

FC10667

21 2831/45-

Dear Shareholder

I am pleased to report that 2000 was another excellent year for MMC. Revenues increased 11 percent to \$10.2 billion. Net income rose 23 percent to \$1.2 billion, and earnings per share, before special charges for 1999, increased 18 percent to \$4.10.

Our businesses grew and strengthened their positions in their respective markets. Our attention to delivering the finest and most comprehensive professional services led us to continue our investment in the recruiting and development of people who can build our company to respond to clients throughout the world. We believe that this is vital to the creation of long-term value for our shareholders.

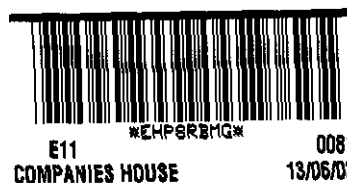
It was a watershed year for our risk and insurance services business. Marsh successfully completed the integration of two large mergers. Initiatives introduced over the last several years began to generate growth. Marsh expanded its business in Europe and increased the number of midsize companies it serves. Seabury & Smith, our personal risk services company, delivered broader services to affinity groups, consumers and small businesses. Guy Carpenter, our reinsurance unit, produced good new business results on a global basis as clients continued to recognize its special expertise.

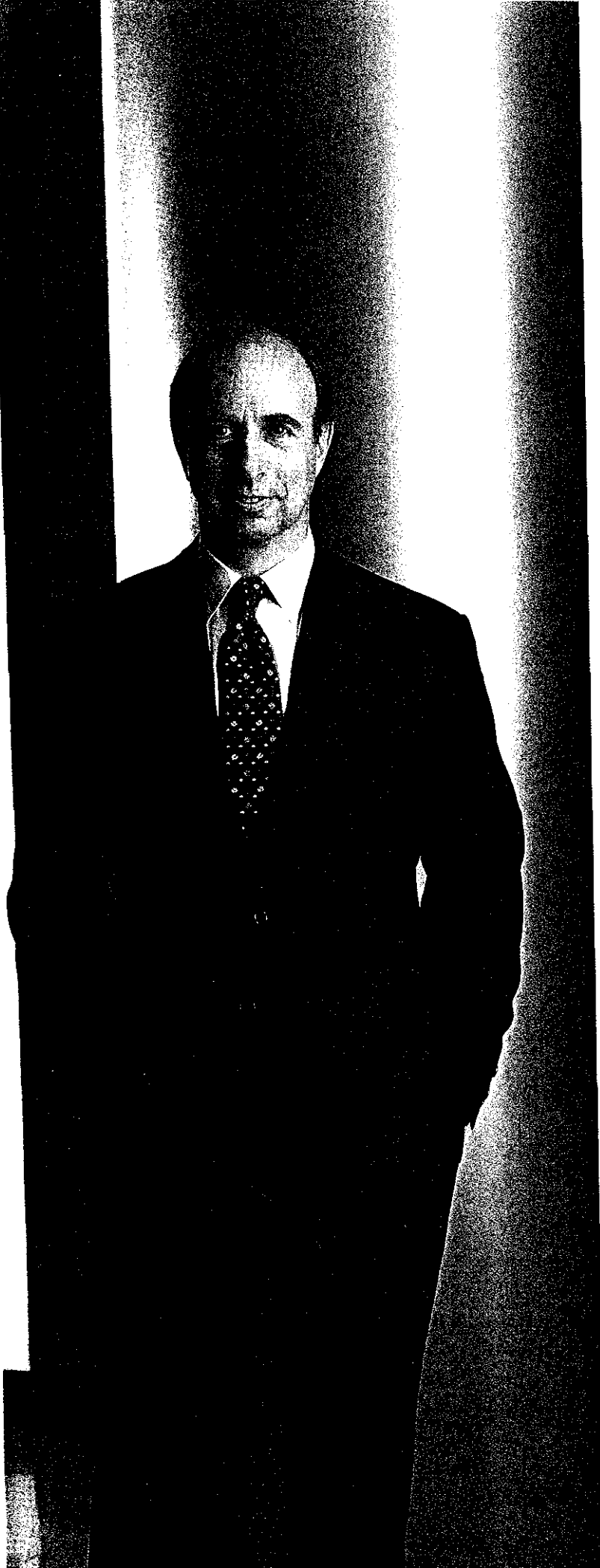
Our risk and insurance services business had excellent financial results. New business growth contributed to a 6 percent revenue increase to \$4.8 billion, achieved in a year of changing insurance market conditions. Profit margins also increased, and operating income grew by 17 percent to \$944 million.

Putnam produced outstanding business results in a year of extreme volatility and decline in U.S. equity markets. Revenues grew 21 percent to \$3.2 billion, and operating income increased 23 percent to \$1 billion. Putnam's \$33 billion in net new sales in its mutual fund and institutional businesses was double the amount in 1999. Putnam's diversification across asset classes and distribution channels, its balanced mix of investment products and the quality of its assets were all factors in the strength of its business. However, in a year of equity market declines, Putnam ended 2000 with \$370 billion in assets under management, compared with \$391 billion in 1999.

Mercer's performance was strong. Revenues increased 9 percent to \$2.1 billion, and operating income grew 20 percent to \$312 million, with continued margin expansion. All of Mercer's consulting practices contributed to these results. Mercer's acquisition in 2000 of Delta Consulting Group, the leader in organizational design and change management, creates an important strategic link between Mercer's business strategy and human resource activities, making it possible to provide complete solutions for clients.

MMC Capital, our private equity investment business, launched its second technology fund with capital commitments of \$250 million, and it joined with Mercer to





form a communications and information fund that draws on the knowledge and expertise of both firms.

MMC has always been dedicated to providing the best possible advice and services to clients. To achieve this, the organization allows each operating company to concentrate on the quality and delivery of work in its field. The shared MMC vision and purpose allied to individual company strategies have enabled us to build a long record of successful client service in all of our businesses. This has been important to our reputation as a very effective owner of professional services companies and has been key to growing shareholder value.

MMC also seeks to strengthen its services to clients from the association of its firms. Drawing on resources across MMC has been valuable for our clients in the past, and we expect it will be more so in the future. MMC has appointed regional and country executives who develop business and lead coordination between individual operating companies in different geographies. We share intellectual capital and encourage communication among our professionals through our Business In Combination initiative.

Collaboration has led to changes in our businesses. MMC Capital targets its investment activities where it is advantaged by our operating companies' knowledge, relationships and presence. MMC Enterprise Risk, which draws on the talent and resources of Marsh and Mercer, offers clients advice and transactional capabilities on a full range of risks across their enterprises.

One person who has greatly enriched MMC for many years is A.J.C. Smith. After a 39-year career at MMC, which includes serving as chairman for eight pivotal years in MMC's growth and development, Ian retired in May. His leadership and guidance have been invaluable to the organization and to me personally. His professional and personal standards, dedication and openness to new ideas are part of his legacy to our company. I am pleased that Ian continues as senior advisor and a member of our board of directors.

During 2000, we welcomed William L. Rosoff as general counsel for MMC. Bill has served as a legal and business advisor to some of the world's leading companies. We are also pleased that Gregory F. Van Gundy, who has been general counsel since 1979 and has made important contributions to MMC, continues as corporate secretary.

