

DEAR SHAREHOLDER

MMC had another year of record results. Revenues rose 27 percent to \$9.2 billion. Net income rose 20 percent to \$959 million and earnings per share rose 17 percent to \$3.48, before special charges related to the acquisition of Sedgwick Group.

Our operating companies grew profitably. Marsh's revenues were \$4.5 billion, up from \$3.4 billion in 1998, and operating income reached \$806 million, an increase of 31 percent. Putnam Investments' assets under management rose to \$391 billion at year-end 1999 from \$294 billion in 1998, revenues increased 17 percent and operating income grew 24 percent. Mercer Consulting Group reported revenue gains of 26 percent and operating income growth of 29 percent. Marsh & McLennan Capital, our private equity investment firm, attracted \$1.4 billion in capital commitments for investment in Trident II, the fund it organized in 1999 for investment in global insurance, reinsurance and related industries.

MMC has achieved these results in a world where change has proven to be our ally: We have extended the range of our professional services; we have expanded globally; we have grown internally and added new firms to enhance our capabilities to solve our clients' increasingly complex problems. Consistency has been our ally as well. So, as we complete our leadership transition in May, we will be guided by the principles that have supported us thus far—maintaining our role as trusted advisor to our clients, doing work that meets clients'

rigorous demands and our highest aspirations, attracting and retaining the most talented people and encouraging collaboration among them. We will continue to produce earnings of the quality that our shareholders expect.

During 1999, MMC's leadership was strengthened by the appointments of Mathis Cabiallavetta and Charles A. Davis as vice chairmen. Mathis, who has been a member of our International Advisory Board since its formation in 1993, brings broad experience and perspective in global financial services, primarily in banking. One of his principal objectives is MMC's expansion in Europe. Chuck, who is also president and chief executive officer of Marsh & McLennan Capital, is a valued advisor with many years of experience in investment banking. We also welcomed Sandra S. Wijnberg this January as senior vice president and chief financial officer in anticipation of Frank J. Borelli's retirement later this year. Frank has played an important role for more than 15 years, including overseeing the development of the financial systems and infrastructure that has supported MMC's successful expansion.

Over the last three years, we have completed mergers with Johnson & Higgins and Sedgwick with results that have exceeded our expectations. Johnson & Higgins brought together two complementary cultures, strengthened our professional staff and produced significant consolidation savings. Sedgwick promises to be a similar success. When we



announced the merger in August 1998, we estimated net consolidation savings of \$110 million. Our integration efforts have gone well and we now expect net savings to approach \$160 million over three years, including \$30 million reflected in 1999 results. Although integration work remains to be done, we are realizing substantial operating efficiencies and have a unified organization in place. Sedgwick strengthened our position in Europe and Asia Pacific and provided an important addition to our business in the United States.

By any measure, Putnam had an exceptional year—strong growth in assets under management, increased profitability and superb investment performance. Putnam is one of the fastest growing money managers in the United States. Its assets under management rose 33 percent reflecting excellent gains in its mutual fund, defined benefit, defined contribution and international businesses. Award-winning investor service combined with outstanding marketing and sales contributed to this growth. During the year, Putnam broadened its product range through its venture with Thomas H. Lee Partners, a leading private equity firm.

Mercer strengthened its position as a global firm consulting on all aspects of management and produced excellent results. With revenues approaching \$2 billion and earnings reaching \$260 million, it achieved strong professional and financial performance across its human resource and management consulting practices. Mercer's international presence and reputation for innovative thinking are driving these gains.

We would like to acknowledge the contributions of George Putnam, who retired from our Board of Directors last May after having served as a director for 12 years. Saxon Riley retires in March and will continue to serve on our International Advisory Board. Frank J. Tasco will leave the Board at our annual meeting this May after a career of extraordinary contributions to the Company, most notably as chairman and chief executive officer of MMC from 1986 to 1992 and, prior to that, as head of Guy Carpenter, our reinsurance business.

Looking to future changes—globalization, shifting demographics, the convergence of industries, technological advances including, of course, e-commerce—we see opportunities and risks that were unimaginable even a few years ago. Marsh, Putnam and Mercer have gifted teams working throughout their organizations to address these issues and these teams are enhanced by the talent and skills we are bringing to the Company.

The characteristics that define MMC have never been more important for our sustained growth. We are well-managed and capitalized, attentive to employees and have a tradition of enterprise and innovation. We are sought out for our independence of thought and objective advice based on our intense study of clients' needs, our understanding of industries throughout the world and our range of professional services.

Our expectations for the future are high. We are fortunate to have the people to carry out our goals, and we appreciate our shareholders' continued confidence.



A.J.C. Smith, *Chairman*



J.W. Greenberg, *President and Chief Executive Officer*

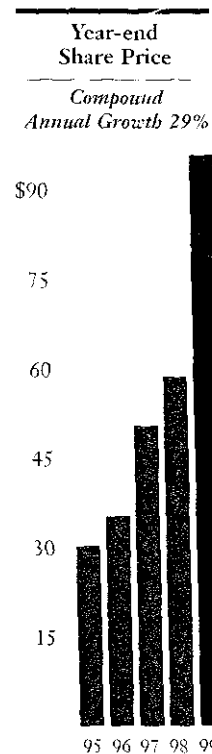
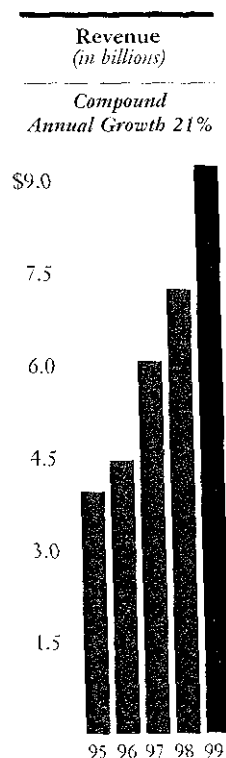
March 3, 2000

FINANCIAL HIGHLIGHTS

For the Three Years Ended December 31, (In millions, except per share figures)	1999	1998	1997
Revenue	\$9,157	\$7,190	\$6,009
Income Before Income Taxes	\$1,247 ^(a)	\$1,305	\$ 715 ^(b)
Net Income	\$ 726 ^(a)	\$ 796	\$ 434 ^(b)
Stockholders' Equity	\$4,170	\$3,659	\$3,233
Diluted Net Income Per Share	\$ 2.62 ^(a)	\$ 2.98	\$ 1.73 ^(b)
Dividends Paid Per Share	\$ 1.70	\$ 1.46	\$ 1.26
Year-end Stock Price	\$95.69	\$58.44	\$49.71

(a) Excluding special charges of \$337 in 1999, income before income taxes, net income and diluted net income per share are \$1,584, \$959 and \$3.48, respectively.

(b) Excluding special charges of \$244 in 1997, income before income taxes, net income and diluted net income per share are \$959, \$592 and \$2.36, respectively.



