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DEAR SHAREHOLDER

IN A YEAR OF PROFOUND PERSONAL LOSS, THE PEOPLE OF MMC DEMONSTRATED EXTRAORDINARY RESILIENCE AND SPIRIT. Two hundred ninety-five members of our corporate family perished in the terrorist attacks of September 11. Grieving colleagues in New York and around the world responded to unprecedented circumstances by assisting the families of victims, carrying out business recovery plans and serving clients with professional excellence. We mourn our lost colleagues and take pride in our people's bravery, compassion and dedication.

Despite September 11 and generally difficult business conditions, MMC performed well in 2001. Consolidated revenues were \$9.9 billion, a decline of 2 percent. Excluding one-time items, net income increased 4 percent to \$1.2 billion, and earnings per share increased 3 percent to \$4.24 from \$4.10 in 2000.

Marsh had excellent results. Revenues from risk and insurance services increased 8 percent to \$5.2 billion, and underlying revenues, which exclude the effect of foreign exchange, acquisitions and dispositions, rose 10 percent. Operating income grew to \$1.1 billion—a 21 percent increase that was Marsh's largest annual rate of growth in operating earnings since 1986. With premium rates increasing and underwriting capacity decreasing—trends in the insurance marketplace that were accelerated by the September 11 attacks—Marsh's advice and services have been in great demand. The professionals in all areas of risk and insurance services are helping clients manage new and more complex risks as well as the uncertainty in the insurance and reinsurance markets.



Marsh strengthened its leadership in 2001. Jack Sinnott, chairman and chief executive officer, is now concentrating on Marsh's clients and markets. Ray Groves, a senior adviser to MMC and a member of its Board of Directors, was appointed Marsh's president and chief operating officer. Jack and Ray lead an outstanding team of executives and professionals who performed superbly in a trying year.

MMC Capital, our private equity business, continued to grow profitably. With its specialized expertise and skilled professionals, MMC Capital is well positioned to pursue investment opportunities in insurance and financial services firms. Responding quickly to supply-and-demand imbalances in the insurance marketplace after September 11, MMC Capital formed AXIS Specialty Limited, a global insurance and reinsurance company. We anticipate that the combination of new risk capital and experienced management will reward investors in AXIS and benefit MMC shareholders.

Putnam's performance in 2001 reflected the steep declines in the equity markets. Revenues decreased 19 percent to \$2.6 billion. Operating income, excluding a one-time item, fell 22 percent to \$803 million. Average assets under management for the year were \$328 billion, compared with \$397 billion in 2000. Led by Putnam's institutional business, net new sales, including dividends reinvested, totaled \$11.5 billion for the year. Like other investment management firms, Putnam's retail business had a difficult year. Putnam, however, has confidence in the strength of its diversified business model, which includes retail and institutional management—both domestic and international, a range of funds with different investment styles, distribution through banks, brokerage firms and financial planners, and a unique record of customer service.

Mercer performed satisfactorily in a contracting economy. Revenues increased to \$2.2 billion from \$2.1 billion, with underlying revenues growing 3 percent. Operating income was \$313 million, compared with \$312 million in 2000. Many consulting practices had good revenue growth. Retirement consulting, Mercer's largest practice, increased its revenues by 11 percent; consulting on health and other group benefits grew 8 percent; and economic consulting rose 11 percent. Revenues for general management consulting, however, declined 21 percent for the year.

MMC has made good progress in mobilizing the capabilities of the entire firm for the benefit of more clients. In recent years, we have established a number of initiatives to achieve this goal. MMC has encouraged more systematic collaboration among our operating companies and made the results of these efforts more measurable. We have worked to ensure that our largest institutional clients and prospects benefit from all the services offered by MMC. And our region and country heads have concentrated on fostering knowledge sharing and best practices among individual

THE STRENGTH OF MMC DEPENDS ON THE
QUALITY OF ITS PEOPLE. THE SUCCESS OF
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AND TEAMWORK.

companies in their geographies. To support collaborative business development and promote accountability for results, we consolidated these efforts in 2001 by establishing MMC Global Development.

Ultimately, the strength of MMC depends on the quality of its people. The success of the company and its various businesses requires leadership, professionalism and teamwork. We continue to recruit talented people and develop their ability to provide clients with professional services of the highest quality.

This year Oscar Fanjul was elected to the Board of Directors. Oscar has served in Spain's Ministry of Industry and Energy, helped negotiate Spain's entry into the European Economic Community, and was the first chairman and chief executive officer of Repsol, S.A. He will continue to serve on MMC's International Advisory Board, of which he has been a member since 1993.