Rob White-Cooper and Norman Barham retired from the board in 2000. Rob, former chief executive officer

of Sedgwick, has taken responsibility to lead MMC's crucial Business In Combination initiative. Norman, as president of Johnson & Higgins, played an important role in the merger and was instrumental in integrating Johnson & Higgins with Marsh before retiring.

MMC's leadership has always set a high bar. The people who lead our operating companies today are

as strong a group as the firm has enjoyed in its 130-year history. On the following pages, the heads of Marsh, Putnam and Mercer talk about their respective companies' performance and goals for the future.

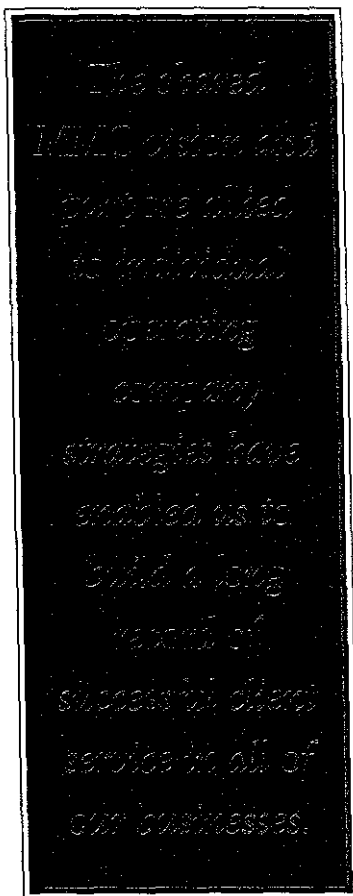
As a management team we are devoted to growing MMC's long-term shareholder value. We have new opportunities because of our market leadership in each major business, strong financial position, global footprint and size. Each of our companies is dedicated to being a magnet for talent and developing great leaders and professionals. We are grateful to our colleagues whose efforts on behalf of MMC and its clients are the reason for our success.

As the services we provide evolve and economic conditions change, we remain committed to delivering excellent work to our clients and value to our shareholders.



J.W. Greenberg, *Chairman*

March 2, 2001



Consolidated Statements of Income

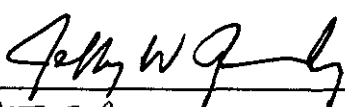
For the Three Years Ended December 31, (In millions of dollars, except per share figures)	2000	1999	1998
Revenue	\$10,157	\$9,157	\$7,190
Expense	7,978	7,690	5,770
Operating income	2,179	1,467	1,420
Interest income	23	21	25
Interest expense	(247)	(233)	(140)
Income before income taxes and minority interest	1,955	1,255	1,305
Income taxes	753	524	509
Minority interest, net of tax	21	5	—
Net income	\$ 1,181	\$ 726	\$ 796
Basic net income per share	\$4.35	\$2.76	\$3.11
Diluted net income per share	\$4.10	\$2.62	\$2.98
Average number of shares outstanding—Basic	272	263	256
Average number of shares outstanding—Diluted	284	272	264

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

Consolidated Balance Sheets

December 31, (In millions of dollars)	2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 240	\$ 428
Receivables		
Commissions and fees	2,370	1,949
Advanced premiums and claims	270	246
Other	307	235
	2,947	2,430
Less—allowance for doubtful accounts and cancellations	(135)	(132)
Net receivables	2,812	2,298
Prepaid dealer commissions—current portion	362	326
Other current assets	225	231
Total current assets	3,639	3,283
Intangible assets	5,476	5,542
Fixed assets, net	1,360	1,314
Long-term investments	976	611
Prepaid dealer commissions	762	760
Other assets	1,556	1,664
	\$13,769	\$13,174
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 337	\$ 1,131
Accounts payable and accrued liabilities	1,964	1,762
Accrued compensation and employee benefits	1,388	1,157
Accrued income taxes	291	188
Dividends payable	139	121
Total current liabilities	4,119	4,359
Fiduciary liabilities	3,627	3,333
Less—cash and investments held in a fiduciary capacity	(3,627)	(3,333)
Long-term debt	2,347	2,357
Other liabilities	2,075	2,288
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 278,379,359 shares in 2000 and 270,493,147 shares in 1999	278	270
Additional paid-in capital	1,918	1,495
Retained earnings	3,323	2,674
Accumulated other comprehensive loss	(149)	(75)
	5,370	4,364
Less—treasury shares, at cost 2,352,046 shares in 2000 and 3,467,350 shares in 1999	(142)	(194)
Total stockholders' equity	5,228	4,170
	\$13,769	\$13,174

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


 DIRECTOR

34


 SECRETARY

Consolidated Statements of Cash Flows

For the Three Years Ended December 31,

(In millions of dollars)

	2000	1999	1998
Operating cash flows:			
Net income	\$ 1,181	\$ 726	\$ 796
Adjustments to reconcile net income to cash generated from operations:			
Special (credits) charges	(2)	337	(4)
Depreciation of fixed assets and capitalized software	305	275	190
Amortization of intangible assets	183	156	82
Provision for deferred income taxes	175	32	79
Integration related payments	(179)	(267)	(122)
Prepaid dealer commissions	(38)	28	(75)
Other liabilities	(163)	33	18
Other, net	(139)	(42)	(23)
Net receivables	(484)	(465)	(171)
Other current assets	10	166	63
Accounts payable and accrued liabilities	84	(172)	1
Accrued compensation and employee benefits	231	316	175
Accrued income taxes	226	(36)	147
Effect of exchange rate changes	(26)	(56)	(2)
Net cash generated from operations	1,364	1,031	1,154
Financing cash flows:			
Net (decrease) increase in commercial paper	(696)	(809)	425
Other borrowings	197	1,180	52
Other repayments of debt	(303)	(734)	(411)
Purchase of treasury shares	(49)	(13)	(242)
Issuance of common stock	364	489	185
Dividends paid	(514)	(447)	(375)
Net cash used for financing activities	(1,001)	(334)	(366)
Investing cash flows:			
Additions to fixed assets and capitalized software	(512)	(476)	(386)
Proceeds from sale of businesses	37	85	—
Acquisitions	(99)	(357)	(302)
Other, net	44	(128)	80
Net cash used for investing activities	(530)	(876)	(608)
Effect of exchange rate changes on cash and cash equivalents	(21)	(3)	6
(Decrease) increase in cash and cash equivalents	(188)	(182)	186
Cash and cash equivalents at beginning of year	428	610	424
Cash and cash equivalents at end of year	\$ 240	\$ 428	\$ 610

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)