Consolidated Statements of Income

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

	1999	1998	1997
Revenue	\$9,157	\$7,190	\$6,009
Expense	7,698	5,770	5,211
Operating income	1,459	1,420	798
Interest income	21	25	24
Interest expense	(233)	(140)	(107)
Income before income taxes	1,247	1,305	715
Income taxes	521	509	281
Net income	\$ 726	\$ 796	\$ 434
Basic net income per share	\$2.76	\$3.11	\$1.77
Diluted net income per share	\$2.62	\$2.98	\$1.73
Average number of shares outstanding—Basic	263	256	245
Average number of shares outstanding—Diluted	272	264	251

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

Consolidated Balance Sheets

December 31, 1999 and 1998

(In millions of dollars)

	1999	1998
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 428	\$ 610
Receivables—		
Commissions and fees	1,928	1,562
Advanced premiums and claims	246	181
Other	281	294
	2,455	2,037
Less—allowance for doubtful accounts	(132)	(128)
Net receivables	2,323	1,909
Prepaid dealer commissions—current portion	326	315
Other current assets	206	411
Total current assets	3,283	3,245
Intangible assets	5,542	4,826
Fixed assets, net	1,314	1,287
Prepaid dealer commissions	760	799
Long-term securities	687	828
Other assets	1,435	886
	\$13,021	\$11,871
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 1,131	\$ 2,234
Accounts payable and accrued liabilities	1,721	1,338
Accrued compensation and employee benefits	1,157	841
Accrued income taxes	188	385
Dividends payable	121	104
Total current liabilities	4,318	4,902
Fiduciary liabilities	3,333	3,257
Less—cash and investments held in a fiduciary capacity	(3,333)	(3,257)
	—	—
Long-term debt	2,357	1,590
Other liabilities	2,176	1,720
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, \$1 par value, authorized 6,000,000 shares, none issued	—	—
Common stock, \$1 par value, authorized 800,000,000 shares, issued 268,695,790 shares in 1999 and 258,867,125 shares in 1998	269	259
Additional paid-in capital	1,411	889
Retained earnings	2,674	2,412
Accumulated other comprehensive income	(75)	206
	4,279	3,766
Less—treasury shares, at cost 1,669,993 shares in 1999 and 1,956,825 shares in 1998	(109)	(107)
Total stockholders' equity	4,170	3,659
	\$13,021	\$11,871

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

DIRECTOR

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SECRETARY

Consolidated Statements of Cash Flows

For the Three Years Ended December 31,

(In millions of dollars)

	1999	1998	1997
Operating cash flows:			
Net income	\$ 726	\$ 796	\$ 434
Gain on sale of businesses	—	—	(13)
Special charges (credit)	337	(4)	244
Payment of special charges	(134)	(66)	(62)
Depreciation of fixed assets	244	169	149
Amortization of intangible assets	156	82	50
Provision (benefit) for deferred income taxes	32	79	(139)
Prepaid dealer commissions	28	(75)	(140)
Other liabilities	8	18	22
Other, net	(17)	(23)	(1)
Net changes in operating working capital other than cash and cash equivalents—			
Receivables	(465)	(171)	(155)
Other current assets	166	63	(3)
Accounts payable and accrued liabilities	(305)	(55)	(49)
Accrued compensation and employee benefits	316	175	160
Accrued income taxes	(36)	147	(79)
Effect of exchange rate changes	(56)	(2)	(3)
Net cash generated from operations	1,000	1,133	415
Financing cash flows:			
Net increase (decrease) in commercial paper	(809)	425	(161)
Other borrowings	1,180	52	2,358
Repayments of other borrowings	(734)	(411)	(1,702)
Purchase of treasury shares	(13)	(242)	—
Issuance of common stock	489	185	210
Dividends paid	(447)	(375)	(306)
Net cash provided by (used for) financing activities	(334)	(366)	399
Investing cash flows:			
Additions to fixed assets	(358)	(297)	(202)
Net cash proceeds from sale of businesses	85	—	54
Acquisitions	(357)	(302)	(473)
Other, net	(215)	12	(55)
Net cash used for investing activities	(845)	(587)	(676)
Effect of exchange rate changes on cash and cash equivalents	(3)	6	(14)
Increase (decrease) in cash and cash equivalents	(182)	186	124
Cash and cash equivalents at beginning of year	610	424	300
Cash and cash equivalents at end of year	\$ 428	\$ 610	\$ 424

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,

(In millions of dollars, except per share figures)

	1999	1998	1997
COMMON STOCK			
Balance, beginning of year	\$ 259	\$ 172	\$ 77
Common stock issuance	4	—	—
Acquisitions	—	—	9
Common stock split	—	87	86
Exercise of stock options and related tax benefits	2	—	—
Issuance of shares under compensation plans and employee stock purchase plans and related tax benefits	4	—	—
Balance, end of year	\$ 269	\$ 259	\$ 172
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	\$ 889	\$ 994	\$ 148
Common stock issuance	305	—	—
Acquisitions	—	—	908
Common stock split	—	(87)	(86)
Exercise of stock options and related tax benefits	61	(11)	15
Issuance of shares under compensation plans and employee stock purchase plans and related tax benefits	156	(7)	9
Balance, end of year	\$1,411	\$ 889	\$ 994
RETAINED EARNINGS			
Balance, beginning of year	\$2,412	\$2,010	\$1,902
Net income ^(a)	726	796	434
Cash dividends declared—(per share amounts: \$1.75 in 1999, \$1.53 in 1998 and \$1.29 in 1997)	(464)	(394)	(326)
Balance, end of year	\$2,674	\$2,412	\$2,010
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Balance, beginning of year	\$ 206	\$ 167	\$ 145
Foreign currency translation adjustments ^(b)	(138)	18	(66)
Unrealized securities holding gains (losses), net of reclassification adjustments ^(c)	(140)	45	88
Minimum pension liability adjustment ^(d)	(3)	(24)	—
Balance, end of year	\$ (75)	\$ 206	\$ 167
TREASURY SHARES			
Balance, beginning of year	\$ (107)	\$ (110)	\$ (383)
Acquisitions	(39)	—	47
Purchase of treasury shares	(13)	(242)	—
Exercise of stock options	39	97	147
Issuance of shares under compensation plans and employee stock purchase plans	11	148	79
Balance, end of year	\$ (109)	\$ (107)	\$ (110)
TOTAL STOCKHOLDERS' EQUITY	\$4,170	\$3,659	\$3,233
TOTAL COMPREHENSIVE INCOME (a+b+c+d)	\$ 445	\$ 835	\$ 456

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

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 \$167 million in 1999, \$137 million in 1998 and \$111 million in 1997.

Net uncollected premiums and claims and the related payables, amounting to \$11.5 billion at December 31, 1999 and \$10.0 billion at December 31, 1998, 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, 1999 and 1998		
<i>(In millions of dollars)</i>		
	1999	1998
Furniture and equipment	\$1,046	\$1,011
Land and buildings	613	614
Leasehold and building improvements	553	482
	2,212	2,107
Less—accumulated depreciation and amortization	(898)	(820)
	\$1,314	\$1,287

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 made available with a contingent deferred sales charge in lieu of a front end load. The related prepaid dealer commissions, initially paid by MMC to broker/dealers for distributing such funds, can be recovered through charges and fees received over a number of years. The prepaid dealer commissions are 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. These costs are amortized on a straight-line basis not to exceed five years. Unamortized computer software costs amounting to \$157 million and \$110 million at December 31, 1999 and 1998, 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, 1999 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 \$70 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. These amounts are not significant.

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 equivalent investments and places its investments in an extensive number of high quality financial institutions to limit the amount of credit risk exposure. Concentrations of credit risk with respect to receivables are 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 as discussed further in Note 7. This result is then divided by the average common shares outstanding, which have been adjusted for the dilutive effect of potentially issuable common shares.

