the issue is under consideration by the IRS. MMC believes its tax treatment of these fees is consistent with current industry practice and applicable requirements of the Internal Revenue Code and previously issued IRS technical advice.

Taxing authorities periodically challenge positions taken by MMC on its tax returns. On the basis of present information and advice received from counsel, it is the opinion of MMC's management that any assessments resulting from current tax audits will not have a material adverse effect on MMC's consolidated results of operations or its consolidated financial position.

6 Retirement Benefits

In 1998, MMC adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The new standard does not change the measurement or recognition of those plans, but revises

disclosures about pensions and other postretirement benefit plans. Restatement of disclosures for the prior year has been made for comparative purposes.

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

December 31, 1998 and 1997 (In millions of dollars)	U.S. Pension Benefits		U.S. Postretirement Benefits	
	1998	1997	1998	1997
Change in benefit obligation:				
Benefit obligation at beginning of year	\$1,434	\$ 798	\$175	\$ 88
Service cost	46	39	3	4
Interest cost	104	90	10	10
Actuarial (gain) loss	87	107	(6)	13
Acquisitions	365	464	6	66
Benefits paid	(82)	(64)	(5)	(6)
Plan amendments	2	—	(18)	—
Benefit obligation at end of year	1,956	1,434	165	175
Change in plan assets:				
Fair value of plan assets at beginning of year	1,651	947	—	—
Actual return on plan assets	256	272	—	—
Acquisitions	392	399	—	—
Employer contributions	19	97	5	6
Benefits paid	(82)	(64)	(5)	(6)
Fair value of plan assets at end of year	2,236	1,651	—	—
Funded status	280	217	(165)	(175)
Unrecognized net actuarial gain	(245)	(216)	(7)	(1)
Unrecognized prior service cost (credit)	10	15	(14)	—
Unrecognized transition amount	(28)	(33)	—	—
Net asset (liability) recognized	\$ 17	\$ (17)	\$(186)	\$(176)
Amounts recognized in Balance Sheet consist of:				
Prepaid benefit cost	\$ 144	\$ 111	\$ —	\$ —
Accrued benefit liability	(161)	(128)	(186)	(176)
Intangible asset	10	—	—	—
Accumulated other comprehensive income	24	—	—	—
Net asset (liability) recognized	\$ 17	\$ (17)	\$(186)	\$(176)

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

	U.S. Pension Benefits		U.S. Postretirement Benefits	
	1998	1997	1998	1997
Weighted average assumptions:				
Discount rate	7.0%	7.25%	7.0%	7.25%
Expected return on plan assets	10.0%	10.0%	—	—
Rate of compensation increase	4.0%	4.0%	—	—

The increases in benefit obligation and plan assets relating to acquisitions pertain to MMC's acquisitions of Sedgwick (and the current terms of its plans) and J&H in 1998 and 1997, respectively. In 1998, the discount rate used to value the liabilities of the U.S. defined benefit pension plans and postretirement benefit plans was decreased to reflect current interest rates of high quality fixed income debt securities.

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 \$279 million, \$247 million and \$114 million, respectively, as of December 31, 1998 and \$239 million, \$206 million and \$99 million, respectively, as of December 31, 1997.

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

the Three Years Ended December 31, 1998 (in millions of dollars)	U.S. Pension Benefits			U.S. Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
Service cost	\$ 46	\$ 39	\$ 28	\$ 3	\$ 4	\$ 2
Interest cost	104	90	60	10	10	6
Expected return on plan assets	(146)	(115)	(81)	—	—	—
Amortization of prior service cost (credit)	7	7	7	(2)	—	—
Amortization of transition asset	(4)	(4)	(4)	—	—	—
Recognized actuarial (gain) loss	5	(5)	(6)	—	(1)	(1)
	\$ 12	\$ 12	\$ 4	\$11	\$13	\$ 7

The assumed health care cost trend rate was approximately 9% in 1998, gradually declining to 4% in the year 2041. Assumed health care cost trend rates have a significant effect on the amounts

reported for the 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
Impact on total of service and interest cost components	\$ 2	\$ (2)
Impact on postretirement benefit obligation	\$17	\$(15)

The following schedules provide information on MMC's significant U.S. defined benefit pension plans:

December 31, 1998 and 1997 (in millions of dollars)	Non-U.S. Pension Benefits	
	1998	1997
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 900	\$ 724
Service cost	48	41
Interest cost	66	62
Employee contributions	10	10
Actuarial loss	209	10
Acquisitions	1,503	109
Benefits paid	(48)	(44)
Sign currency changes	(9)	(23)
Plan amendments	1	11
Benefit obligation at end of year	2,680	900
Change in plan assets:		
Value of plan assets at beginning of year	1,202	948
Actual return on plan assets	172	172
Acquisitions	1,385	128
Company contributions	15	11
Employee contributions	10	10
Benefits paid	(48)	(44)
Sign currency changes	(15)	(23)
Value of plan assets at end of year	2,721	1,202
Actuarial status	41	302
Recognized net actuarial gain	(35)	(170)
Recognized prior service cost	8	8
Recognized net asset	(12)	(18)
Asset recognized	\$ 2	\$ 122
Amounts recognized in Balance Sheet consist of:		
Paid benefit cost	\$ 143	\$ 140
Unfunded benefit liability	(141)	(18)
Asset recognized	\$ 2	\$ 122
Weighted average assumptions:		
Discount rate	5.9%	7.6%
Expected return on plan assets	8.9%	9.1%
Rate of compensation increase	4.2%	5.4%

The increases in benefit obligation and plan assets relating to acquisitions pertain primarily to MMC's acquisitions of Sedgwick and J&H in 1998 and 1997, respectively. In 1998, the discount rates used to value the liabilities of the non-U.S. plans were decreased to reflect current worldwide interest rates. Assumptions, including projected compensation increases and potential cost of living adjustments for retirees, were also revised to reflect current expectations as to future levels of inflation.

The projected 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 \$1.55 billion, \$1.52 billion and \$1.40 billion, respectively, as of December 31, 1998 and \$41 million, \$33 million and \$14 million, respectively, as of December 31, 1997. The increase in the pension obligation and related assets in 1998 was due principally to the Sedgwick acquisition.