	2000	1999	1998
COMMON STOCK			
Balance, beginning of year	\$ 270	\$ 260	\$ 172
Common stock issuance	—	4	—
Common stock split	—	—	87
Issuance of shares under stock compensation plans and employee stock purchase plans and related tax benefits	8	6	1
Balance, end of year	\$ 278	\$ 270	\$ 260
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	\$1,495	\$ 973	\$ 994
Common stock issuance	—	305	—
Acquisitions	17	—	—
Common stock split	—	—	(87)
Issuance of shares under stock compensation plans and employee stock purchase plans and related tax benefits	406	217	66
Balance, end of year	\$1,918	\$1,495	\$ 973
RETAINED EARNINGS			
Balance, beginning of year	\$2,674	\$2,412	\$2,010
Net income ^(a)	1,181	726	796
Cash dividends declared—(per share amounts: \$1.95 in 2000, \$1.75 in 1999 and \$1.53 in 1998)	(532)	(464)	(394)
Balance, end of year	\$3,323	\$2,674	\$2,412
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME			
Balance, beginning of year	\$ (75)	\$ 206	\$ 167
Foreign currency translation adjustments ^(b)	(127)	(138)	18
Unrealized securities holding gains (losses), net of reclassification adjustments ^(c)	56	(140)	45
Minimum pension liability adjustment ^(d)	(3)	(3)	(24)
Balance, end of year	\$ (149)	\$ (75)	\$ 206
TREASURY SHARES			
Balance, beginning of year	\$ (194)	\$ (192)	\$ (110)
Purchase of treasury shares	(49)	(13)	(242)
Issuance of shares under stock compensation plans and employee stock purchase plans	101	11	160
Balance, end of year	\$ (142)	\$ (194)	\$ (192)
TOTAL STOCKHOLDERS' EQUITY	\$5,228	\$4,170	\$3,659
TOTAL COMPREHENSIVE INCOME (a+b+c+d)	\$1,107	\$ 445	\$ 835

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

Notes to Consolidated Financial Statements

1 Summary of Significant Accounting Policies

Nature of Operations: Marsh & McLennan Companies, Inc. ("MMC"), a professional services firm, is organized based on the different services that it offers. 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 program management services for business, public entity, insurance company, professional, association and private clients. It also provides services principally in connection with originating, structuring and managing insurance, financial services and other industry-focused investments. The investment management segment primarily provides securities investment advisory and management services and administrative services for a group of publicly held investment companies and institutional accounts. The consulting segment provides advice and services to the managements of organizations primarily in the areas of human resources and employee benefit programs, general management consulting, organizational change and economic consulting and analysis.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of MMC and its majority owned subsidiaries. Various subsidiaries and affiliates have transactions with each other in the ordinary course of business. All significant intercompany accounts and transactions have been eliminated. Certain reclassifications have been made to the prior year amounts to conform to the current year presentation.

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 \$195 million in 2000, \$167 million in 1999 and \$137 million in 1998.

Net uncollected premiums and claims and the related payables, amounting to \$10.8 billion at December 31, 2000 and \$11.5 billion at December 31, 1999, 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, contingent income from insurance carriers, compensation for services provided in connection with the organization, structuring and management of insurance, financial services and other industry-focused investments, 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 any gain or loss is reflected in income. Expenditures for maintenance and repairs are charged to operations as incurred.

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

The components of fixed assets are as follows:

December 31, (In millions of dollars)	2000	1999
Furniture and equipment	\$1,117	\$1,046
Land and buildings	559	613
Leasehold and building improvements	645	553
	2,321	2,212
Less—accumulated depreciation and amortization	(961)	(898)
	\$1,360	\$1,314

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 of \$204 million and \$157 million at December 31, 2000 and 1999, 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, 2000 amounted to approximately \$800 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 \$85 million.

Risk Management Instruments: MMC uses interest rate swaps and currency forwards to reduce certain exposures to fluctuations in interest and foreign currency rates. These financial exposures are managed in accordance with corporate policy and procedures. MMC does not enter into interest rate swaps

or currency forwards for speculative purposes. Net amounts received or paid under interest rate swaps are included in the Consolidated Statements of Income as incurred. Foreign currency gains and losses associated with currency forwards offset the correlating foreign currency gains and losses related to the designated hedged items.

Concentrations of Credit Risk: Financial instruments that potentially subject MMC to concentrations of credit risk consist primarily of cash and cash equivalents and commissions and fees 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 expense associated with unvested shares under the Putnam Equity Partnership Plan, as discussed further in Note 7, and adding back dividend equivalent expense related to common stock equivalents. 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)

	2000	1999	1998
Net income	\$1,181	\$726	\$796
Less: Potential minority interest associated with Putnam Equity Partnership Plan	(17)	(14)	(10)
Add: Dividend equivalent expense related to common stock equivalents	2	—	—
Net income for diluted earnings per share	\$1,166	\$712	\$786
Basic weighted average common shares outstanding	272	263	256
Dilutive effect of potentially issuable common shares	12	9	8
Diluted weighted average common shares outstanding	284	272	264

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: Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for

derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. MMC will adopt SFAS 133 effective January 1, 2001. The adoption of this standard will not have a material impact on MMC's consolidated financial position, results of operations or cash flows.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements," which became effective in the fourth quarter of 2000. The implementation of SAB 101 did not have a material impact on MMC's consolidated financial position, results of operations or cash flows.

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)	2000	1999	1998
Purchase acquisitions:			
Assets acquired, excluding cash	\$201	\$357	\$3,345
Liabilities assumed	(8)	—	(852)
Issuance of debt and other obligations	(77)	—	(2,191)
Shares issued	(17)	—	—
Net cash outflow for acquisitions	\$ 99	\$357	\$ 302
Interest paid	\$244	\$211	\$ 164
Income taxes paid	\$305	\$506	\$ 305

3 Comprehensive Income

The components of other comprehensive income are as follows:

For the Three Years Ended December 31, (In millions of dollars)	2000	1999	1998
Foreign currency translation adjustments	\$(127)	\$(138)	\$ 18
Unrealized securities holding gains (losses), net of income tax liability (benefit) of \$63, \$(55) and \$39 in 2000, 1999 and 1998, respectively	125	(106)	71
Less: Reclassification adjustment for realized gains included in net income, net of income taxes of \$38, \$19, and \$14 in 2000, 1999 and 1998, respectively	(69)	(34)	(26)
Minimum pension liability adjustment, net of income taxes of \$2 in 2000 and 1999 and \$16 in 1998, respectively	(3)	(3)	(24)
	\$ (74)	\$ (281)	\$ 39

The components of accumulated other comprehensive income are as follows:

December 31, (In millions of dollars)	2000	1999
Foreign currency translation adjustments	\$(389)	\$(262)
Unrealized securities holding gains	270	214
Minimum pension liability adjustment	(30)	(27)
	\$ (149)	\$ (75)

4 Acquisitions, Dispositions and Integration Costs

Acquisitions: During 2000, MMC acquired Delta Consulting Group, an industry leader in corporate organizational design and change management consulting, and acquired or increased its interest in several other insurance and reinsurance broking, consulting and investment management businesses in transactions accounted for as purchases for a total cost of \$193 million. The cost of these transactions exceeded the fair value of net assets acquired by \$187 million.

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 borrowing. 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 borrowing. 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.

The following unaudited pro forma summary presents the consolidated results of operations of MMC as if the Sedgwick business combination had occurred on January 1, 1998. 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 combination had occurred on the date 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 personal pension plan redress issues discussed in Note 15.