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

For the Three Years Ended December 31,
(In millions)

	1999	1998	1997
Net income	\$726	\$796	\$434
Less: Potential minority interest associated with Putnam Equity Partnership Plan	(14)	(10)	—
Net income for diluted earnings per share	\$712	\$786	\$434
Basic weighted average common shares outstanding	263	256	245
Dilutive effect of stock options	9	8	6
Diluted weighted average common shares outstanding	272	264	251

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 issued Statement of Financial Account-

ing 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 (as amended by SFAS No. 137) for fiscal years beginning after June 15, 2000. 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,
(In millions of dollars)

	1999	1998	1997
Purchase acquisitions:			
Assets acquired, excluding cash	\$357	\$ 3,345	\$ 2,832
Liabilities assumed	—	(852)	(1,165)
Issuance of debt and other obligations	—	(2,191)	(221)
Shares issued	—	—	(973)
Net cash outflow for acquisitions	\$357	\$ 302	\$ 473
Interest paid	\$211	\$ 164	\$ 92
Income taxes paid	\$506	\$ 305	\$ 471

3 Comprehensive Income

The components of other comprehensive income are as follows:

For the Three Years Ended December 31, (In millions of dollars)	1999	1998	1997
Foreign currency translation adjustments	\$(138)	\$ 18	\$(66)
Unrealized securities holding gains (losses), net of income tax (benefit) liability of \$(55), \$39 and \$60 in 1999, 1998 and 1997	(106)	71	111
Less: Reclassification adjustment for realized gains included in net income, net of income taxes of \$19, \$14 and \$13 in 1999, 1998 and 1997	(34)	(26)	(23)
Minimum pension liability adjustment, net of income taxes of \$2 and \$16 in 1999 and 1998	(3)	(24)	—
	\$(281)	\$ 39	\$ 22

The components of accumulated other comprehensive income are as follows:

December 31, 1999 and 1998 (In millions of dollars)	1999	1998
Foreign currency translation adjustments	\$(262)	\$(124)
Unrealized securities holding gains	214	354
Minimum pension liability adjustment	(27)	(24)
	\$ (75)	\$ 206

4 Acquisitions and Dispositions

Acquisitions: During 1999, MMC acquired a minority ownership interest in Thomas H. Lee Partners, a private equity business, and acquired or increased its interest in several other insurance and reinsurance broking, insurance and program services and consulting businesses in transactions accounted for as purchases for a total cost of \$357 million. The cost of these transactions exceeded the fair value of net assets acquired by \$318 million.

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 was initially funded with commercial paper borrowings. In April 1999, MMC completed the sale of 4.1 million common shares, realizing approximately \$300 million of net proceeds. In June 1999, MMC sold \$600 million of 6.625% Senior Notes due 2004 and \$400 million of 7.125% Senior Notes due 2009. The proceeds of these sales were used to repay a portion of the commercial paper borrowings. The business combination is being accounted for using the purchase method of accounting. Accordingly, goodwill of approximately \$2.8 billion resulting from the purchase price allocation is being amortized over 40 years. Assets acquired and liabilities assumed have been recorded at their estimated fair values. No intangible assets, other than goodwill, were acquired as part of the business combination with Sedgwick.

In 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 number of shares issued in connection with the J&H transaction carried restrictions and, consequently, could not 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 in order to secure indemnification obligations with respect to representations and warranties. As settlement for certain of such issues, .7 million of these shares have been returned to MMC as of December 31, 1999 and the acquisition price has been reduced accordingly.

The following unaudited pro forma summary presents the consolidated results of operations of MMC as if the Sedgwick and J&H business combinations had occurred on January 1, 1997. 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 discussed in Note 12.

Year Ended December 31,		
<i>(In millions of dollars, except per share figures)</i>		
	1998	1997
Revenue	\$8,646	\$7,902
Net Income	514	427
Basic net income per share	1.94	1.63
Diluted net income per share	1.85	1.60

During 1998, MMC also acquired or increased its interest in several other insurance and reinsurance broking, insurance and program services 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 and program services business accounted for as a pooling of interests.

Dispositions: As part of the combination with Sedgwick, MMC acquired several businesses that it intended to sell, including insurance underwriting operations already in run-off and consulting businesses not compatible with its existing operations. In 1999, results of operations of these businesses and interest expense associated with their acquisition have been included in the cost of the Sedgwick acquisition. During 1999, MMC sold certain of these businesses for \$85 million and the after tax gain from these sales of \$16 million has been subtracted from the cost of the Sedgwick acquisition. The net assets (liabilities) of businesses to be disposed are reflected at their estimated realizable value of \$(101) million at December 31, 1999 included in accounts payable and accrued liabilities and \$84 million at December 31, 1998 included in other current assets in the Consolidated Balance Sheet.

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

Integration Costs: In 1999, as part of the integration of Sedgwick, MMC adopted a plan to reduce staff and consolidate duplicative offices. The estimated cost of this plan relating to employees and offices of Sedgwick ("1999 Sedgwick Plan") amounted to \$285 million and was included in the cost of the acquisition. Merger-related costs for employees and offices of MMC ("1999 MMC Plan") amounted to \$266 million and were recorded as part of the 1999 special charge.

The utilization of the 1999 charges is summarized as follows:

	Initial Balance	Utilized in 1999	Balance Dec. 31, 1999
<i>(In millions of dollars)</i>			
1999 Sedgwick Plan:			
Termination payments to employees	\$ 183	\$ (93)	\$ 90
Other employee-related costs	5	(2)	3
Future rent under noncancelable leases	48	(8)	40
Leasehold termination costs	49	(10)	39
	\$ 285	\$ (113)	\$172
Number of employee terminations	2,400	(1,700)	700
Number of office consolidations	125	(50)	75
1999 MMC Plan:			
Termination payments to employees	\$ 194	\$ (74)	\$120
Future rent under noncancelable leases	31	(5)	26
Leasehold termination costs	16	(3)	13
Other integration related costs	25	(25)	—
	\$ 266	\$ (107)	\$159
Number of employee terminations	2,100	(1,300)	800
Number of office consolidations	50	(20)	30

The other integration costs primarily consist of consulting fees and system conversion costs incurred in 1999 as a result of the restructuring and merging of MMC and Sedgwick operations.

At year-end 1999, the actions contemplated by this plan were in progress and the remaining actions are expected to be completed by the end of 2000. Some accruals, primarily representing future rent under noncancelable leases (net of anticipated sublease income), are expected to be paid over several years.

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 ("1997 J&H Plan") amounted to \$143 million and was included in the cost of the acquisition. Merger-related costs for employees and offices of MMC ("1997 MMC Plan") amounted to \$168 million and were recorded as part of a special charge in 1997.

The utilization of the 1997 charges is summarized as follows:

<i>(In millions of dollars)</i>	Initial Balance	Utilized in 1997	Utilized in 1998	Utilized in 1999	Balance Dec. 31 1999
1997 J&H Plan:					
Termination payments to employees	\$ 70	\$ (17)	\$ (37)	\$(10)	\$ 6
Other employee-related costs	4	(2)	(1)	(1)	—
Future rent under noncancelable leases	45	(1)	(5)	(2)	37
Leasehold termination costs	24	(4)	(13)	(7)	—
	\$ 143	\$ (24)	\$ (56)	\$(20)	\$43
Number of employee terminations	900	(600)	(250)	(50)	—
Number of office consolidations	50	(10)	(35)	(5)	—
1997 MMC Plan:					
Termination payments to employees	\$ 117	\$ (44)	\$ (58)	\$(14)	\$ 1
Future rent under noncancelable leases	21	(2)	(4)	(3)	12
Leasehold termination costs	17	(10)	(2)	(5)	—
Other integration related costs	13	(6)	(2)	(5)	—
	\$ 168	\$ (62)	\$ (66)	\$(27)	\$13
Number of employee terminations	1,300	(800)	(450)	(50)	—
Number of office consolidations	30	(10)	(17)	(3)	—

The remaining balances, primarily representing future rent under noncancelable leases (net of anticipated sublease income), 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, <i>(In millions of dollars)</i>			
	1999	1998	1997
Income before income taxes:			
U.S.	\$ 996	\$ 897	\$ 510
Other	251	408	205
	\$1,247	\$1,305	\$ 715
Income taxes:			
Current—			
U.S. Federal	\$ 359	\$ 284	\$ 218
Other national governments	74	89	141
U.S. state and local	56	57	61
	489	430	420
Deferred—			
U.S. Federal	2	30	(55)
Other national governments	40	49	(71)
U.S. state and local	(10)	—	(13)
	32	79	(139)
Total income taxes	\$ 521	\$ 509	\$ 281