John Ong, who was appointed U.S. ambassador to Norway, retired from the MMC Board in early 2002. We are grateful for his counsel.

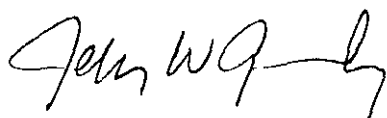
MMC is confident about the future. Our businesses are market leaders that compete in different fields around the world. This mix of professional services businesses and their disciplined management help us succeed in almost any economic environment.

The company's balance sheet is strong. Our substantial cash flow enabled MMC to repurchase 8 million shares of common stock in 2001. We anticipate continuing this share repurchase program in 2002.

Two thousand one, the 130th anniversary of the founding of MMC, was a year we will never forget. Our ability to serve clients recovered quickly from the September 11 attacks. Families and friends of our lost colleagues, however, cannot recover either quickly or completely from such grievous personal losses.

MMC has sought to assist families of victims with a comprehensive program of financial, emotional and administrative support. Our corporate assistance has been enhanced by spontaneous and widespread outreach to families by individual MMC colleagues, particularly from Marsh, which suffered the most devastating losses.

We will always remember our lost colleagues and the sympathy and encouragement provided by the MMC community after September 11.

A handwritten signature in black ink, appearing to read "Jeff W. Greenberg", with a stylized flourish at the end.

Jeffrey W. Greenberg, *Chairman*

March 4, 2002

Marsh & McLennan Companies, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME

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

	2001	2000	1999
Revenue	\$9,943	\$10,157	\$9,157
Expense	8,180	7,978	7,690
Operating income	1,763	2,179	1,467
Interest income	23	23	21
Interest expense	(196)	(247)	(233)
Income before income taxes and minority interest	1,590	1,955	1,255
Income taxes	599	753	524
Minority interest, net of tax	17	21	5
Net income	\$ 974	\$ 1,181	\$ 726
Basic net income per share	\$3.54	\$4.35	\$2.76
Diluted net income per share	\$3.39	\$4.10	\$2.62
Average number of shares outstanding—Basic	275	272	263
Average number of shares outstanding—Diluted	286	284	272

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

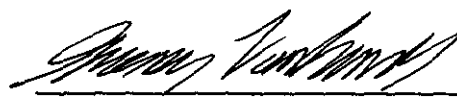
Marsh & McLennan Companies, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

December 31, (in millions of dollars)	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 537	\$ 240
Receivables		
Commissions and fees	2,288	2,370
Advanced premiums and claims	188	270
Other	355	307
	2,831	2,947
Less—allowance for doubtful accounts and cancellations	(139)	(135)
Net receivables	2,692	2,812
Prepaid dealer commissions—current portion	308	362
Other current assets	255	225
Total current assets	3,792	3,639
Intangible assets	5,327	5,476
Fixed assets, net	1,235	1,360
Long-term investments	826	976
Prepaid dealer commissions	528	762
Other assets	1,585	1,556
	\$13,293	\$13,769
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 757	\$ 337
Accounts payable and accrued liabilities	1,347	1,964
Accrued compensation and employee benefits	1,088	1,388
Accrued income taxes	600	291
Dividends payable	146	139
Total current liabilities	3,938	4,119
Fiduciary liabilities	3,630	3,627
Less—cash and investments held in a fiduciary capacity	(3,630)	(3,627)
Long-term debt	2,334	2,347
Other liabilities	1,848	2,075
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 280,320,819 shares in 2001 and 278,379,359 shares in 2000	280	278
Additional paid-in capital	1,901	1,918
Retained earnings	3,723	3,323
Accumulated other comprehensive loss	(227)	(149)
	5,677	5,370
Less—treasury shares, at cost 5,994,048 shares in 2001 and 2,352,046 shares in 2000	(504)	(142)
Total stockholders' equity	5,173	5,228
	\$13,293	\$13,769

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


 DIRECTOR

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 SECRETARY

Marsh & McLennan Companies, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Years Ended December 31,

(In millions of dollars)