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

For the Three Years Ended December 31, 1998 (in millions of dollars)	Non-U.S. Pension Benefits		
	1998	1997	1996
Service cost	\$ 48	\$ 41	\$ 32
Interest cost	66	62	51
Expected return on plan assets	(98)	(90)	(75)
Amortization of prior service cost	1	—	—
Amortization of transition asset	(6)	(6)	(6)
	\$ 11	\$ 7	\$ 2

Contribution Plans: MMC maintains certain defined contribution plans for its employees, including the Marsh & McLennan Companies Stock Investment Plan ("SIP"), the Putnam Investments, Inc. Profit Sharing Retirement Plan (the "Putnam Plan") and the Johnson & Higgins Cash Accumulation Plan ("J&H Plan"). Under these plans, eligible employees may contribute a percentage of their base salary, subject to certain limitations. For the SIP and the J&H Plan, MMC matches a portion of the employees' contributions, while under the Putnam Plan the contributions are at the discretion of MMC subject to IRS limitations. The cost of these defined contribution plans was \$62 million, \$55 million and \$40 million for 1998, 1997 and 1996, respectively.

7 Stock Benefit Plans

As provided under SFAS No. 123, "Accounting for Stock-Based Compensation," MMC has elected to continue to account for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and has provided the required additional pro forma disclosures.

In accordance with the intrinsic value method allowed by APB 25, no compensation cost has been recognized in the Consolidated Statements of Income for MMC's stock option and stock purchase plans and the stock options awarded under the Putnam Investments, Inc. Equity Partnership Plan. Had compensation cost for MMC's stock-based compensation plans been determined consistent with the fair value method prescribed by SFAS No. 123, MMC's net income and net income per share for 1998, 1997 and 1996 would have been reduced to the pro forma amounts indicated in the table below.

The fair value of each of MMC's option grants included in pro forma net income is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1998, 1997 and 1996, respectively; dividend yield of 3.0% in 1998 and 1997 and 3.5% in 1996; expected volatility of 18.9% in 1998, 17.5% in 1997 and 14.0% in 1996; risk-free interest rate of 5.6% in 1998, 6.5% in 1997 and 6.0% in 1996; and an expected life of five years. The compensation cost as generated by the Black-Scholes model may not be indicative of the future benefit, if any, that may be received by the option holder. The weighted average fair value of options granted during the years ended December 31, 1998, 1997 and 1996 was \$11.65, \$8.47 and \$4.90 per share, respectively.

<i>(in millions of dollars, except per share figures)</i>	1998	1997	1996
Net Income:			
As reported	\$796	\$434	\$459
Pro forma	\$762	\$414	\$448
Net Income Per Share:			
<i>Basic:</i>			
As reported	\$3.11	\$1.77	\$2.11
Pro forma	\$2.98	\$1.69	\$2.06
<i>Diluted:</i>			
As reported	\$2.98	\$1.73	\$2.08
Pro forma	\$2.85	\$1.65	\$2.03

The pro forma information reflected above may not be representative of the amounts to be expected in future years as the fair value method of accounting contained in SFAS No. 123 has not been applied to options granted prior to January 1995.

Incentive and Stock Award Plans: During 1997, MMC adopted the Marsh & McLennan Companies, Inc. 1997 Employee Incentive and Stock Award Plan (the "Employee Plan") and the Marsh & McLennan Companies, Inc. 1997 Senior Executive Incentive and Stock Award Plan (the "Executive Plan"). The Employee and Executive Plans (the "1997 Plans") replace the 1992 Incentive and Stock Award Plan (the "1992 Plan"). The types of awards permitted under these Plans include stock options, restricted stock, stock bonus units, restricted and deferred stock units payable in MMC common stock or cash, and other stock-based and performance-based awards. The Compensation Committee of the Board of Directors (the "Compensation Committee") determines, at its discretion, which affiliates may participate in the plans, which eligible employees will receive awards, the types of awards to be received and the terms and conditions thereof. The right of an employee to receive an award may be subject to performance conditions as specified by the Compensation Committee. The 1997 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 18,000,000 shares of common stock may be made over the life of the Employee Plan plus shares remaining unused under pre-existing approved stock plans. Awards relating to not more than 7,500,000 shares of common stock may be made over the life of the Executive Plan plus shares remaining unused under pre-existing approved stock plans. There were 24,506,619 and 31,203,936 shares available for awards under the 1997 Plans and prior plans at December 31, 1998 and 1997, respectively.

Stock Options: Options granted under the 1997 Plans may be designated as incentive stock options or as non-qualified stock options. The Compensation Committee shall determine the terms and conditions of the option, including the time or times at which an option may be exercised, the methods by which such exercise price may be paid and the form of such payment. Except under certain limited circumstances, no stock option may be granted with an exercise price of less than the fair market value of the stock at the time the stock option is granted.

stock option transactions under the 1997 Plans and prior plans are as follows:

	1998		1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance at beginning of period	24,332,522	\$31.18	25,666,431	\$28.11	26,162,385	\$26.88
Granted	6,115,165	\$60.19	5,166,120	\$41.39	4,122,180	\$31.70
Revised	(3,427,830)	\$26.63	(5,865,160)	\$26.59	(3,861,090)	\$23.55
Forfeited	(527,037)	\$38.76	(634,869)	\$31.99	(757,044)	\$28.50
Balance at end of period	26,492,820	\$38.27	24,332,522	\$31.18	25,666,431	\$28.11
Options exercisable at year-end	14,587,332	\$30.01	14,706,623	\$28.17	16,468,995	\$27.12

The following table summarizes information about stock options at December 31, 1998:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding at 12/31/98	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at 12/31/98	Weighted Average Exercise Price
\$46-26.44	5,981,218	3.6 years	\$25.82	5,344,951	\$25.77
\$94-33.35	9,818,089	5.2 years	\$31.06	8,000,598	\$30.93
\$25-60.59	10,693,513	8.7 years	\$51.85	1,241,783	\$42.35
\$46-60.59	26,492,820	6.3 years	\$38.27	14,587,332	\$30.01

Restricted Stock: Restricted shares of MMC's common stock may be awarded and shall be subject to such 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 a participant shall have 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 shall be forfeited upon termination of employment.