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

December 31, 1999 and 1998 <i>(In millions of dollars)</i>		
	1999	1998
Deferred tax assets:		
Accrued expenses not currently deductible	\$ 776	\$ 752
Differences related to non-U.S. operations	356	215
Accrued retirement benefits	124	137
Other	19	18
	\$1,275	\$1,122
Deferred tax liabilities:		
Prepaid dealer commissions	\$ 381	\$ 401
Unrealized securities holding gains	117	192
Differences related to non-U.S. operations	78	71
Depreciation and amortization	58	43
Other	52	80
	\$ 686	\$ 787
Balance sheet classifications:		
Current assets	\$ 71	\$ 76
Other assets	518	359
Accrued income taxes	—	(100)

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,	1999	1998	1997
U.S. Federal statutory rate	35.0%	35.0%	35.0%
U.S. state and local income taxes— net of U.S. Federal income tax benefit	2.4	2.9	4.4
Differences related to non-U.S. operations	2.1	(.4)	(.2)
Other	2.3	1.5	.1
Effective tax rate	41.8%	39.0%	39.3%

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 Putnam. 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 continues to have the matter under consideration. 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

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

December 31, 1999 and 1998 (In millions of dollars)	U.S. Pension Benefits		U.S. Postretirement Benefits	
	1999	1998	1999	1998
Change in benefit obligation:				
Benefit obligation at beginning of year	\$1,956	\$1,434	\$ 165	\$ 175
Service cost	63	46	3	3
Interest cost	134	104	11	10
Actuarial (gain) loss	(106)	87	(30)	(6)
Acquisitions	—	365	—	6
Benefits paid	(101)	(82)	(10)	(5)
Dispositions	(6)	—	—	—
Plan amendments	—	2	11	(18)
Benefit obligation at end of year	1,940	1,956	150	165
Change in plan assets:				
Fair value of plan assets at beginning of year	2,236	1,651	—	—
Actual return on plan assets	466	256	—	—
Acquisitions	—	392	—	—
Employer contributions	18	19	10	5
Dispositions	(5)	—	—	—
Benefits paid	(101)	(82)	(10)	(5)
Fair value of plan assets at end of year	2,614	2,236	—	—
Funded status	674	280	(150)	(165)
Unrecognized net actuarial gain	(614)	(245)	(36)	(7)
Unrecognized prior service cost (credit)	5	10	(3)	(14)
Unrecognized transition asset	(23)	(28)	—	—
Net asset (liability) recognized	\$ 42	\$ 17	\$(189)	\$(186)
Amounts recognized in Balance Sheet consist of:				
Prepaid benefit cost	\$ 184	\$ 144	\$ —	\$ —
Accrued benefit liability	(175)	(161)	(189)	(186)
Intangible asset	6	10	—	—
Accumulated other comprehensive income	27	24	—	—
Net asset (liability) recognized	\$ 42	\$ 17	\$(189)	\$(186)

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	
	1999	1998	1999	1998
Weighted average assumptions:				
Discount rate	8.0%	7.0%	8.0%	7.0%
Expected return on plan assets	10.0%	10.0%	—	—
Rate of compensation increase	4.75%	4.0%	—	—

In 1999, the discount rate used to value the liabilities of the U.S. defined benefit pension plans and postretirement benefit plans was increased to reflect current interest rates of high quality fixed income debt securities. 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 increases in benefit obligation and plan assets in 1998 relating to acquisitions pertain to MMC's acquisition of Sedgwick.

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 \$298 million, \$249 million and \$109 million, respectively, as of December 31, 1999 and \$279 million, \$247 million and \$114 million, respectively as of December 31, 1998.

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

For the Three Years Ended December 31, (In millions of dollars)	U.S. Pension Benefits			U.S. Postretirement Benefits		
	1999	1998	1997	1999	1998	1997
Service cost	\$ 63	\$ 46	\$ 39	\$ 3	\$ 3	\$ 4
Interest cost	134	104	90	11	10	10
Expected return on plan assets	(199)	(146)	(115)	—	—	—
Amortization of prior service cost (credit)	4	7	7	(1)	(2)	—
Amortization of transition asset	(4)	(4)	(4)	—	—	—
Recognized actuarial (gain) loss	7	5	(5)	(1)	—	(1)
	\$ 5	\$ 12	\$ 12	\$12	\$11	\$13

The assumed health care cost trend rate was approximately 9% in 1999, gradually declining to 4% in the year 2041. Assumed health care cost trend rates have a significant effect on the amounts reported for the U.S. health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in millions of dollars):

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	\$ 2	\$ (2)
Effect on postretirement benefit obligation	\$19	\$ (15)

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

December 31, 1999 and 1998 (In millions of dollars)	Non-U.S. Pension Benefits		Non-U.S. Postretirement Benefits	
	1999	1998	1999	1998
Change in benefit obligation:				
Benefit obligation at beginning of year	\$2,680	\$ 900	\$ 17	\$ 17
Service cost	96	48	1	—
Interest cost	156	66	2	1
Employee contributions	17	10	—	—
Actuarial (gain) loss	(137)	209	(2)	—
Acquisitions	120	1,503	24	—
Benefits paid	(105)	(48)	(1)	—
Foreign currency changes	(101)	(9)	—	(1)
Plan amendments	3	1	1	—
Benefit obligation at end of year	2,729	2,680	42	17
Change in plan assets:				
Fair value of plan assets at beginning of year	2,721	1,202	—	—
Actual return on plan assets	591	172	—	—
Acquisitions	131	1,385	—	—
Company contributions	57	15	1	—
Employee contributions	17	10	—	—
Benefits paid	(105)	(48)	(1)	—
Foreign currency changes	(101)	(15)	—	—
Fair value of plan assets at end of year	3,311	2,721	—	—
Funded status	582	41	(42)	(17)
Unrecognized net actuarial loss (gain)	(523)	(35)	2	4
Unrecognized prior service cost (credit)	10	8	—	(1)
Unrecognized transition asset	(5)	(12)	—	—
Net asset (liability) recognized	\$ 64	\$ 2	\$(40)	\$(14)
Amounts recognized in Balance Sheet consist of:				
Prepaid benefit cost	\$ 176	\$ 143	\$ —	\$ —
Accrued benefit liability	(112)	(141)	(40)	(14)
Net asset (liability) recognized	\$ 64	\$ 2	\$(40)	\$(14)
Weighted average assumptions:				
Discount rate	6.0%	5.9%	6.3%	6.0%
Expected return on plan assets	8.9%	8.9%	—	—
Rate of compensation increase	4.2%	4.2%	4.2%	3.9%

The increase in benefit obligation and plan assets in 1998 relating to acquisitions pertains primarily to MMC's acquisition of Sedgwick.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the non-U.S. pension plans with accumu-

lated benefit obligations in excess of plan assets were \$64 million, \$52 million and \$31 million, respectively, as of December 31, 1999 and \$1.55 billion, \$1.52 billion and \$1.40 billion, respectively, as of December 31, 1998.