	2001	2000	1999
Operating cash flows:			
Net income	\$ 974	\$ 1,181	\$ 726
Adjustments to reconcile net income to cash generated from operations:			
Depreciation of fixed assets and capitalized software	325	305	275
Amortization of intangible assets	195	183	156
Provision for deferred income taxes	(67)	175	32
Other, net	(5)	(36)	(34)
Changes in assets and liabilities:			
Net receivables	122	(484)	(465)
Prepaid dealer commissions	289	(38)	28
Other current assets	9	10	166
Other assets	(120)	(129)	(64)
Accounts payable and accrued liabilities	(190)	(97)	(102)
Accrued compensation and employee benefits	(301)	231	316
Accrued income taxes	394	226	(36)
Other liabilities	(248)	(163)	33
Net cash generated from operations	1,377	1,364	1,031
Financing cash flows:			
Net increase (decrease) in commercial paper	410	(696)	(809)
Other borrowings	23	197	1,180
Other repayments of debt	(26)	(303)	(734)
Purchase of treasury shares	(763)	(49)	(13)
Issuance of common stock	387	364	489
Dividends paid	(567)	(514)	(447)
Net cash used for financing activities	(536)	(1,001)	(334)
Investing cash flows:			
Additions to fixed assets and capitalized software	(433)	(512)	(476)
Proceeds from sales or insurance recoveries related to fixed assets	182	81	37
Proceeds from sale of businesses	8	37	85
Acquisitions	(53)	(99)	(357)
Other, net	(237)	(37)	(165)
Net cash used for investing activities	(533)	(530)	(876)
Effect of exchange rate changes on cash and cash equivalents	(11)	(21)	(3)
Increase (decrease) in cash and cash equivalents	297	(188)	(182)
Cash and cash equivalents at beginning of year	240	428	610
Cash and cash equivalents at end of year	\$ 537	\$ 240	\$ 428

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

Marsh & McLennan Companies, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME**

For the Three Years Ended December 31,

(In millions of dollars, except per share figures)

	2001	2000	1999
COMMON STOCK			
Balance, beginning of year	\$ 278	\$ 270	\$ 260
Common stock issuance	—	—	4
Issuance of shares under stock compensation plans and employee stock purchase plans	2	8	6
Balance, end of year	\$ 280	\$ 278	\$ 270
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	\$1,918	\$1,495	\$ 973
Common stock issuance	—	—	305
Acquisitions	5	17	—
Issuance of shares under stock compensation plans and employee stock purchase plans and related tax benefits	(22)	406	217
Balance, end of year	\$1,901	\$1,918	\$1,495
RETAINED EARNINGS			
Balance, beginning of year	\$3,323	\$2,674	\$2,412
Net income ^(a)	974	1,181	726
Dividends declared—(per share amounts: \$2.09 in 2001, \$1.95 in 2000 and \$1.75 in 1999)	(574)	(532)	(464)
Balance, end of year	\$3,723	\$3,323	\$2,674
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME			
Balance, beginning of year	\$ (149)	\$ (75)	\$ 206
Foreign currency translation adjustments ^(b)	(34)	(127)	(138)
Unrealized investment holding (losses) gains, net of reclassification adjustments ^(c)	(44)	56	(140)
Minimum pension liability adjustment ^(d)	2	(3)	(3)
Net deferred loss on cash flow hedges ^(e)	(2)	—	—
Balance, end of year	\$ (227)	\$ (149)	\$ (75)
TREASURY SHARES			
Balance, beginning of year	\$ (142)	\$ (194)	\$ (192)
Purchase of treasury shares	(763)	(49)	(13)
Acquisitions	10	—	—
Issuance of shares under stock compensation plans and employee stock purchase plans and related tax benefits	391	101	11
Balance, end of year	\$ (504)	\$ (142)	\$ (194)
TOTAL STOCKHOLDERS' EQUITY	\$5,173	\$5,228	\$4,170
TOTAL COMPREHENSIVE INCOME (a+b+c+d+e)	\$ 896	\$1,107	\$ 445

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

Marsh & McLennan Companies, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Summary of Significant Accounting Policies

Nature of Operations: Marsh & McLennan Companies, Inc. ("MMC"), a 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 program management services for businesses, public entities, insurance companies, associations, professional services organizations, 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 design and economic consulting and expert testimony.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of MMC and all its 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 \$165 million in 2001, \$195 million in 2000 and \$167 million in 1999. Since fiduciary assets are not available for corporate use, they are shown in the balance sheet as an offset to fiduciary liabilities.

Net uncollected premiums and claims and the related payables, amounting to \$10.8 billion at December 31, 2001 and 2000, 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, commissions on the sale of mutual fund shares and interest income on fiduciary funds. Revenue also includes compensation for services provided in connection with the organization, structuring and management of insurance, financial services and other industry focused investments; gains and losses from sales of interests in such entities are recorded as revenue and expenses, respectively. 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. Fees resulting from achievement of specified performance thresholds are recorded when such levels are attained and such fees are not subject to forfeiture.