The utilization of the 1999 charges is summarized as follows:

<i>(In millions of dollars)</i>	Initial Balance	Utilized in 1999	Utilized in 2000	Changes in Estimates	Balance Dec. 31, 2000
1999 Sedgwick Plan:					
Termination payments to employees	\$183	\$(93)	\$(60)	\$(7)	\$23
Other employee-related costs	5	(2)	(1)	(2)	—
Future rent under noncancelable leases	48	(8)	(12)	—	28
Leasehold termination and related costs	49	(10)	(11)	(1)	27
	\$285	\$(113)	\$(84)	\$(10)	\$78
Number of employee terminations	2,400	(1,700)	(700)	—	—
Number of office consolidations	125	(50)	(66)	—	9
1999 MMC Plan:					
Termination payments to employees	\$194	\$(74)	\$(73)	\$7	\$54
Future rent under noncancelable leases	31	(5)	(7)	—	19
Leasehold termination and related costs	16	(3)	(7)	—	6
Other integration related costs	25	(25)	—	—	—
	\$266	\$(107)	\$(87)	\$7	\$79
Number of employee terminations	2,100	(1,300)	(800)	—	—
Number of office consolidations	50	(20)	(24)	—	6

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

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.

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. MMC sold certain of these businesses for \$55 million and \$85 million, respectively, in 2000 and 1999. The net liabilities of businesses to be disposed are reflected at their estimated realizable values of \$119 million and \$101 million at December 31, 2000 and 1999, respectively, and are included in accounts payable and accrued liabilities in the Consolidated Balance Sheets. MMC is continuing its efforts to dispose of these operations.

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.

Changes in estimates are attributable to facts and circumstances arising subsequent to the original plan of integration. As a result of changes in estimates, during the fourth quarter of 2000, reserves related to the 1999 Sedgwick Plan of \$10 million were reversed and recorded as a reduction of goodwill, representing \$7 million of employee termination costs, \$2 million of other employee-related costs, and \$1 million of office consolidation costs. MMC also recorded a special charge of \$7 million representing changes in estimated employee termination costs related to the 1999 MMC Plan. This \$7 million special charge was included in the net special credit of \$2 million, as discussed in Note 12.

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 2000, the actions contemplated by this plan were substantially complete. The majority of the remaining balances for termination payments to employees are expected to be paid in early 2001. Some accruals, primarily for future rent under noncancelable leases and salary continuance arrangements, are expected to be paid over several years.

In 1997, as a result of a business combination with Johnson and Higgins ("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. In 2000, as a result of changes in estimates, reserves for office consolidations related to the 1997 J&H Plan of \$3 million were reversed and recorded as a reduction of goodwill. In addition, reserves for office consolidations related to the 1997 MMC Plan of \$2 million were reversed and included as part of the net special credit of \$2 million, as discussed in Note 12. At December 31, 2000, the remaining reserves related to the 1997 J&H Plan and the 1997 MMC Plan were \$36 million and \$6 million, respectively. The remaining balances, representing future rent under non-cancelable leases and salary continuance arrangements, primarily in Canada and the Netherlands, are expected to be paid out over several years.

5 Income Taxes

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

For the Three Years Ended December 31, (In millions of dollars)	2000	1999	1998
Income before income taxes and minority interest:			
U.S.	\$1,415	\$1,004	\$ 897
Other	540	251	408
	\$1,955	\$1,255	\$1,305
Income taxes:			
Current—			
U.S. Federal	\$ 436	\$ 362	\$ 284
Other national governments	82	74	89
U.S. state and local	60	56	57
	578	492	430
Deferred—			
U.S. Federal	79	2	30
Other national governments	87	40	49
U.S. state and local	9	(10)	—
	175	32	79
Total income taxes	\$ 753	\$ 524	\$ 509

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

December 31, (In millions of dollars)	2000	1999
Deferred tax assets:		
Accrued expenses not currently deductible	\$ 707	\$ 776
Differences related to non-U.S. operations	232	356
Accrued retirement benefits	106	124
Other	34	19
	\$1,079	\$1,275
Deferred tax liabilities:		
Prepaid dealer commissions	\$ 392	\$ 381
Unrealized securities holding gains	143	117
Differences related to non-U.S. operations	43	78
Depreciation and amortization	98	58
Other	12	52
	\$ 688	\$ 686
Balance sheet classifications:		
Current assets	\$ —	\$ 71
Other assets	419	518
Accrued income taxes	(28)	—

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,	2000	1999	1998
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	2.3	2.4	2.9
Differences related to non-U.S. operations	(1.0)	2.1	(.4)
Other	2.2	2.3	1.5
Effective tax rate	38.5%	41.8%	39.0%

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.

This challenge has been resolved upon the publication of Revenue Procedure 2000-38. In this Procedure, the IRS announced it will accept a mutual fund manager's current 12b-1 tax treatment through 2000 provided that mutual fund manager elects to adjust its tax treatment prospectively beginning in 2001 to any of the prescribed methods the IRS identified in this Procedure, all of which will require amortization of distributor's fees rather than the current deduction of those fees. Putnam intends to make such an affirmative election and such election will resolve the current issue with the IRS.

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, (In millions of dollars)	U.S. Pension Benefits		U.S. Postretirement Benefits	
	2000	1999	2000	1999
Change in benefit obligation:				
Benefit obligation at beginning of year	\$1,940	\$1,956	\$ 150	\$165
Service cost	59	63	3	3
Interest cost	143	134	12	11
Actuarial loss (gain)	83	(106)	17	(30)
Benefits paid	(110)	(101)	(12)	(10)
Dispositions	—	(6)	—	—
Plan amendments	—	—	—	11
Benefit obligation at end of year	2,115	1,940	170	150
Change in plan assets:				
Fair value of plan assets at beginning of year	2,614	2,236	—	—
Actual return on plan assets	59	466	—	—
Employer contributions	21	18	12	10
Dispositions	—	(5)	—	—
Benefits paid	(110)	(101)	(12)	(10)
Fair value of plan assets at end of year	2,584	2,614	—	—
Funded status	469	674	(170)	(150)
Unrecognized net actuarial gain	(354)	(614)	(19)	(36)
Unrecognized prior service cost (credit)	3	5	(2)	(3)
Unrecognized transition asset	(19)	(23)	—	—
Net asset (liability) recognized	\$ 99	\$ 42	\$(191)	\$(189)
Amounts recognized in Balance Sheet consist of:				
Prepaid benefit cost	\$ 243	\$ 166	\$ —	\$ —
Accrued benefit liability	(196)	(175)	(191)	(189)
Intangible asset	3	6	—	—
Accumulated other comprehensive income	49	45	—	—
Net asset (liability) recognized	\$ 99	\$ 42	\$(191)	\$(189)

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	
	2000	1999	2000	1999
Weighted average assumptions:				
Discount rate	7.5%	7.5%	7.5%	7.5%
Expected return on plan assets	10.0%	10.0%	—	—
Rate of compensation increase	4.25%	4.25%	—	—

The discount rate used to value the liabilities of the U.S. defined benefit pension plans and postretirement benefit plans reflects current interest rates of high quality fixed income debt securities. Projected compensation increases and potential cost of living adjustments for retirees reflect current expectations as to future levels of inflation.

The 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 \$321 million, \$269 million and \$106 million, respectively, as of December 31, 2000 and \$298 million, \$249 million and \$109 million, respectively, as of December 31, 1999.