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

For the Three Years Ended December 31, (In millions of dollars)	Non-U.S. Pension Benefits			Non-U.S. Postretirement Benefits		
	1999	1998	1997	1999	1998	1997
Service cost	\$ 96	\$ 48	\$ 41	\$ 1	\$ —	\$ —
Interest cost	156	66	62	2	1	1
Expected return on plan assets	(238)	(98)	(90)	—	—	—
Amortization of prior service cost	—	1	—	—	—	—
Amortization of transition asset	(6)	(6)	(6)	—	—	—
Recognized actuarial loss	1	—	—	—	—	—
	\$ 9	\$ 11	\$ 7	\$ 3	\$ 1	\$ 1

The assumed health care cost trend rate was approximately 7.4% in 1999, gradually declining to 4.5% in the year 2006. Assumed health care cost trend rates have a significant effect on the amounts reported for the non-U.S. health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in millions of dollars):

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	\$ 1	\$—
Effect on postretirement benefit obligation	\$ 6	\$(5)

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 Sedgwick Savings and Investment Plan ("Sedgwick SIP"). Under these plans, eligible employees may contribute a percentage of their base salary,

subject to certain limitations. For the SIP and Sedgwick SIP, MMC matches a portion of the employees' contributions, while under the Putnam Plan the contributions are at the discretion of MMC subject to IRS limitations. The cost of these defined contribution plans was \$74 million, \$62 million and \$55 million for 1999, 1998 and 1997, 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 1999, 1998 and 1997 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 1999, 1998 and 1997, respectively: dividend yield of 3.0% for 1999, 1998 and 1997; expected volatility of 22.7% in 1999, 18.9% in 1998 and 17.5% in 1997; risk-free interest rate of 5.2% in 1999, 5.6% in 1998 and 6.5% 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 options granted during the years ended December 31, 1999, 1998 and 1997 was \$16.09, \$11.65 and \$8.47 per share, respectively.

<i>(In millions of dollars, except per share figures)</i>			
	1999	1998	1997
Net Income:			
As reported	\$726	\$796	\$434
Pro forma	\$673	\$762	\$414
Net Income Per Share:			
<i>Basic:</i>			
As reported	\$2.76	\$3.11	\$1.77
Pro forma	\$2.56	\$2.98	\$1.69
<i>Diluted:</i>			
As reported	\$2.62	\$2.98	\$1.73
Pro forma	\$2.42	\$2.85	\$1.65

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: In 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") replaced the 1992 Incentive and Stock Award 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 15,671,576, 24,506,619 and 31,203,936 shares available for awards under the 1997 Plans and prior plans at December 31, 1999, 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:

	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance at beginning of period	26,492,820	\$38.27	24,332,522	\$31.18	25,666,431	\$28.11
Granted	7,992,425	\$75.86	6,115,165	\$60.19	5,166,120	\$41.39
Exercised	(3,809,839)	\$29.95	(3,427,830)	\$26.63	(5,865,160)	\$26.59
Forfeited	(656,970)	\$57.61	(527,037)	\$38.76	(634,869)	\$31.99
Balance at end of period	30,018,436	\$48.91	26,492,820	\$38.27	24,332,522	\$31.18
Options exercisable at year-end	15,231,609	\$34.25	14,587,332	\$30.01	14,706,623	\$28.17

The following table summarizes information about stock options at December 31, 1999:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding at 12/31/99	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at 12/31/99	Weighted Average Exercise Price
\$23.81-29.44	4,763,296	3.3 years	\$26.32	4,763,296	\$26.32
\$31.18-59.35	12,011,009	5.3 years	\$35.32	8,937,094	\$33.90
\$60.25-84.85	13,244,131	8.8 years	\$69.35	1,531,219	\$60.98
\$23.81-84.85	30,018,436	6.5 years	\$48.91	15,231,609	\$34.25

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 the 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 100,700, 162,600 and 135,000 restricted shares granted in 1999, 1998 and 1997, respectively. MMC recorded compensation expense of \$8 million in 1999, \$10 million in 1998 and \$6 million in 1997, related to these shares. Shares that have been granted generally become unrestricted at the earlier of: (1) January 1 of the eleventh year following the grant or (2) the later of the recipient's normal or actual retirement date.

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 167,845, 128,255 and 260,871 restricted stock units awarded during 1999, 1998 and 1997, respectively. The total value of the restricted stock units at the time of the award was \$12 million, \$7 million and \$11 million in 1999, 1998 and 1997, respectively. The cost of the awards is amortized over the vesting period, which is generally three years.

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 1,618,064, 566,315 and 1,299,986 deferred stock units awarded during 1999, 1998 and 1997, respectively. The total value of the deferred stock unit awards was \$99 million, \$33 million and \$62 million in 1999, 1998 and 1997, respectively. The cost of the awards is

amortized over the vesting period, which is generally three years, however, 1999 and 1998 operating expenses reflect \$71 million and \$11 million of charges, respectively, relating to acquisition-related stock unit awards issued to certain senior employees of Sedgwick (see Note 12).

Putnam Investments, Inc. Equity Partnership Plan: In 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. In certain circumstances, Class B shares will be converted into Class A Common Stock. 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, as adjusted for certain issuances of Putnam Class A shares, which would represent approximately 12% of the outstanding shares on a fully diluted basis. Putnam made awards pursuant to the Equity Plan with respect to 3,100,200, 3,660,000 and 4,000,000 shares of Class B Common Stock in 1999, 1998 and 1997, respectively. These awards included 1,550,100, 1,830,000 and 2,000,000 shares of restricted stock with a value of \$120 million, \$94 million and \$83 million in 1999, 1998 and 1997, respectively. These awards also included 1,550,100, 1,830,000 and 2,000,000 shares subject to options in 1999, 1998 and 1997, respectively. There were 2,534,815 shares available for grant related to the Equity Plan at December 31, 1999.

In 1997, pursuant to an executive compensation agreement, Putnam 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. An additional award of 105,000 restricted stock units with a value of \$8 million and 105,000 options was also made in 1998. These shares are incremental to the shares issued under the Plan.

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 1999, 1998 and 1997; dividend yield of 5.0% for 1999, 1998 and 1997; expected volatility of 33.2% in 1999, 28.3% in 1998 and 26.4% in 1997; risk-free interest rate of 5.2% in 1999, 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 \$17.64 in 1999, \$10.42 in 1998 and \$8.30 in 1997.

Stock Purchase Plans: In May 1999, MMC's stockholders approved an employee stock purchase plan (the "1999 Plan") to replace the 1994 Employee Stock Purchase Plan (the "1994 Plan") which terminated on September 30, 1999 following its fifth annual offering. 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 1999 Plan, no more than 20,000,000 shares of MMC's common stock plus the remaining unissued shares in the 1994 Plan may be sold. Employees purchased

2,368,734, 1,932,060 and 1,855,500 shares in 1999, 1998 and 1997, respectively. At December 31, 1999, 23,131,706 shares were available for issuance under the 1999 Plan. In 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 1999 Plan. Under the International Plan, no more than 1,500,000 shares of MMC's common stock may be sold. Employees purchased 339,594, 238,854 and 211,500 shares in 1999, 1998 and 1997, respectively. At December 31, 1999, 695,052 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 1999, 1998 and 1997 and was estimated using the Black-Scholes model with the following assumptions: dividend yield of 3.0% for 1999, 1998 and 1997; expected life of one year; expected volatility of 22.7% for 1999, 18.9% for 1998 and 17.5% for 1997; and risk-free interest rate of 5.5% for 1999, 4.4% for 1998 and 5.5% for 1997. The weighted average fair value of each purchase right granted in 1999, 1998 and 1997 was \$16.15, \$10.61 and \$10.96, respectively.

8 Long-term Obligations

MMC leases office facilities, equipment and automobiles under non-cancelable operating leases. These leases expire on varying dates; in some instances contain renewal and expansion options; do not restrict the payment of dividends or the incurrence of debt or additional lease obligations; and contain no significant purchase options. In addition to the base rental costs, occupancy lease agreements generally provide for rent escalations resulting from increased assessments for real estate taxes and other charges. Approximately 96% of MMC's lease obligations are for the use of office space.