There were 124,350, 135,000 and 158,400 restricted shares granted in 1998, 1997 and 1996, respectively. MMC recorded compensation expense of \$7 million in 1998 and \$6 million in 1997 and 1996, related to these shares. Shares that have been granted generally become unrestricted at the earlier of: (1) January 1 of the eleventh month following the grant or (2) the later of the recipient's normal or scheduled retirement date.

Restricted Stock Units: Restricted stock units, payable in stock or cash, may be awarded under the Plans. The Compensation Committee shall determine the restrictions on such units, when the restrictions shall lapse, when the units shall vest and be paid, and upon what terms the units shall be forfeited.

There were 94,902, 98,856 and 119,277 restricted stock units awarded during 1998, 1997 and 1996, respectively. MMC recorded compensation expense of \$6 million, \$4 million and \$5 million in 1998, 1997 and 1996, respectively, related to restricted stock units.

Deferred Stock Units: Deferred stock units, payable in stock or cash, may be awarded under the Plans. The Compensation Committee shall determine the restrictions on such units, when the restrictions shall lapse, when the units shall vest and be paid, and upon what terms the units shall be forfeited.

There were 557,542 and 445,833 deferred stock units awarded during 1998 and 1997, respectively. MMC recorded compensation

expense of \$20 million and \$6 million in 1998 and 1997, respectively, related to deferred stock units. The 1998 expense includes an \$11 million charge associated with acquisition related stock unit awards issued to certain senior employees of Sedgwick (see Note 12).

Putnam Investments, Inc. Equity Partnership Plan: In September 1997, Putnam adopted the Putnam Investments, Inc. Equity Partnership Plan (the "Equity Plan") pursuant to which Putnam is authorized to grant or sell to certain key employees of Putnam or its subsidiaries restricted shares of a new class of common stock of Putnam ("Class B Common Stock") and options to acquire the Class B Common Stock. Such awards or options generally vest over a four-year period. Holders of Putnam Class B shares are not entitled to vote and have no rights to convert their shares into any other securities of Putnam. However, in the event of certain change in control events, Class B shares will be converted into Class A common stock on a share for share basis. Awards of restricted stock and/or options may be made under the Equity Plan with respect to a maximum of 12,000,000 shares of Class B Common Stock which would represent approximately 12% of the outstanding shares on a fully diluted basis. In 1998, Putnam made awards pursuant to the Equity Plan with respect to approximately 3,660,000 shares of Class B Common Stock, including 1,830,000 shares of restricted stock with a value of \$94 million and 1,830,000 shares subject to options. In 1997, Putnam made awards with respect to approximately 4,000,000 shares of Class B Common Stock, including 2,000,000 shares of restricted stock with a value of \$83 million and 2,000,000 shares subject to options. There were approximately 4,774,000 shares available for grant related to the Equity Plan at December 31, 1998.

Pursuant to an executive compensation agreement, Putnam has also awarded 300,000 restricted stock units with a value of \$14 million and 325,000 options related to Class B Common Stock to a key executive of Putnam.

The fair value of each option grant included in the pro forma net income is estimated on the date of grant using the Black-Scholes

option-pricing model with the following weighted average assumptions used for grants in 1998 and 1997: dividend yield of 5.0% for 1998 and 1997; expected volatility of 28.3% in 1998 and 26.4% in 1997; risk-free interest rate of 5.6% in 1998 and 6.1% in 1997; and an expected life of five years. The compensation cost as generated by the Black-Scholes model may not be indicative of the future benefit, if any, that may be received by the option holder. The weighted average fair value of each Class B option was \$10.42 in 1998 and \$8.30 in 1997.

Stock Purchase Plans: In May 1994, MMC's stockholders approved an employee stock purchase plan (the "1994 Plan") to replace the 1990 Employee Stock Purchase Plan which terminated on September 30, 1994 following its fourth annual offering. Under these plans, eligible employees may purchase shares of MMC's common stock, subject to certain limitations, at prices not less than 85% of the lesser of the fair market value of the stock at the beginning or end of any offering period. Under the 1994 Plan, no more than 12,000,000 shares of MMC's common stock plus the remaining unissued shares in the 1990 Plan may be sold. Employees purchased

1,932,060, 1,855,500 and 1,959,000 shares in 1998, 1997 and 1996, respectively. At December 31, 1998, 5,500,440 shares were available for issuance under the 1994 Plan. During 1995, MMC's Board of Directors approved the Marsh & McLennan Companies Stock Purchase Plan for International Employees (the "International Plan") which is similar to the 1994 Plan. Under the International Plan, no more than 1,500,000 shares of MMC's common stock may be sold. Employees purchased 238,854, 211,500 and 15,000 shares in 1998, 1997 and 1996, respectively. At December 31, 1998, 1,034,646 shares were available for issuance under the International Plan. The fair value of each employee purchase right granted under these Stock Purchase Plans is included in the pro forma net income for 1998, 1997 and 1996 and was estimated using the Black-Scholes model with the following assumptions: dividend yield of 3.0% for 1998 and 1997 and 3.5% for 1996; expected life of one year; expected volatility of 18.9% for 1998, 17.5% for 1997 and 14.0% for 1996; and risk-free interest rate of 4.4% for 1998, 5.5% for 1997 and 5.6% for 1996. The weighted average fair value of each purchase right granted in 1998, 1997 and 1996 was \$10.61, \$10.96 and \$6.38, respectively.

8 Long-term Obligations

MMC leases office facilities, equipment and automobiles under noncancelable operating leases. These leases expire on varying dates; in some instances contain renewal and expansion options; do not restrict the payment of dividends or the incurrence of debt or additional lease obligations; and contain no significant purchase options. In addition to the base rental costs, occupancy lease agreements generally provide for rent escalations resulting from increased assessments for real estate taxes and other charges. Approximately 95% of MMC's lease obligations are for the use of office space.