The components of the net periodic benefit (income) 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		
	2000	1999	1998	2000	1999	1998
Service cost	\$ 59	\$ 63	\$ 46	\$ 3	\$ 3	\$ 3
Interest cost	143	134	104	12	11	10
Expected return on plan assets	(217)	(199)	(146)	—	—	—
Amortization of prior service cost (credit)	3	4	7	(1)	(1)	(2)
Amortization of transition asset	(5)	(4)	(4)	—	—	—
Recognized actuarial (gain) loss	(19)	7	5	(1)	(1)	—
	\$ (36)	\$ 5	\$ 12	\$13	\$12	\$11

The assumed health care cost trend rate was approximately 9% in 2000, 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	\$23	\$(19)

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

December 31, (In millions of dollars)	Non-U.S. Pension Benefits		Non-U.S. Postretirement Benefits	
	2000	1999	2000	1999
Change in benefit obligation:				
Benefit obligation at beginning of year	\$2,729	\$2,680	\$ 42	\$ 17
Service cost	95	96	1	1
Interest cost	152	156	3	2
Employee contributions	18	17	—	—
Actuarial (gain) loss	32	(137)	(3)	(2)
Acquisitions	—	120	—	24
Benefits paid	(101)	(105)	(2)	(1)
Foreign currency changes	(230)	(101)	(3)	—
Plan amendments	(3)	3	—	1
Benefit obligation at end of year	2,692	2,729	38	42
Change in plan assets:				
Fair value of plan assets at beginning of year	3,311	2,721	—	—
Actual return on plan assets	20	591	—	—
Acquisitions	—	131	—	—
Company contributions	48	57	2	1
Employee contributions	18	17	—	—
Benefits paid	(101)	(105)	(2)	(1)
Foreign currency changes	(272)	(101)	—	—
Fair value of plan assets at end of year	3,024	3,311	—	—
Funded status	332	582	(38)	(42)
Unrecognized net actuarial (gain) loss	(231)	(523)	(1)	2
Unrecognized prior service cost	7	10	—	—
Unrecognized transition asset	—	(5)	—	—
Net asset (liability) recognized	\$ 108	\$ 64	\$(39)	\$(40)
Amounts recognized in Balance Sheet consist of:				
Prepaid benefit cost	\$ 181	\$ 176	\$ —	\$ —
Accrued benefit liability	(73)	(112)	(39)	(40)
Net asset (liability) recognized	\$ 108	\$ 64	\$(39)	\$(40)
Weighted average assumptions:				
Discount rate	6.0%	6.0%	6.4%	6.3%
Expected return on plan assets	8.9%	8.9%	—	—
Rate of compensation increase	4.2%	4.2%	—	—

The benefit obligation, accumulated benefit obligation and fair value of plan assets for the non-U.S. pension plans with accumulated benefit obligations in excess of plan assets were \$54 million, \$42 million and \$28 million, respectively, as of December 31, 2000 and \$64 million, \$52 million and \$31 million, respectively, as of December 31, 1999.

The components of the net periodic benefit (income) 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		
	2000	1999	1998	2000	1999	1998
Service cost	\$ 95	\$ 96	\$ 48	\$ 1	\$ 1	\$—
Interest cost	152	156	66	3	2	1
Expected return on plan assets	(243)	(238)	(98)	—	—	—
Amortization of prior service cost	1	—	1	—	—	—
Amortization of transition asset	(6)	(6)	(6)	—	—	—
Recognized actuarial loss	—	1	—	—	—	—
	\$ (1)	\$ 9	\$ 11	\$ 4	\$ 3	\$ 1

The assumed health care cost trend rate was approximately 6.7% in 2000, gradually declining to 4.4% 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	\$5	\$(4)

Contribution Plans: MMC maintains certain defined contribution plans for its employees, including the Marsh & McLennan Companies Stock Investment Plan ("SIP"), the Putnam Investments 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, 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. Contributions to the Sedgwick SIP ceased on December 31, 1999. The cost of these defined contribution plans was \$79 million, \$74 million and \$62 million for 2000, 1999 and 1998, 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 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 2000, 1999 and 1998 would have been reduced to the pro forma amounts indicated in the table below.

<i>(In millions of dollars, except per share figures)</i>	2000	1999	1998
Net Income:			
As reported	\$1,181	\$ 726	\$ 796
Pro forma	\$1,100	\$ 673	\$ 762
Net Income Per Share:			
<i>Basic:</i>			
As reported	\$ 4.35	\$2.76	\$3.11
Pro forma	\$ 4.05	\$2.56	\$2.98
<i>Diluted:</i>			
As reported	\$ 4.10	\$2.62	\$2.98
Pro forma	\$ 3.82	\$2.42	\$2.85

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

issued under MMC stock purchase plans. Such information 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.

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 2000, 1999 and 1998, respectively: dividend yield of 2.0% for 2000 and 3.0% for 1999 and 1998; expected volatility of 26.3% in 2000, 22.7% in 1999 and 18.9% in 1998; risk-free interest rate of 6.5% in 2000, 5.2% in 1999 and 5.6% in 1998; 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, 2000, 1999 and 1998 was \$26.70, \$16.09 and \$11.65 per share, respectively.

MMC Incentive and Stock Award Plans: In 2000, the Marsh & McLennan Companies, Inc. 2000 Employee Incentive and Stock Award Plan (the "2000 Employee Plan") and the Marsh & McLennan Companies, Inc. 2000 Senior Executive Incentive and Stock Award Plan (the "2000 Executive Plan") were approved. The 2000 Employee and Executive Plans (the "2000 Plans") replaced the 1997 Employee Incentive and Stock Award Plan and the 1997 Senior Executive Incentive and Stock Award Plan (the "1997 Plans"). The types of awards permitted under these Plans include stock options, restricted stock, stock bonus units, restricted and deferred stock units payable in MMC common stock or cash, and other stock-based and performance-based awards. The Compensation Committee of the Board of

Directors (the "Compensation Committee") determines, at its discretion, which affiliates may participate in the plans, which eligible employees will receive awards, the types of awards to be received and the terms and conditions thereof. The right of an employee to receive an award may be subject to performance conditions as specified by the Compensation Committee. The 2000 Plans contain provisions which, in the event of a change in control of MMC, may accelerate the vesting of the awards. Awards relating to not more than 40,000,000 shares of common stock may be made over the life of the 2000 Employee Plan plus shares remaining unused under pre-existing approved stock plans. Awards relating to not more than 4,000,000 shares of common stock may be made over the life of the 2000 Executive Plan plus shares remaining unused under

pre-existing approved stock plans. There were 52,150,871, 15,671,576 and 24,506,619 shares available for awards under the 2000 Plans and prior plans at December 31, 2000, 1999 and 1998, respectively.