The accompanying Consolidated Statements of Income include net rental costs of \$363 million, \$313 million and \$265 million for 1999, 1998 and 1997, respectively, after deducting rentals from subleases (\$7 million in 1999, 1998 and 1997).

At December 31, 1999, 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
2000	\$ 307	\$13	\$ 294
2001	263	11	252
2002	220	6	214
2003	185	4	181
2004	157	3	154
Subsequent years	743	6	737
	\$1,875	\$43	\$1,832

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, 1999, 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
2000	\$ 32
2001	25
2002	18
2003	13
2004	11
Subsequent years	1
	\$ 100

9 Short-term Debt

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

December 31, 1999 and 1998 (In millions of dollars)	1999	1998
Commercial paper	\$1,027	\$2,213
Bank loans	88	10
Current portion of long-term debt	16	11
	\$1,131	\$2,234

The weighted average interest rates on outstanding commercial paper borrowings at December 31, 1999 and 1998 are 5.8% and 5.3%, respectively.

In 1999, MMC refinanced \$1 billion of commercial paper borrowings through the sale of Senior Notes (see Note 10).

During 1999, MMC executed a new revolving credit facility for the use of its subsidiary, Marsh USA, Inc. This noncancelable facility, which expires in 2000, provided that Marsh USA, Inc. may borrow up

to \$1.4 billion at market rates of interest which may vary depending upon the level of usage of the facility and MMC's credit ratings. Commitment fees of 5 basis points are payable on any unused portion. The facility requires MMC to maintain consolidated net worth of at least \$2.5 billion and contains other restrictions relating to consolidations, mergers and the sale or pledging of assets. This facility was amended in January 2000 to reduce the aggregate commitment from \$1.4 billion to \$1.2 billion. No amounts were outstanding under this revolving credit facility at December 31, 1999.

During 1998, MMC executed a \$2.25 billion revolving credit facility with several banks to support its commercial paper borrowings made to initially finance its acquisition of Sedgwick. This facility expired in August 1999.

MMC maintains credit facilities with various banks, primarily related to operations located outside the United States, aggregating \$196 million at December 31, 1999. MMC has borrowed \$88 million under these facilities, which is included in short-term debt.

10 Long-term Debt

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

December 31, 1999 and 1998 (In millions of dollars)	1999	1998
Commercial paper	\$1,000	\$ 600
Senior notes—6.625% due 2004	594	—
Senior notes—7.125% due 2009	398	—
Mortgage—9.8% due 2009	200	200
Notes payable—8.62% due 2012	83	86
Notes payable—7.68% due 2006	63	60
Revolving credit facility	—	583
Other	35	72
	2,373	1,601
Less current portion	16	11
	\$2,357	\$1,590

Commercial paper borrowings of \$1.0 billion at December 31, 1999 and \$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.

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 in June 2002, provided 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. Commitment fees of 7 basis points are payable on any unused portion. The facility requires MMC to maintain consolidated net worth of at least \$1.7 billion and contains other restrictions relating to consolidations, mergers and the sale or pledging of assets. This facility was amended in January 2000 to reduce the aggregate commitment from \$1.2 billion

to \$1.0 billion. No amounts were outstanding under this revolving credit facility at December 31, 1999. A total of \$583 million was outstanding at December 31, 1998.

In June 1999, MMC sold \$600 million of 6.625% Senior Notes due 2004 and \$400 million of 7.125% Senior Notes due 2009, the proceeds of which were used to repay a portion of the commercial paper borrowings that were used initially to finance the Sedgwick acquisition.

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 at fair market value if greater.

MMC entered into an interest rate swap as part of the acquisition and renovation of MMC's worldwide headquarters, which fixed 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 and 1997 was 5.7% and 5.8%, respectively. The difference between the fixed rate and the weighted average rate was included in interest expense in the Consolidated Statements of Income.

MMC has a note payable due 2012, the outstanding balance of which was \$83 million and \$86 million at December 31, 1999 and 1998, respectively.

In connection with the Sedgwick transaction, MMC assumed 7.68% Senior Loan Notes due 2006, the outstanding balance of which was \$63 million and \$60 million at December 31, 1999 and 1998, respectively.

Scheduled repayments of long-term debt in 2000 and in the four succeeding years are \$16 million, \$8 million, \$1.0 billion, \$8 million and \$605 million, respectively.

11 Financial Instruments

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

December 31, 1999 and 1998 (In millions of dollars)	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Nonderivatives:				
Cash and cash equivalents	\$ 428	\$ 428	\$ 610	\$ 610
Long-term securities	687	687	828	828
Short-term debt	1,131	1,131	2,234	2,234
Long-term debt	2,357	2,374	1,590	1,665
Derivatives:				
Other assets:				
Interest rate swaps	—	3	—	4
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 \$193 million and \$82 million at December 31, 1999 and 1998, 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 employing a mixture of variable and fixed rate borrowings to finance MMC's asset base. MMC 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 values of these interest rate swaps are the estimated amounts that MMC would receive 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, 1999 and 1998 is as follows:

(In millions of dollars)	Notional Amount	Termination Dates	Weighted Average Interest Rates	
			Receive	Pay
1999 —				
Receive fixed — pay variable	\$348	2000-2003	6.5%	5.8%
Receive variable — pay fixed	\$ 39	2005	6.1%	5.8%
1998 —				
Receive fixed — pay variable	\$599	1999-2003	6.8%	5.9%
Receive variable — pay fixed	\$140	1999-2005	5.7%	8.4%

Forward Exchange Contracts: At December 31, 1999, MMC had open forward exchange contracts to sell U.S. dollars for sterling for an underlying principal amount of \$24 million. In addition, MMC had open forward exchange contracts to purchase other foreign currencies for underlying principal amounts totaling \$12 million. These contracts were entered into principally to hedge firm commitments.

Option Contracts: MMC has entered into option contracts to hedge its interest rate exposures related to pension redress liabilities in the U.K., discussed further in Note 15. At December 31, 1999, the notional amounts of these option contracts totaled \$580 million, with amounts expiring annually over the next three years. MMC has additional option contracts used to hedge the volatility of MMC's pension redress liability attributable to equity markets. The notional amounts of these contracts was \$30 million at December 31, 1999 with all amounts expiring in 2000. All option contracts at December 31, 1999 were out of the money and as such the fair market value of these contracts was zero. There is no potential for a future loss associated with these options.

Unrealized Securities Holding Gains: MMC has classified as available for sale primarily equity securities having an aggregate fair value of \$494 million and \$746 million at December 31, 1999 and 1998, respectively. Gross unrealized gains, amounting to \$331 million and \$546 million at December 31, 1999 and 1998, 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, 1999, 1998 and 1997 were \$105 million, \$62 million and \$69 million, respectively. Gross realized gains on available for sale securities sold during 1999, 1998 and 1997 amounted to \$53 million, \$40 million and \$36 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 1999, MMC recorded special charges totaling \$337 million representing \$266 million of merger-related costs associated with the combination with Sedgwick and \$71 million primarily for acquisition-related awards pertaining to the Sedgwick transaction. The merger-related costs are discussed in detail in Note 4. The net impact of the special charges was \$233 million, after tax, or \$.86 per diluted share.

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, a reserve of approximately \$15 million related to a 1996 provision for restructuring 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-related 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-related 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 sub-lease 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 lease abandonment reserve is \$23 million at December 31, 1999.

13 Common Stock

In April 1999, MMC completed the sale of 4.1 million common shares realizing approximately \$300 million of net proceeds.

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.

All references to per share amounts have been restated for this stock distribution.