At December 31, 1998, the aggregate future minimum rental commitments under all noncancelable operating lease agreements are as follows:

For the Years Ending December 31, (In millions of dollars)	Gross Rental Commitments	Rentals from Subleases	Net Rental Commitments
1999	\$ 310	\$12	\$ 298
2000	263	9	254
2001	211	6	205
2002	163	4	159
2003	129	3	126
Subsequent years	570	15	555
	\$1,646	\$49	\$1,597

The accompanying Consolidated Statements of Income include net rental costs of \$313 million, \$265 million and \$217 million for 1998, 1997 and 1996, respectively, after deducting rentals from subleases (\$7 million in 1998 and 1997 and \$8 million in 1996).

MMC has entered into agreements with various service companies to outsource certain information systems activities and responsibilities. Under these agreements, MMC is required to pay minimum annual service charges. Additional fees may be payable depending upon the volume of transactions processed with all future payments subject to increases for inflation. At December 31, 1998, the aggregate fixed future minimum commitments under these agreements are as follows:

For the Years Ending December 31, (In millions of dollars)	Future Minimum Commitments
1999	\$ 68
2000	56
2001	35
2002	28
2003	25
Subsequent years	20
	\$232

9 Short-term Debt

MMC's outstanding short-term debt is as follows:

December 31, 1998 and 1997 (In millions of dollars)	1998	1997
Commercial paper	\$2,213	\$230
Bank loans	10	—
Current portion of long-term debt	11	7
	\$2,234	\$237

The weighted average interest rates on outstanding commercial paper borrowings at December 31, 1998 and 1997 are 5.3% and 6.1%, respectively.

During 1998, MMC executed an additional revolving credit facility with several banks to support its commercial paper borrowings made to initially finance its acquisition of Sedgwick. This facility, which expires in August 1999, provides that MMC may borrow up to \$2.25 billion at market rates of interest which may vary depending upon the level of usage of the facility and MMC's credit ratings.

MMC maintains credit facilities with various banks, primarily related to operations located outside the United States, aggregating \$553 million at December 31, 1998. MMC has borrowed \$25 million under these facilities and has included \$15 million of these borrowings in Long-term Debt.

10 Long-term Debt

MMC's outstanding long-term debt is as follows:

December 31, 1998 and 1997 (millions of dollars)	1998	1997
Commercial paper	\$ 600	\$ —
Revolving credit facility	583	709
Mortgage—9.8% due 2009	200	200
Notes payable—due 2012	86	111
Notes payable—7.68% due 2006	60	—
Bank borrowings	—	184
Other	72	43
	1,601	1,247
Less current portion	11	7
	\$1,590	\$1,240

Commercial paper borrowings of \$600 million at December 31, 1998 have been classified as long-term debt based on MMC's intent and ability to maintain or refinance these obligations on a long-term basis.

In 1997, MMC executed a revolving credit facility with several banks to support its commercial paper borrowings and to fund other general corporate requirements. This noncancelable facility, which matures in June 2002, provides that MMC may borrow up to \$1.2 billion at market rates of interest which may vary depending upon the level of usage of the facility and MMC's credit ratings. Commitments of 7 basis points are payable on any unused portion. The facility requires MMC to maintain consolidated net worth of at least \$7 billion and contains other restrictions relating to consolidations, mergers and the sale or pledging of assets.

Outstanding borrowings at December 31, 1998 under this revolving credit facility amounted to \$583 million and have been classified as long-term debt based on MMC's intent and ability to maintain or

refinance these obligations on a long-term basis. The weighted average interest rate associated with these borrowings was 5.6% and 6.0% at December 31, 1998 and 1997, respectively.

MMC has a fixed rate non-recourse mortgage note agreement due in 2009 amounting to \$200 million, bearing an interest rate of 9.8%, in connection with its interest in its worldwide headquarters building. 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, starting in 1999, at fair market value if greater.

MMC has an interest rate swap which was entered into as part of the acquisition and renovation of MMC's worldwide headquarters which fixes the interest rate at approximately 9.5% on \$100 million of variable rate borrowings. This swap expired in February 1999. The weighted average interest rate received on this swap at December 31, 1998, 1997 and 1996 was 5.7%, 5.8% and 5.7%, respectively. The difference between the fixed rate and the weighted average rate is included in interest expense in the Consolidated Statements of Income.

MMC has a note payable due 2012, the outstanding balance of which was \$86 million and \$111 million at December 31, 1998 and 1997, respectively. Interest on this debt is fixed at 8.62%. The decrease from 1997 reflects MMC's repayment of the variable rate portion of the note.

In connection with the Sedgwick transaction, MMC assumed debt amounting to \$108 million at December 31, 1998. This debt consists of \$60 million of 7.68% Senior Loan Notes, \$36 million related to capital leases and \$12 million of other borrowings.

Scheduled repayments of long-term debt in 1999 and in the four succeeding years are \$11 million, \$21 million, \$9 million, \$1.2 billion and \$6 million, respectively.

11 Financial Instruments

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

December 31, 1998 and 1997 (millions of dollars)	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Derivatives:				
Cash and cash equivalents	\$ 610	\$ 610	\$ 424	\$ 424
Long-term securities	828	828	720	720
Short-term debt	2,234	2,234	237	237
Long-term debt	1,590	1,665	1,240	1,313
Other assets (liabilities):				
Interest rate swaps	—	4	—	(5)
Forward exchange contracts	—	1	—	—

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

Long-term Securities: Long-term securities primarily consist of available for sale securities recorded at quoted market prices. MMC also has certain additional long-term securities, for which there are no readily available market prices, amounting to \$82 million and \$73 million at December 31, 1998 and 1997, respectively, which are carried on a cost basis. Based on present information, MMC believes that the cost of these investments approximates their fair value.

Short-term and Long-term Debt: The fair value of MMC's short-term debt, which consists primarily of commercial paper borrowings, approximates its carrying value. The estimated fair value of MMC's long-term debt is based on discounted future cash flows using current interest rates available for debt with similar terms and remaining maturities. The estimated fair value of borrowings under the revolving credit facility approximates the carrying value.

Interest Rate Swaps: Historically, MMC has managed its net exposure to interest rate changes by utilizing a mixture of variable and fixed rate borrowings to finance MMC's asset base. Interest rate swaps have been utilized on a limited basis to convert variable rate borrowings into fixed rate borrowings. Sedgwick has utilized interest rate swaps to manage its exposure to interest rate movements on its cash and investments as well as its interest expense on borrowings. MMC does not utilize financial instruments for trading or other speculative purposes. The counterparties to these contracts are major financial institutions. Management believes that risk of loss is remote and in any event would be immaterial.