Stock Options: Options granted under the 2000 Plans may be designated as incentive stock options or as nonqualified 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 2000 Plans and prior plans are as follows:

	2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance at beginning of period	30,018,436	\$48.91	26,492,820	\$38.27	24,332,522	\$31.18
Granted	7,184,130	\$91.33	7,992,425	\$75.86	6,115,165	\$60.19
Exercised	(5,399,469)	\$35.68	(3,809,839)	\$29.95	(3,427,830)	\$26.63
Forfeited	(668,082)	\$70.79	(656,970)	\$57.61	(527,037)	\$38.76
Balance at end of period	31,135,015	\$60.41	30,018,436	\$48.91	26,492,820	\$38.27
Options exercisable at year-end	15,610,530	\$42.88	15,231,609	\$34.25	14,587,332	\$30.01

The following table summarizes information about stock options at December 31, 2000:

Range of Exercise Prices	Options Outstanding		Weighted Average Exercise Price	Options Exercisable	
	Outstanding at 12/31/00	Weighted Average Remaining Contractual Life		Exercisable at 12/31/00	Weighted Average Exercise Price
\$23.81-31.19	2,766,792	3.0 years	\$26.48	2,766,792	\$26.48
\$31.20-60.25	14,264,634	5.3 years	\$44.14	10,890,282	\$40.78
\$60.40-124.65	14,103,589	8.6 years	\$83.52	1,953,456	\$77.86
\$23.81-124.65	31,135,015	6.6 years	\$60.41	15,610,530	\$42.88

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 127,800, 100,700 and 162,600 restricted shares granted in 2000, 1999 and 1998, respectively. MMC recorded compensation expense of \$13 million in 2000, \$8 million in 1999 and \$10 million in 1998, 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 137,391, 167,845 and 128,255 restricted stock units awarded during 2000, 1999 and 1998, respectively. The total value of the restricted stock units at the time of the award was \$14 million, \$12 million and \$7 million in 2000, 1999 and 1998, 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 648,726, 1,618,064 and 566,315 deferred stock units awarded during 2000, 1999 and 1998, respectively. The total value of the deferred stock unit awards was \$60 million, \$99 million and \$33 million in 2000, 1999 and 1998, 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 Equity Partnership Plan: In 1997, Putnam adopted the Putnam Investments Equity Partnership Plan (the "Equity Plan") pursuant to which Putnam is authorized to grant or sell to certain employees of Putnam or its subsidiaries restricted shares of a new class of common shares of Putnam Investments Trust, the parent of Putnam Investments, LLC which was recently established as part of a corporate reorganization ("Class B Common Shares") and options to acquire the Class B Common Shares. Such awards or options generally vest over a four-year period. Holders of Putnam Class B Common Shares are not entitled to vote and have no rights to convert their shares into any other securities of Putnam. In certain circumstances, Class B Common Shares will be converted into Class A Common Shares. Awards of restricted stock and/or options may be made under the Equity Plan with respect to a maximum of 12,000,000 shares of Class B Common Shares, as adjusted for certain issuances of Putnam Class A Common 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 2,041,000, 3,100,200 and 3,660,000 shares of Class B Common Shares and shares subject to options in 2000, 1999 and 1998, respectively. These awards included 1,020,500, 1,550,100 and 1,830,000 restricted shares with a value of \$90 million, \$120 million and \$94 million in 2000, 1999 and 1998, respectively. These awards also included 1,020,500, 1,550,100 and 1,830,000 shares subject to options in 2000, 1999 and 1998, respectively. There were 1,677,000 shares available for grant related to the Equity Plan as of December 31, 2000. In addition, the MMC Board of Directors has authorized an increase in the number of shares that can be made available to Putnam employees by 4,000,000 shares.

In 1999, pursuant to an executive compensation agreement, Putnam awarded 105,000 restricted stock units with a value of \$8 million and 105,000 options related to Class B Common Shares to an executive of Putnam. These shares are incremental to the shares issued under the Equity 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 2000, 1999 and 1998: dividend yield of 5.0% for 2000, 1999 and 1998; expected volatility of 38.3% in 2000, 33.2% in 1999 and 28.3% in 1998; risk-free interest rate of 6.5% in 2000, 5.2% in 1999 and 5.6% in 1998; 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 \$24.43 in 2000, \$17.64 in 1999 and \$10.42 in 1998.

MMC Stock Purchase Plans: In May 1999, MMC's stockholders approved an employee stock purchase plan (the "1999 Plan") to replace the 1994 Employee Stock Purchase Plan (the "1994 Plan"), which terminated on September 30, 1999, following its fifth annual offering. 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 2,099,990, 2,368,734 and 1,932,060 shares in 2000, 1999 and 1998, respectively. At December 31, 2000, 21,031,716 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 384,507, 339,594 and 238,854 shares in 2000, 1999 and 1998, respectively. At December 31, 2000, 310,545 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 2000, 1999 and 1998 and was estimated using the Black-Scholes model with the following assumptions: dividend yield of 2.0% for 2000 and 3.0% for 1999 and 1998; expected life of one year; expected volatility of 26.3% for 2000, 22.7% for 1999 and 18.9% for 1998; and risk-free interest rate of 6.1% for 2000, 5.5% for 1999 and 4.4% for 1998. The weighted average fair value of each purchase right granted in 2000, 1999 and 1998 was \$34.40, \$16.15 and \$10.61, respectively.

8 Long-term Obligations

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

and other charges. Approximately 97% of MMC's lease obligations are for the use of office space.

The accompanying Consolidated Statements of Income include net rental costs of \$359 million, \$363 million and \$313 million for 2000, 1999 and 1998, respectively, after deducting rentals from subleases (\$8 million in 2000, and \$7 million in 1999 and 1998).

At December 31, 2000, 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
2001	\$ 366	\$22	\$ 344
2002	324	17	307
2003	289	11	278
2004	267	11	256
2005	238	8	230
Subsequent years	1,568	21	1,547
	\$3,052	\$90	\$2,962

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, 2000, 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
2001	\$31
2002	19
2003	13
2004	11
Subsequent years	—
	\$74

9 Short-term Debt

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

December 31, (In millions of dollars)	2000	1999
Commercial paper	\$331	\$1,027
Bank loans	—	88
Current portion of long-term debt	6	16
	\$337	\$1,131

The weighted average interest rates on outstanding commercial paper borrowing at December 31, 2000 and 1999 are 6.5% and 5.8%, respectively.

In June 2000, MMC arranged a \$1.2 billion revolving credit facility for the use of its subsidiary, Marsh USA Inc. The credit facility replaced a similar facility that expired during 2000. Borrowing under the facility, which expires in 2001, is guaran-

teed by MMC and supports Marsh USA Inc.'s commercial paper borrowing. Commitment fees of 5 basis points are payable on any unused portion. The facility requires MMC to maintain consolidated net worth of at least \$2.8 billion and contains certain other restrictions relating to consolidations, mergers and the sale or pledging of assets. No amounts were outstanding under this facility at December 31, 2000.

MMC maintains credit facilities with various banks, primarily related to operations located outside the United States, aggregating \$277 million at December 31, 2000 and \$196 million at December 31, 1999. At December 31, 1999, MMC had borrowed \$88 million under these facilities, which was included in short-term debt. No amounts were outstanding under these facilities at December 31, 2000.

10 Long-term Debt

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

December 31, (In millions of dollars)	2000	1999
Commercial paper	\$1,000	\$1,000
Senior notes—6.625% due 2004	596	594
Senior notes—7.125% due 2009	398	398
Mortgage—9.8% due 2009	200	200
Notes payable—8.62% due 2012	80	83
Notes payable—7.68% due 2006	62	63
Other	17	35
	2,353	2,373
Less current portion	6	16
	\$2,347	\$2,357

Commercial paper borrowing of \$1.0 billion at December 31, 2000 and 1999 has 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 borrowing 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, 2000 or December 31, 1999.