14 Stockholder Rights Plan

On September 18, 1997, MMC's Board of Directors approved the extension of the benefits afforded by MMC's previously existing rights plan by adopting a new stockholder rights plan, which was amended and restated as of January 20, 2000. Under the current plan, Rights to purchase stock, at a rate of one Right for each common share held, were distributed to shareholders of record on September 29, 1997 and automatically attach to shares issued thereafter. Under the plan, the Rights generally become exercisable after a person or group (i) acquires 15% or more of MMC's outstanding common stock or (ii) commences a tender offer that would result in such a person or group

owning 15% or more of MMC's common stock. When the Rights first become exercisable, a holder will be entitled to buy from MMC a unit consisting of one three-hundredth of a share of Series A Junior Participating Preferred Stock of MMC at a purchase price of \$400. If any person acquires 15% or more of MMC's common stock or if a 15% holder acquires MMC by means of a reverse merger in which MMC and its stock survive, each Right not owned by a 15% or more shareholder would become exercisable for common stock of MMC (or in certain circumstances, other consideration) having a market value equal to twice the exercise price of the Right. The Rights expire on September 29, 2007, except as otherwise provided in the plan.

15 Claims, Lawsuits and Other Contingencies

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.

An action captioned "Aiena et al. vs. Olsen et al." is pending in the United States District Court for the Southern District of New York by certain former directors of Johnson & Higgins ("J&H"), which was acquired by MMC in 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 brought similar actions (*Sempier v. Olsen et al.*; and *Clemens v. Olsen et al.*), which are also pending before the United States District Court for the Southern District of New York. On October 12, 1999, the Court dismissed MMC entirely from these three cases and dismissed certain (but not all) of the claims brought against J&H. The principal surviving claims asserted against J&H in these cases include a claim under the federal securities laws and a claim for breach of ERISA. In December 1999, two additional cases were filed by two former directors of J&H (*Valentine v. Olsen et al.*; and *Bianchi v. Olsen et al.*), and have been assigned to the judge hearing the Aiena, Sempier and Clemens matters. Although the Valentine and Bianchi cases raise substantially similar issues as the Aiena, Sempier and Clemens actions, they also raise certain additional claims under ERISA and state law relating to the plaintiffs' departure as J&H employees. All these actions are in their initial stages.

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. As of December 31, 1999, settlements and related costs previously paid amount to approximately \$125 million of which approximately \$30 million is due from or has been paid by insurers. The contingent exposure of Sedgwick for pension redress and related costs is estimated to be \$350 million. Sedgwick has recorded \$190 million of reserves and recognized approximately \$160 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 \$150 million. Approximately \$140 million of this amount is expected to be recovered from insurers and accounting reserves have been provided for the remaining balance. As of December 31, 1999, settlements and related costs previously paid total approximately \$35 million.

MMC's ultimate exposure from the United Kingdom Personal Investment Authority review, as presently calculated and including Sedgwick, is subject to a number of variable factors including, among others, the interest rate established quarterly by the U.K. Personal Investment Authority for calculating compensation, equity markets, 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 businesses that were already in run-off. Sedgwick had issued guarantees with respect to certain liabilities 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, 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 and program services 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, 1999 (In millions of dollars)	Revenue from External Customers	Segment Operating Income	Total Assets	Depreciation and Amortization	Capital Expenditures
1999—					
Risk and Insurance Services	\$4,523 ^(a)	\$ 806	\$ 8,016	\$268	\$208
Investment Management	2,684	841	2,235	60	29
Consulting	1,950	260	1,511	48	39
	\$9,157	\$1,907	\$11,762	\$376	\$276
1998—					
Risk and Insurance Services	\$3,351 ^(a)	\$ 613	\$ 8,084	\$163	\$216
Investment Management	2,296	677	1,437	45	38
Consulting	1,543	202	1,490	38	40
	\$7,190	\$1,492	\$11,011	\$246	\$294
1997—					
Risk and Insurance Services	\$2,789 ^(a)	\$ 496	\$ 5,231	\$126	\$ 87
Investment Management	1,882	463	1,163	37	81
Consulting	1,338	148	909	32	32
	\$6,009	\$1,107	\$ 7,303	\$195	\$200

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

	1999	1998	1997
Income Before Income Taxes:			
Total segment operating income	\$1,907	\$1,492	\$1,107
Special (charges) credits (see Note 12)	(337)	4	(244)
Corporate expense	(103)	(76)	(65)
Minority interest associated with the Putnam Equity Partnership Plan	(8)	—	—
Operating income	1,459	1,420	798
Interest income	21	25	24
Interest expense	(233)	(140)	(107)
Total income before income taxes	\$1,247	\$1,305	\$ 715
Other Significant Items:			
1999 —			
Total assets	\$11,762	\$1,259 ^(b)	\$13,021
Depreciation and amortization	376	24	400
Capital expenditures	276	82	358
1998 —			
Total assets	11,011	860 ^(b)	11,871
Depreciation and amortization	246	5	251
Capital expenditures	294	3	297
1997 —			
Total assets	7,303	609 ^(b)	7,912
Depreciation and amortization	195	4	199
Capital expenditures	200	2	202

Information by geographic area is as follows:

	Revenue from External Customers	Fixed Assets
Geographic Area:		
1999 —		
United States	\$6,375	\$ 822
United Kingdom	1,251	344
Continental Europe	748	66
Other	783	82
	\$9,157	\$1,314
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

^(a) Includes interest income on fiduciary funds (\$167 million in 1999, \$137 million in 1998, and \$111 million in 1997).

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

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.



Sandra S. Wijnberg
Senior Vice President and
Chief Financial Officer
March 3, 2000

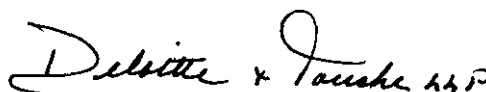
Report of Independent Auditors

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, 1999 and 1998, 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, 1999. 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.



DELOITTE & TOUCHE LLP
New York, New York
March 3, 2000

Selected Quarterly Financial Data and Supplemental Information (Unaudited)

(In 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		
1999:							
First quarter	\$2,351	\$ 519	\$279	\$1.08	\$1.03	\$.40	\$79.38-57.13
Second quarter	2,245	347 ^(b)	177 ^(b)	.68	.63 ^(b)	.40	\$81.13-68.13
Third quarter	2,227	425	223	.84	.81	.45	\$81.50-61.75
Fourth quarter	2,334	168 ^(c)	47 ^(c)	.17	.16 ^(c)	.45	\$96.75-64.38
	\$9,157	\$1,459^(d)	\$726^(d)	\$2.76	\$2.62^(d)	\$1.70	\$96.75-57.13
1998:							
First quarter	\$1,776	\$ 404	\$231	\$.90	\$.87	\$.33	\$61.67-46.38
Second quarter	1,750	346	193	.75	.72	.33	\$63.25-54.83
Third quarter	1,719	335	186	.73	.69	.40	\$64.31-46.13
Fourth 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
1997:							
First quarter	\$1,295	\$ 277	\$164	\$.75	\$.73	\$.30	\$43.21-34.21
Second quarter	1,540	262	145	.57	.56	.30	\$50.17-37.71
Third quarter	1,548	249	140	.55	.54	.33	\$53.17-45.50
Fourth quarter	1,626	10 ^(e)	(15) ^(e)	(.05)	(.05) ^(e)	.33	\$53.33-44.00
	\$6,009	\$ 798^(f)	\$434^(f)	\$1.77	\$1.73^(f)	\$1.26	\$53.33-34.21

(a) Net income per share is computed independently for each of the periods presented. Accordingly, the sum of the quarterly net income per share amounts exceeds the total for the year in 1999 and 1997.