The fair value of these interest rate swaps are the estimated amounts that MMC would pay to terminate the agreements at the reporting date, taking into account the current interest rate environment. Amounts currently due to or from interest rate swap counterparties are recorded in interest expense in the period in which they accrue.

A summary of MMC's interest rate swaps as of December 31, 1998 and 1997 is as follows:

(In millions of dollars)	Notional Amount	Termination Dates	Weighted Average Interest Rates	
			Receive	Pay
1998—				
Receive fixed— pay variable	\$599	1999-2003	6.8%	5.9%
Receive variable— pay fixed	\$140	1999-2005	5.7%	8.4%
1997—				
Receive variable— pay fixed	\$142	1999-2005	5.8%	8.4%

Forward Exchange Contracts: At December 31, 1998, MMC primarily had open forward exchange contracts to both sell U.S. dollars for sterling and purchase U.S. dollars for sterling for underlying principal amounts of \$28 million and \$70 million, respectively. These contracts were entered into by Sedgwick principally to hedge both firm commitments and anticipated transactions.

Unrealized Securities Holding Gains: MMC has classified as available for sale primarily equity securities having an aggregate fair value of \$746 million and \$647 million at December 31, 1998 and 1997, respectively. Gross unrealized gains, amounting to \$546 million and \$476 million at December 31, 1998 and 1997, respectively, have been excluded from earnings and reported as accumulated other comprehensive income which is a component of stockholders' equity, net of deferred income taxes.

Proceeds from the sale of available for sale securities for the years ended December 31, 1998, 1997 and 1996 were \$62 million, \$69 million and \$28 million, respectively. Gross realized gains on available for sale securities sold during 1998, 1997 and 1996 amounted to \$40 million, \$36 million and \$17 million, respectively. The cost of securities sold is determined using the average cost method for equity securities.

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

12 Special Charges/Credits

During 1998, MMC recorded a special charge of \$11 million representing acquisition related stock unit awards issued to certain senior employees of Sedgwick. In addition, as further explained below, a reserve related to a 1996 provision for restructuring of approximately \$15 million was reversed in 1998. The resulting net special credit of \$4 million increased diluted net income per share by \$.01 for the year.

During 1997, MMC recorded special charges totaling \$244 million. The net impact of the special charges on diluted net income per share was \$.63 for the year. These charges included \$168 million of merger costs predominantly related to the combination with J&H, a charge of \$61 million related to London real estate, and \$15 million for the disposal of certain EDP assets which were written-off in 1997. The merger costs are discussed in detail in Note 4. The \$61 million charge for London real estate included \$35 million associated with a plan to abandon and demolish a company-owned building and \$26 million of lease abandonment costs (net of anticipated sublease income) relating to vacating several leased locations. Payments and write-offs

associated with this reserve began in 1998 and are expected to continue for several years. The remaining London real estate reserve is \$25 million at December 31, 1998.

During 1996, MMC completed the sale of Frizzell for approximately \$290 million which resulted in a \$33 million pretax gain. In addition, pretax charges aggregating \$93 million were also recorded. The net impact of these special charges and the 1996 tax adjustment discussed in Note 5 increased diluted net income per share by \$.01 for the year. These charges included a provision of \$34 million primarily for London real estate representing lease abandonment costs for certain leased locations (net of anticipated sublease income); \$27 million primarily for severance and related benefits associated with the planned reduction of over 600 employees relating to restructuring certain elements of MMC's insurance and reinsurance back office operations in London and several office closings; \$17 million for goodwill write-offs; and \$15 million related to the Lloyd's Reconstruction and Renewal Plan.

utilization of the 1996 special charges is summarized as follows:

<i>(in millions of dollars)</i>	Initial Balance	Non-Cash Charges	Payments Made	Amount Reversed	Balance December 31, 1998
estate consolidations	\$34	\$ (8)	\$ (2)	\$ —	\$24
reductions and office closings	27	—	(12)	(15)	—
will write-offs	17	(17)	—	—	—
's Reconstruction and Renewal Plan	15	—	(12)	—	3
	\$93	\$(25)	\$(26)	\$(15)	\$27

London real estate and staff reduction plans were expected to commence in 1997 and continue through 1998; however, execution of these plans was delayed as a result of the J&H acquisition and is under review. After further evaluation, management still was committed to carrying out these plans and in the fall of 1997 leased space in the East India Dock section of London to begin the consolidation of its back office operations. The leased space was

built out and then occupied during the summer of 1998. However, with the acquisition of Sedgwick in the fourth quarter of 1998, management concluded that the remaining staff reduction plan to reorganize the London back office could no longer be executed and, therefore, the remaining severance accrual of \$15 million was reversed. The remaining balance, primarily representing future rent under noncancelable leases, is expected to be paid out over several years.

13 Common Stock

On May 20, 1998, the Board of Directors authorized a three-for-two stock distribution of MMC's common stock, which was issued as a stock dividend on June 26, 1998.

On May 21, 1997, the Board of Directors authorized a two-for-one stock distribution of MMC's common stock, which was issued as a stock dividend on June 27, 1997.

All references to per share amounts have been restated for these stock distributions.

14 Stockholder Rights Plan

On September 18, 1997, MMC's Board of Directors approved the adoption of the benefits afforded by MMC's existing rights plan by adopting a new stockholder rights plan. Under the new plan, Rights are distributed to shareholders of record on September 29, 1997, and automatically attach to shares acquired thereafter. Under the plan, the Rights generally become exercisable after a person or entity (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 entity 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 two-hundredth of a share of Series A Junior Participating Preferred Stock of MMC at a purchase price of \$260. Alternatively, if any person acquires 15% or more of MMC's common stock except pursuant to an offer for all shares at a price which is fair and not inadequate or if a 15% holder acquires MMC by means of a reverse merger in which MMC and its stock survive, each Right not owned by a 15% or more shareholder would become exercisable for common stock of MMC (or in certain circumstances, other consideration) having a market value equal to twice the exercise price of the Right. The Rights expire on September 29, 2007, except as otherwise provided in the plan.