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 borrowing that was used initially to finance the Sedgwick acquisition.

MMC has a fixed rate nonrecourse 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 New York City. In the event the mortgage is foreclosed following a default, MMC would be entitled to remain in the space and would be obligated to pay rent sufficient to cover interest on the notes or at fair market value if greater.

Scheduled repayments of long-term debt in 2001 and in the four succeeding years are \$6 million, \$1 billion, \$4 million, \$605 million and \$5 million, respectively.

11 Financial Instruments

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

December 31, (In millions of dollars)	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Nonderivatives:				
Cash and cash equivalents	\$ 240	\$ 240	\$ 428	\$ 428
Long-term investments	976	976	611	611
Short-term debt	337	337	1,131	1,131
Long-term debt	2,347	2,414	2,357	2,374
Derivatives:				
Other assets:				
Interest rate swaps	—	—	—	3
Forward exchange contracts	22	22	—	—

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

Long-term Investments: Long-term investments primarily consist of available for sale securities recorded at quoted market prices. MMC also has certain additional long-term investments, for which there are no readily available market prices, amounting to \$99 million and \$117 million at December 31, 2000 and 1999, respectively, which are carried on a cost basis. Based on present information, MMC believes that the cost of these investments approximates their fair value.

MMC has classified as available for sale primarily equity securities having an aggregate fair value of \$877 million and \$494 million at December 31, 2000 and 1999, respectively. Gross unrealized gains amounting to \$459 million and \$343 million and gross unrealized losses of \$46 million and \$12 million at December 31, 2000 and 1999, respectively, have been excluded from earnings and reported, net of deferred income taxes, as accumulated other comprehensive income which is a component of stockholders' equity.

MMC recorded net gains associated with its long-term investments of \$72 million, \$53 million and \$40 million, in 2000,

1999 and 1998, respectively. Proceeds from the sale of available for sale securities for the years ended December 31, 2000, 1999 and 1998 were \$237 million, \$105 million and \$62 million, respectively. Gross realized gains on available for sale securities sold during 2000, 1999 and 1998 amounted to \$108 million, \$53 million and \$40 million, respectively. In 2000, MMC recorded a loss of \$36 million related to the impairment of certain long-term investments. 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. The difference between cost and fair value of these investments is not material.

As of December 31, 2000 MMC was committed to purchase, in January 2001, a minority investment in Gruppo Bipop-Carire S.p.A. as part of a joint venture agreement. The committed purchase price of \$286 million has been recorded as a liability in accounts payable and accrued liabilities along with a corresponding available for sale security included in long-term investments in the Consolidated Balance Sheets.

Short-term and Long-term Debt: The fair value of MMC's short-term debt, which consists primarily of commercial paper borrowing, 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.

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. 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.

A summary of MMC's interest rate swaps as of December 31, 2000 and 1999 is as follows:

(In millions of dollars)	Notional Amount	Termination Dates	Weighted Average Interest Rates	
			Receive	Pay
2000—				
Receive fixed— pay variable	\$195	2001-2003	6.3%	6.5%
Receive variable— pay fixed	\$ 37	2005	6.7%	5.8%
1999—				
Receive fixed— pay variable	\$348	2000-2003	6.5%	5.8%
Receive variable— pay fixed	\$ 39	2005	6.1%	5.8%

Forward Exchange Contracts: At December 31, 2000, MMC had open forward exchange contracts to buy Euros for U.S.

dollars for an underlying principal amount of \$488 million and sell Euros for U.S. dollars for an underlying principal amount of \$254 million. In addition, MMC had open forward exchange contracts to purchase other foreign currencies for underlying principal amounts totaling \$7 million. These contracts were entered into principally to hedge firm commitments. The fair value of these contracts is determined using year-end forward foreign currency exchange rates.

Option Contracts: MMC has entered into option contracts to hedge its interest rate exposures related to personal pension plan redress liabilities in the U.K., discussed further in Note 15. At December 31, 2000, the notional amounts of these option contracts totaled \$296 million, with amounts expiring over the next two years. All option contracts at December 31, 2000 were out of the money and as such the fair market value of these contracts was insignificant. There is no potential for a future loss associated with these options.

12 Special Credits/Charges

In the fourth quarter of 2000, MMC recorded a net special credit of \$2 million. This included a special charge of \$7 million representing a change in the estimates related to the 1999 reserve for employee termination costs associated with the Sedgwick transaction and reserves of \$9 million for office consolidation costs which were reversed in 2000. Of the \$9 million, \$7 million represented lease abandonment costs in London and \$2 million represented office consolidation costs associated with the combination with J&H. The resulting net special credit had no effect on diluted net income per share.

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.

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.

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, 2000, settlements and related costs previously paid amount to approximately \$200 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 \$240 million. Sedgwick has recorded \$100 million of reserves and recognized approximately \$140 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 \$110 million, essentially all of which is expected to be recovered from insurers. As of December 31, 2000, net settlements and related costs previously paid total approximately \$55 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 operates in three principal business segments based on the services provided. Segment performance is evaluated based on operating income, which is after deductions for directly related expenses and minority interest but before special

credits/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, (In millions of dollars)	Revenue from External Customers	Segment Operating Income	Total Assets	Depreciation and Amortization	Capital Expenditures
2000—					
Risk and Insurance Services	\$ 4,780 ^(a)	\$ 944	\$ 8,745	\$304	\$244
Investment Management	3,242	1,027	2,276	100	139
Consulting	2,135	312	1,717	65	89
	\$10,157	\$2,283	\$12,738	\$469	\$472
1999—					
Risk and Insurance Services	\$ 4,523 ^(a)	\$ 806	\$ 8,016	\$275	\$287
Investment Management	2,684	836	2,235	78	57
Consulting	1,950	260	1,511	54	50
	\$ 9,157	\$1,902	\$11,762	\$407	\$394
1998—					
Risk and Insurance Services	\$ 3,351 ^(a)	\$ 613	\$ 8,084	\$171	\$263
Investment Management	2,296	677	1,437	55	70
Consulting	1,543	202	1,490	41	50
	\$ 7,190	\$1,492	\$11,011	\$267	\$383

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

(In millions of dollars)	2000	1999	1998
Income Before Income Taxes and Minority Interest:			
Total segment operating income	\$2,283	\$1,902	\$1,492
Special credits (charges) (see Note 12)	2	(337)	4
Corporate expense	(127)	(103)	(76)
Reclassification of minority interest	21	5	—
Operating income	2,179	1,467	1,420
Interest income	23	21	25
Interest expense	(247)	(233)	(140)
Total income before income taxes and minority interest	\$1,955	\$1,255	\$1,305

(In millions of dollars)	Total Operating Segments	Corporate/ Eliminations	Total Consolidated
Other Significant Items:			
2000—			
Total assets	\$12,738	\$1,031 ^(b)	\$13,769
Depreciation and amortization	469	19	488
Capital expenditures	472	40	512
1999—			
Total assets	\$11,762	\$1,412 ^(b)	\$13,174
Depreciation and amortization	407	24	431
Capital expenditures	394	82	476
1998—			
Total assets	\$11,011	\$ 860 ^(b)	\$11,871
Depreciation and amortization	267	5	272
Capital expenditures	383	3	386

(a) Includes interest income on fiduciary funds (\$195 million in 2000, \$167 million in 1999 and \$137 million in 1998).