(b) Excluding special charges of \$84 for the second quarter of 1999, operating income, net income and diluted net income per share are \$431, \$228 and \$.82, respectively.

(c) Excluding special charges of \$253 for the fourth quarter of 1999, operating income, net income and diluted net income per share are \$421, \$229 and \$.82, respectively.

(d) Excluding special charges of \$337 for the full year 1999, operating income, net income and diluted net income per share are \$1,796, \$959 and \$3.48, respectively.

(e) Excluding special charges of \$244 for the fourth quarter of 1997, operating income, net income and diluted net income per share are \$254, \$143 and \$.55, respectively.

(f) Excluding special charges of \$244 for the full year 1997, operating income, net income and diluted net income per share are \$1,042, \$592 and \$2.36, respectively.

All 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 29, 2000, there were 29,100 stockholders of record.

Five-Year Statistical Summary of Operations

For the Five Years Ended December 31, 1999 (In millions of dollars, except per share figures)	1999 ^(a)	1998	1997 ^(d)	1996 ^(f)	1995	Compound Growth Rate 1994-1999
Revenue:						
Risk and Insurance Services	\$ 4,523	\$ 3,351	\$ 2,789	\$ 1,907	\$ 1,964	19%
Investment Management	2,684	2,296	1,882	1,338	917	29%
Consulting	1,950	1,543	1,338	1,159	1,056	16%
Total Revenue	9,157	7,190	6,009	4,404	3,937	21%
Expenses:						
Compensation and benefits	4,574	3,561	3,044	2,204	1,949	21%
Other operating expenses	3,124	2,209	2,167	1,485	1,293	22%
Total Expenses	7,698	5,770	5,211	3,689	3,242	22%
Operating Income	1,459 ^(b)	1,420	798 ^(e)	715 ^(g)	695	17%
Interest Income	21	25	24	14	18	
Interest Expense	(233)	(140)	(107)	(61)	(63)	
Income Before Income Taxes	1,247	1,305	715	668	650	15%
Income Taxes	521	509	281	209 ^(h)	247	
Net Income	\$ 726	\$ 796	\$ 434	\$ 459	\$ 403	14%
Basic Net Income Per Share Information:						
Net Income Per Share	\$2.76	\$3.11	\$1.77	\$2.11	\$1.84	10%
Average Number of Shares Outstanding	263	256	245	217	219	
Diluted Net Income Per Share Information:						
Net Income Per Share	\$2.62	\$2.98	\$1.73	\$2.08	\$1.82	9%
Average Number of Shares Outstanding	272	264	251	221	221	
Dividends Paid Per Share	\$1.70	\$1.46	\$1.26	\$1.11	\$.99	13%
Return on Average Stockholders' Equity	19%	23%	17%	26%	26%	
Year-end Financial Position:						
Working capital	\$ (1,035)	\$ (1,657) ^(c)	\$ 224	\$ 192	\$ 110	
Total assets	\$13,021	\$11,871	\$7,912	\$4,545	\$4,330	
Long-term debt	\$ 2,357	\$ 1,590	\$1,240	\$ 458	\$ 411	
Stockholders' equity	\$ 4,170	\$ 3,659	\$3,233	\$1,889	\$1,666	
Total shares outstanding (excluding treasury shares)	267	257	255	217	218	
Other Information:						
Number of employees	52,900	54,300	36,400	27,000	27,200	
Stock price ranges—						
U.S. exchanges—High	\$96.75	\$64.31	\$53.33	\$38.29	\$30.04	
—Low	\$57.13	\$43.38	\$34.21	\$28.08	\$25.37	
Price/earnings multiple	36.5	19.6	28.7	16.7	16.3	

(a) Includes full year results for Sedgwick, which was acquired in November 1998.

(b) Includes a special charge of \$337 million.

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

(d) 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.

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

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

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

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

See Management's Discussion and Analysis of Financial Condition and Results of Operations for discussion of significant items affecting the results of operations in 1999 and 1998.

BOARD OF DIRECTORS AND CORPORATE OFFICERS

BOARD OF DIRECTORS

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J.W. Greenberg
President and Chief Executive Officer

Norman Barham
Vice Chairman, Marsh Inc.

Lewis W. Bernard
Chairman, Classroom, Inc.
Former Chief Administrative
and Financial Officer,
Morgan Stanley & Co., Inc.

Frank J. Borelli
Senior Vice President

Peter Coster
President, Mercer Consulting Group, Inc.

Robert F. Erburu
Former Chairman,
The Times Mirror Company

Ray J. Groves
Chairman,
Legg Mason Merchant Banking, Inc.
Former Chairman, Ernst & Young

Stephen R. Hardis
Chairman, Eaton Corporation

Gwendolyn S. King
Former Senior Vice President,
PECO Energy

The Rt. Hon. Lord Lang of Monkton
Former British Secretary of State
for Trade & Industry

Lawrence J. Lasser
President and Chief Executive Officer,
Putnam Investments, Inc.

David A. Olsen
Former Chairman, Johnson & Higgins

John D. Ong
Chairman Emeritus,
The BFGoodrich Company

Adele Simmons
Vice Chair and Senior Executive,
Chicago Metropolis 2020
Former President,
John D. and Catherine T. MacArthur
Foundation

John T. Sinnott
Chairman and Chief Executive Officer,
Marsh Inc.

Frank J. Tasco
Former Chairman, MMC

W.R.P. White-Cooper
MMC Business in Combination

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Former Chairman,
E.I. du Pont de Nemours and Company

Richard S. Hickok
Former Chairman, KMG Main Hurdman

Dean R. McKay
Former Senior Vice President,
IBM Corporation

Richard M. Morrow
Former Chairman, Amoco Corporation

George Putnam
Chairman, The Putnam Funds

John M. Regan, Jr.
Former Chairman, MMC

R.J. Ventres
Former Chairman, Borden, Inc.

COMMITTEES OF THE BOARD

Audit
The Rt. Hon. Lord Lang of Monkton,
Chairman
Stephen R. Hardis
Gwendolyn S. King
John D. Ong
Adele Simmons
Frank J. Tasco

Compensation
Lewis W. Bernard, *Chairman*
Robert F. Erburu
Ray J. Groves

Executive
J.W. Greenberg, *Chairman*
Lewis W. Bernard
Ray J. Groves
Adele Simmons
A.J.C. Smith
Frank J. Tasco

OTHER CORPORATE OFFICERS

Mathis Cabiallavetta
Vice Chairman, MMC
Chairman, MMC Europe

Charles A. Davis
Vice Chairman, MMC
President and Chief Executive Officer,
Marsh & McLennan Capital, Inc.

Sandra S. Wijnberg
Senior Vice President and
Chief Financial Officer

Gregory F. Van Gundy
General Counsel and Secretary

Francis N. Bonsignore
Senior Vice President,
Human Resources and Administration

INTERNATIONAL ADVISORY BOARD

A.J.C. Smith
International Advisory Board Chairman
Chairman, MMC

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

Raymond Barre (France)
Mayor, Lyon
Former Prime Minister

Mathis Cabiallavetta (Switzerland)
Vice Chairman, MMC
Chairman, MMC Europe

John R. Evans (Canada)
Chairman, Torstar Corporation

Oscar Fanjul (Spain)
Honorary Chairman, Repsol

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

Ernö Kemenes (Eastern Europe)
Former Minister of Economics, Hungary

Marcilio Marques Moreira (Brazil)
Senior International Advisor,
Merrill Lynch
Former Ambassador of Brazil
to the United States

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

Saxon Riley (United Kingdom)
Former Chairman, Sedgwick Group

Jesús Silva-Herzog (Mexico)
Institute for Monetary Affairs
Former Ambassador of Mexico
to the United States

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