15 Claims, Lawsuits and Other Contingencies

MMC and its subsidiaries are subject to various claims, lawsuits and proceedings consisting principally of alleged errors and omissions in connection with the placement of insurance or reinsurance and in rendering investment and consulting services. Some of these matters seek damages, including punitive damages, in amounts which could, if assessed, be significant.

On November 24, 1997, an action captioned "*Aiena et al. vs. Olsen et al.*" ("*Aiena*") was brought in the United States District Court for the Southern District of New York by certain former directors of J&H, which was acquired by MMC in March 1997, against twenty-four selling shareholders of J&H, as well as J&H itself and MMC. The action essentially challenges the allocation of the consideration paid in connection with MMC's combination with J&H as between the defendants who were directors and shareholders of J&H at the time of the transaction and the plaintiffs who were former directors and shareholders of J&H. The complaint asserts, among others, claims for breach of fiduciary duty, federal securities law violations, breach of contract, and ERISA violations. Plaintiffs seek compensatory and punitive damages. Two other former directors of J&H have commenced similar actions (*Sempier v. Olsen et al.*; and *Clements v. Olsen et al.*), which are also pending before the United States District Court for the Southern District of New York and are contemplated to be heard together with the *Aiena* action.

In 1993, several years prior to the acquisition of J&H, the Equal Employment Opportunity Commission ("EEOC") commenced a lawsuit against J&H in the United States District Court for the Southern District of New York. The action alleges that a mandatory retirement policy for directors then in effect at J&H violated the federal Age Discrimination in Employment Act ("ADEA"). In 1995, the District Court ruled in the EEOC's favor that the J&H mandatory retirement policy violated the ADEA. The Court of Appeals for the Second Circuit affirmed that ruling in 1996. The EEOC seeks to recover damages on behalf of certain former directors and a trial on the matter of damages, unless the action is resolved, may be held later in 1999. Pursuant to the Stock Purchase Agreement between MMC and J&H and the stockholders of J&H, MMC will bear one-half of all damages and expenses in this action.

Sedgwick Group plc, since prior to its acquisition, has been engaged in a review of previously undertaken personal pension plan business

as required by United Kingdom regulators to determine whether redress should be made to customers. Settlements and related costs previously paid amount to \$80 million of which \$30 million is due from insurers. The contingent exposure of Sedgwick for pension redress and related costs as of Sedgwick's acquisition by MMC is estimated to be \$220 million. Sedgwick had recorded \$150 million of reserves and recognized approximately \$70 million of insurance recoveries related to this exposure.

Other present and former subsidiaries of MMC are engaged in a comparable review of their personal pension plan businesses, although the extent of their activity in this area, and consequently their financial exposure, was proportionally much less than Sedgwick. The contingent exposure of the present and former non-Sedgwick subsidiaries of MMC for pension redress and related costs is estimated to be approximately \$135 million. Approximately \$100 million of this amount is expected to be recovered from insurers and accounting reserves have been provided for the remaining balance. Settlements and related costs previously paid total approximately \$15 million.

MMC's ultimate exposure from the United Kingdom's personal pension plan review, as presently calculated and including Sedgwick, is subject to a number of variable factors including, among others, equity markets, the rate of response to the pension review mailings, the interest rate established quarterly by the U.K. Pension Investment Authority for calculating compensation, and the precise scope, duration, and methodology of the review as required by that Authority.

As part of the combination with Sedgwick, MMC acquired several insurance underwriting companies that were already in run-off. MMC intends to sell these operations in the near future. Sedgwick had given guarantees with respect to certain liabilities relating to some of these operations.

On the basis of present information, anticipated insurance coverage and advice received from counsel, it is the opinion of MMC's management that the disposition or ultimate determination of these claims, lawsuits, proceedings or guarantees will not have a material adverse effect on MMC's consolidated results of operations or its consolidated financial position.

16 Segment Information

MMC has adopted SFAS No. 131 "Disclosures About Segments of an Enterprise and Related Information" effective with the 1998 year-end. Prior year information has been restated to conform with the current year presentation.

MMC, a professional services firm, is organized based on the different services that it offers. Under this organizational structure, MMC operates in three principal business segments: risk and insurance services, investment management, and consulting. The risk and insurance services segment provides insurance broking, reinsurance broking and insurance program management for business, professional, institutional and public-entity clients. It also provides services principally in connection with originating, structuring and managing insurance and related industry investments. The investment

management segment primarily provides securities investment advisory and management services and administrative services for a group of publicly held investment companies. The consulting segment provides advice and services to the managements of organizations primarily in the areas of human resources and employee benefit programs, general management consulting, and economic consulting and analysis.

MMC evaluates segment performance based on operating income, which is after deductions for directly related expenses but before special charges. The accounting policies of the segments are the same as those used for the consolidated financial statements, described in Note 1. Revenues are attributed to geographic areas on the basis of where the services are performed.

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

For the Three Years Ended December 31, 1998 (in millions of dollars)	Revenue from External Customers	Segment Operating Income	Total Assets	Depreciation and Amortization	Capital Expenditures
8—					
Financial and Insurance Services	\$ 3,351 ^(a)	\$ 613	\$ 8,084	\$ 163	\$ 216
Investment Management	2,296	677	1,437	45	38
Real Estate	1,543	202	1,490	38	40
	\$ 7,190	\$ 1,492	\$ 11,011	\$ 246	\$ 294
7—					
Financial and Insurance Services	\$ 2,789 ^(a)	\$ 496	\$ 5,231	\$ 126	\$ 87
Investment Management	1,882	463	1,163	37	81
Real Estate	1,338	148	909	32	32
	\$ 6,009	\$ 1,107	\$ 7,303	\$ 195	\$ 200
5—					
Financial and Insurance Services	\$ 1,907 ^(a)	\$ 363	\$ 3,039	\$ 82	\$ 67
Investment Management	1,338	338	1,010	27	52
Real Estate	1,159	119	652	27	33
	\$ 4,404	\$ 820	\$ 4,701	\$ 136	\$ 152

conciliation of the totals for the operating segments to the applicable items in the consolidated financial statements is as follows:

	1998	1997	1996
Income Before Income Taxes:			
Segment operating income	\$1,492	\$1,107	\$820
Special (charges) credits			
See Note 12)	4	(244)	(93)
Gain on sale of Frizzell			
See Note 12)	—	—	33
Corporate	(76)	(65)	(45)
Operating income	1,420	798	715
Interest income	25	24	14
Interest expense	(140)	(107)	(61)
Income before income taxes	\$1,305	\$ 715	\$668

	Total Operating Segments	Corporate	Adjustments/ Eliminations	Total Consolidated
Other Significant Items:				
8—				
Total assets	\$11,011	\$5,983 ^(b)	\$(5,123) ^(c)	\$11,871
Depreciation and amortization	246	5	—	251
Capital expenditures	294	3	—	297
7—				
Total assets	7,303	4,681 ^(b)	(4,072) ^(c)	7,912
Depreciation and amortization	195	4	—	199
Capital expenditures	200	2	—	202
5—				
Total assets	4,701	2,982 ^(b)	(3,138) ^(c)	4,545
Depreciation and amortization	136	4	—	140
Capital expenditures	152	5	—	157

information by geographic area is as follows:

	Revenue from External Customers	Fixed Assets
Geographic Area:		
1998—		
United States	\$5,235	\$ 720
United Kingdom	820	413
Continental Europe	551	85
Other	584	69
	\$7,190	\$1,287
1997—		
United States	\$4,316	\$ 702
United Kingdom	657	136
Continental Europe	564	56
Other	472	63
	\$6,009	\$ 957
1996—		
United States	\$3,064	\$ 573
United Kingdom	595	120
Continental Europe	372	35
Other	373	42
	\$4,404	\$ 770

includes interest income on fiduciary funds (\$137 million in 1998, \$111 million in 1997, and \$94 million in 1996).

Corporate assets primarily include investments in consolidated subsidiaries, intercompany receivables, unallocated goodwill, and a portion of MMC's headquarters building.

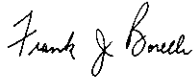
Other primarily represents the elimination of investments in consolidated subsidiaries and intercompany balances.

Report of Management

The management of Marsh & McLennan Companies, Inc. has prepared and is responsible for the accompanying financial statements and other related financial information contained in this annual report. MMC's financial statements were prepared in accordance with generally accepted accounting principles, applying certain estimates and informed judgments as required. Deloitte & Touche LLP, independent auditors, have audited the financial statements and have issued their report thereon.

MMC maintains a system of internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's authorization, that assets are safeguarded and that proper financial records are maintained. Key elements of MMC's internal controls include securing the services of qualified personnel and proper segregation of duties. Internal auditors monitor the control system by examining financial reports, by testing the accuracy of transactions, and by otherwise obtaining assurance that the system is operating in accordance with MMC's objectives.

The Audit Committee of the Board of Directors is composed entirely of outside directors and is responsible for recommending to the Board the independent auditors to be engaged to audit MMC's financial statements, subject to stockholder ratification. In addition, the Audit Committee meets periodically with internal auditors and the independent auditors, both with and without management, to discuss MMC's internal accounting controls, financial reporting and other related matters. *The internal auditors and independent auditors have full and unrestricted access to the Audit Committee.*



Frank J. Borelli
Senior Vice President and
Chief Financial Officer
March 5, 1999

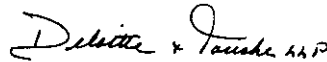
Report of Independent Auditors

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 as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Marsh & McLennan Companies, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.



DELOITTE & TOUCHE LLP
New York, New York
March 5, 1999

SELECTED QUARTERLY FINANCIAL DATA AND SUPPLEMENTAL INFORMATION (UNAUDITED)

millions of dollars, except per share figures)	Revenue	Operating Income	Net Income (Loss)	Net Income (Loss) Per Share ^(a)		Dividends Paid Per Share	Stock Price Range High-Low
				Basic	Diluted		
98:							
1st quarter	\$1,776	\$ 404	\$231	\$.90	\$.87	\$.33	\$61.67-46.38
2nd quarter	1,750	346	193	.75	.72	.33	\$63.25-54.83
3rd quarter	1,719	335	186	.73	.69	.40	\$64.31-46.13
4th quarter	1,945	335	186	.73	.70	.40	\$61.94-43.38
	\$7,190	\$1,420	\$796	\$3.11	\$2.98	\$1.46	\$64.31-43.38
97:							
1st quarter	\$1,295	\$ 277	\$164	\$.75	\$.73	\$.30	\$43.21-34.21
2nd quarter	1,540	262	145	.57	.56	.30	\$50.17-37.71
3rd quarter	1,548	249	140	.55	.54	.33	\$53.17-45.50
4th quarter	1,626	10	(15)	(.05)	(.05)	.33	\$53.33-44.00
	\$6,009	\$ 798	\$434	\$1.77	\$1.73	\$1.26	\$53.33-34.21
96:							
1st quarter	\$1,123	\$ 243	\$143	\$.65	\$.65	\$.27	\$33.88-28.08
2nd quarter	1,098	193	115	.53	.51	.27	\$32.54-29.67
3rd quarter	1,057	174	103	.48	.47	.27	\$33.00-29.33
4th quarter	1,126	105	98	.45	.45	.30	\$38.29-31.83
	\$4,404	\$ 715	\$459	\$2.11	\$2.08	\$1.11	\$38.29-28.08

Net income per share is computed independently for each of the periods presented. Accordingly, the sum of the quarterly net income per share amounts exceeds the total for the year in 1997.

per share amounts have been restated for a three-for-two stock distribution of MMC's common stock, which was issued as a stock dividend on June 26, 1998.

MMC's common stock (ticker symbol: MMC) is traded on the New York, Chicago, Pacific and London stock exchanges. As of February 26, 1999, there were 100 stockholders of record.