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

Information by geographic area is as follows:

(In millions of dollars)	Revenue from External Customers	Fixed Assets, Net
Geographic Area:		
2000—		
United States	\$ 7,223	\$ 916
United Kingdom	1,292	310
Continental Europe	769	52
Other	873	82
	\$10,157	\$1,360
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

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 independent 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 2, 2001

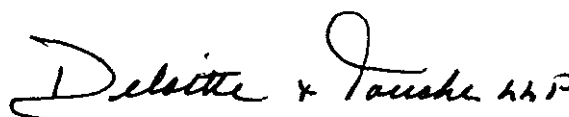
Independent Auditors' Report

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, 2000 and 1999, 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, 2000. 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 auditing standards generally accepted in the United States of America. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.



DELOITTE & TOUCHE LLP
New York, New York
March 2, 2001

Selected Quarterly Financial Data and Supplemental Information (Unaudited)

(In millions of dollars, except per share figures)	Revenue	Operating Income	Net Income	Net Income Per Share ^(a)		Dividends Paid Per Share	Stock Price Range High-Low
				Basic	Diluted		
2000:							
First quarter	\$ 2,665	\$ 619	\$ 337	\$1.26	\$1.19	\$.45	\$110.69- 70.50
Second quarter	2,481	514	276	1.02	.96	.45	\$112.50- 91.38
Third quarter	2,535	526	282	1.04	.97	.50	\$134.94-102.75
Fourth quarter	2,476	520	286	1.03	.98	.50	\$135.69-108.31
	\$10,157	\$2,179	\$1,181	\$4.35	\$4.10	\$1.90	\$135.69- 70.50
1999:							
First quarter	\$ 2,351	\$ 519	\$ 279	\$1.08	\$1.03	\$.40	\$ 79.38- 57.13
Second quarter	2,245	349 ^(b)	177 ^(b)	.68	.63 ^(b)	.40	\$ 81.13- 68.13
Third quarter	2,227	427	223	.84	.81	.45	\$ 81.50- 61.75
Fourth quarter	2,334	172 ^(c)	47 ^(c)	.17	.16 ^(c)	.45	\$ 96.75- 64.38
	\$ 9,157	\$1,467 ^(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

(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.

(b) Excluding special charges of \$84 for the second quarter of 1999, operating income, net income and diluted net income per share are \$433, \$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 \$425, \$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 \$1,804, \$959 and \$3.48, respectively.

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

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.

As of February 28, 2001, there were 11,245 stockholders of record.

Five-Year Statistical Summary of Operations

For the Five Years Ended December 31, (In millions of dollars, except per share figures)	2000	1999 ^(a)	1998	1997 ^(d)	1996 ^(f)	Compound Growth Rate 1995-2000
Revenue:						
Risk and Insurance Services	\$ 4,780	\$ 4,523	\$ 3,351	\$ 2,789	\$ 1,907	19%
Investment Management	3,242	2,684	2,296	1,882	1,338	29%
Consulting	2,135	1,950	1,543	1,338	1,159	15%
Total Revenue	10,157	9,157	7,190	6,009	4,404	21%
Expenses:						
Compensation and Benefits	4,941	4,574	3,561	3,044	2,204	20%
Other Operating Expenses	3,037	3,116	2,209	2,167	1,485	19%
Total Expenses	7,978	7,690	5,770	5,211	3,689	20%
Operating Income	2,179	1,467 ^(b)	1,420	798 ^(e)	715 ^(g)	26%
Interest Income	23	21	25	24	14	
Interest Expense	(247)	(233)	(140)	(107)	(61)	
Income Before Income Taxes and Minority Interest	1,955	1,255	1,305	715	668	25%
Income Taxes	753	524	509	281	209 ^(h)	
Minority Interest, Net of Tax	21	5	—	—	—	
Net Income	\$ 1,181	\$ 726	\$ 796	\$ 434	\$ 459	24%
Basic Net Income Per Share Information:						
Net Income Per Share	\$4.35	\$2.76	\$3.11	\$1.77	\$2.11	19%
Average Number of Shares Outstanding	272	263	256	245	217	
Diluted Net Income Per Share Information:						
Net Income Per Share	\$4.10	\$2.62	\$2.98	\$1.73	\$2.08	18%
Average Number of Shares Outstanding	284	272	264	251	221	
Dividends Paid Per Share	\$1.90	\$1.70	\$1.46	\$1.26	\$1.11	14%
Return on Average Stockholders' Equity	25%	19%	23%	17%	26%	
Year-end Financial Position:						
Working capital	\$ (480)	\$ (1,076)	\$ (1,657) ^(c)	\$ 224	\$ 192	
Total assets	\$13,769	\$13,174	\$11,871	\$7,912	\$4,545	
Long-term debt	\$ 2,347	\$ 2,357	\$ 1,590	\$1,240	\$ 458	
Stockholders' equity	\$ 5,228	\$ 4,170	\$ 3,659	\$3,233	\$1,889	
Total shares outstanding (excluding treasury shares)	276	267	257	255	217	
Other Information:						
Number of employees	57,000	52,900	54,300	36,400	27,000	
Stock price ranges—						
U.S. exchanges—High	\$135.69	\$96.75	\$64.31	\$53.33	\$38.29	
—Low	\$ 70.50	\$57.13	\$43.38	\$34.21	\$28.08	

(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.

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

See Management's Discussion and Analysis of Financial Condition and Results of Operations for discussion of significant items affecting the results of operations in 2000 and 1999.

BOARD OF DIRECTORS AND CORPORATE OFFICERS

BOARD OF DIRECTORS

J.W. Greenberg
Chairman

Mathis Cabiallavetta
Vice Chairman, MMC
Chairman, MMC Europe

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

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

Peter Coster
President and Chief Executive Officer,
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, Axcelis Technologies, Inc.
Former Chairman, Eaton Corporation

Gwendolyn S. King
President, Podium Prose
Former Commissioner,
Social Security Administration

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, LLC

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.

A.J.C. Smith
Former Chairman, MMC

ADVISORY DIRECTORS

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

Dean R. McKay
Former Senior Vice President,
IBM Corporation

Richard M. Morrow
Former Chairman, Amoco Corporation

George Putnam
Chairman Emeritus, The Putnam Funds

John M. Regan, Jr.
Former Chairman, MMC

Frank J. Tasco
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

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

OTHER CORPORATE OFFICERS

Sandra S. Wijnberg
Senior Vice President and
Chief Financial Officer

William L. Rosoff
Senior Vice President and
General Counsel

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

Barbara S. Perlmutter
Senior Vice President, Public Affairs

INTERNATIONAL ADVISORY BOARD

A.J.C. Smith
International Advisory Board Chairman
Former 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)
Chairman, Hidroelectrica del Cantábrico
Honorary Chairman, Repsol

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

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)
Chairman, Lloyd's
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