FIVE-YEAR STATISTICAL SUMMARY OF OPERATIONS

For the Five Years Ended December 31, 1998 (In millions of dollars, except per share figures)	1998	1997 ^(b)	1996 ^(d)	1995	1994	Compound Growth Rate 1993-1998
Revenue:						
Risk and Insurance Services	\$ 3,351	\$2,789	\$1,907	\$1,964	\$1,887	13%
Investment Management	2,296	1,882	1,338	917	747	32%
Consulting	1,543	1,338	1,159	1,056	933	13%
Total Revenue	7,190	6,009	4,404	3,937	3,567	17%
Expenses:						
Compensation and benefits	3,561	3,044	2,204	1,949	1,740	17%
Other operating expenses	2,209	2,167	1,485	1,293	1,157	17%
Total Expenses	5,770	5,211	3,689	3,242	2,897	17%
Operating Income	1,420	798 ^(c)	715 ^(e)	695	670	19%
Interest Income	25	24	14	18	12	
Interest Expense	(140)	(107)	(61)	(63)	(51)	
Income Before Income Taxes and Cumulative Effect of Accounting Changes	1,305	715	668	650	631	19%
Income Taxes	509	281	209 ^(f)	247	249	
Income Before Cumulative Effect of Accounting Changes	\$ 796	\$ 434	\$ 459	\$ 403	\$ 382	19%
Net Income	\$ 796	\$ 434	\$ 459	\$ 403	\$ 372 ^(g)	19%
Basic Net Income Per Share Information:						
Income Before Cumulative Effect of Accounting Changes	\$3.11	\$1.77	\$2.11	\$1.84	\$1.73	16%
Net Income Per Share	\$3.11	\$1.77	\$2.11	\$1.84	\$1.68 ^(g)	16%
Average Number of Shares Outstanding	256	245	217	219	221	
Diluted Net Income Per Share Information:						
Income Before Cumulative Effect of Accounting Changes	\$2.98	\$1.73	\$2.08	\$1.82	\$1.71	15%
Net Income Per Share	\$2.98	\$1.73	\$2.08	\$1.82	\$1.67 ^(g)	15%
Average Number of Shares Outstanding	264	251	221	221	223	
Dividends Paid Per Share	\$1.46	\$1.26	\$1.11	\$.99	\$.93	10%
Return on Average Stockholders' Equity	23%	17%	26%	26%	26%	
Year-end Financial Position:						
Working capital	\$ (1,757) ^(a)	\$ 224	\$ 192	\$ 110	\$ 54	
Total assets	\$11,871	\$7,912	\$4,545	\$4,330	\$3,831	
Long-term debt	\$ 1,590	\$1,240	\$ 458	\$ 411	\$ 409	
Stockholders' equity	\$ 3,659	\$3,233	\$1,889	\$1,666	\$1,461	
Total shares outstanding (excluding treasury shares)	257	255	217	218	220	
Other Information:						
Number of employees	54,300	36,400	27,000	27,200	26,100	
Stock price ranges—						
U.S. exchanges—High	\$64.31	\$53.33	\$38.29	\$30.04	\$29.59	
—Low	\$43.38	\$34.21	\$28.08	\$25.37	\$23.75	
London Stock Exchange—High	£38.78	£32.71	£22.78	£19.50	£19.65	
—Low	£25.59	£20.37	£18.29	£15.96	£15.11	
Price/earnings multiple	19.6	28.7	16.7	16.3	15.9	

^(a) Includes \$2.2 billion of commercial paper borrowings made to initially finance the acquisition of Sedgwick.

^(b) Includes the operating results of Johnson & Higgins, an insurance broking and consulting services firm, acquired in March 1997 and CECAR, a French insurance services firm.

^(c) Includes a special charge of \$244 million.

^(d) The Frizzell Group Limited was sold in June 1996.

^(e) Includes net special charges of \$93 million partially offset by a \$33 million gain on the sale of Frizzell.

^(f) Includes a tax adjustment that reduced income taxes by \$40 million.

^(g) Reflects the adoption, effective January 1, 1994, of SFAS No. 112, "Employers' Accounting for Postretirement Benefits."

See Management's Discussion and Analysis of Financial Condition and Results of Operations for discussion of significant items affecting the results of operations in 1998 and 1997.

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Senior Vice President,
Human Resources and Administration

Gregory F. Van Gundy
General Counsel and Secretary

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Former Ambassador of Mexico
to the United States

Wei Ming Yi (China)
*Chairman, International
Advisory Council*
China International Trust and
Investment Corporation

SHAREHOLDER INFORMATION

Annual Meeting

The 1999 annual meeting of shareholders will be held at 10 a.m., Thursday, May 20, in the 2nd floor auditorium of the McGraw-Hill Building, 1221 Avenue of the Americas, New York City. At the time of the mailing of this annual report, the notice of the annual meeting and proxy statement, together with a proxy card, is scheduled to be sent to each shareholder.

Anticipated 1999 Dividend Payment Dates

February 12 (paid), May 14, August 13, November 15

Financial and Investor Information

Shareholders and prospective investors inquiring about reinvestment and payment of dividends, consolidation of accounts, changes of registration and stock certificate holdings should contact:

The Bank of New York
Shareholder Relations Department
P.O. Box 11258
Church Street Station
New York, NY 10286
Telephone: (800) 457-8968
(212) 815-2560

Certificates for transfer and address changes should be sent to:

The Bank of New York
Receive and Deliver Department
P.O. Box 11002
Church Street Station
New York, NY 10286

The Bank of New York
c/o Computershare Services
Registrar's Department
P.O. Box 82, Caxton House
Redcliffe Way, Bristol BS99 7NH
England
Telephone: 117-9306666

The Bank of New York's Web site:
<http://stock.bankofny.com>
E-mail inquiries:
Shareowner-svcs@Email.bankofny.com

Copies of our annual and quarterly reports, and Forms 10-K and 10-Q, may be obtained by contacting:

Corporate Development
Marsh & McLennan Companies, Inc.
1166 Avenue of the Americas
New York, NY 10036
Telephone: (212) 345-5475

MMC's Web site: www.marshmac.com

Stock Listings

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

Cautionary Language

Regarding Forward-Looking Information

This annual report to shareholders contains forward-looking statements, which by their nature involve risks and uncertainties. Please refer to Marsh & McLennan Companies' 1998 Annual Report on Form 10-K for "Information Concerning Forward-Looking Statements" and a description of certain factors that may cause actual results to differ from goals referred to herein or contemplated by such statements.

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