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)	2001	2000
Furniture and equipment	\$ 1,142	\$1,117
Land and buildings	447	559
Leasehold and building improvements	668	645
	2,257	2,321
Less—accumulated depreciation and amortization	(1,022)	(961)
	\$ 1,235	\$1,360

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. Accounting for intangible assets will change in 2002, as discussed in the New Accounting Pronouncements section of this note.

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 over a period ranging from three to ten years. Unamortized computer software costs of \$227 million and \$204 million at December 31, 2001 and 2000, 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, 2001 amounted to approximately \$900 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 \$100 million.

Derivative Instruments: Effective January 1, 2001, MMC adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, ("SFAS No. 133") which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the

derivative is designed as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive loss and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. The change in accounting from the adoption of SFAS No. 133 did not have a material effect on net income in 2001.

Concentrations of Credit Risk: Financial instruments which 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 generally limited due to the large number of clients and markets in which MMC does business, as well as the dispersion across many geographic areas.

Per Share Data: Basic net income per share is calculated by dividing net income by the weighted 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 weighted 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)

	2001	2000	1999
Net income	\$974	\$1,181	\$726
Less: Potential minority interest expense associated with Putnam Equity Partnership Plan	(6)	(17)	(14)
Add: Dividend equivalent expense related to common stock equivalents	2	2	—
Net income for diluted earnings per share	\$970	\$1,166	\$712
Basic weighted average common shares outstanding	275	272	263
Dilutive effect of potentially issuable common shares	11	12	9
Diluted weighted average common shares outstanding	286	284	272

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 assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from those estimates.

New Accounting Pronouncements: In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses financial accounting and reporting for business combinations and supersedes Accounting Principles Board ("APB") No. 16, "Business Combinations" and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." All business combinations in the scope of SFAS No. 141 are

to be accounted for using one method, the purchase method. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB No. 17, "Intangible Assets." It changes the accounting for goodwill from an amortization method to an impairment only approach. Starting January 1, 2002, MMC will cease the amortization of goodwill that was recorded in past business combinations as required by SFAS No. 142. The adoption of SFAS No. 142 is expected to increase diluted earnings per share by at least \$.40 in 2002.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of." SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The adoption of this standard will 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, interest and income taxes paid:

For the Three Years Ended December 31, (In millions of dollars)	2001	2000	1999
Purchase acquisitions:			
Assets acquired, excluding cash	\$ 79	\$201	\$357
Liabilities assumed	—	(8)	—
Issuance of debt and other obligations	(26)	(77)	—
Shares issued	—	(17)	—
Net cash outflow for acquisitions	\$ 53	\$ 99	\$357
Interest paid	\$192	\$244	\$211
Income taxes paid	\$175	\$305	\$506

3 Other Comprehensive Loss

The components of other comprehensive loss are as follows:

For the Three Years Ended December 31, (In millions of dollars)	2001	2000	1999
Foreign currency translation adjustments	\$ (34)	\$(127)	\$(138)
Unrealized investment (losses) gains, net of income tax (benefit) liability of \$(60), \$63 and \$(55) in 2001, 2000 and 1999, respectively	(116)	125	(106)
Less: Reclassification adjustment for realized losses (gains) included in net income, net of income tax benefit (liability) of \$39, \$(38) and \$(19) in 2001, 2000 and 1999, respectively	72	(69)	(34)
Minimum pension liability adjustment, net of income tax (benefit) liability of \$(3) in 2001 and \$2 in 2000 and 1999	2	(3)	(3)
Deferred loss on cash flow hedges, net of income tax benefit of \$1 in 2001	(2)	—	—
	\$ (78)	\$ (74)	\$(281)

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

December 31, (In millions of dollars)	2001	2000
Foreign currency translation adjustments	\$(423)	\$(389)
Unrealized investment gains	226	270
Minimum pension liability adjustment	(28)	(30)
Net deferred loss on cash flow hedges	(2)	—
	\$(227)	\$(149)

4 Acquisitions, Dispositions and Integration Costs

Acquisitions: During 2001, MMC increased its investment in an investment management business and acquired other insurance broking and consulting businesses. The transactions were accounted for as purchases for a total cost of \$79 million. The cost of these investments exceeded the fair value of assets acquired by \$77 million.

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 issued \$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.

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. By the end of 2001, MMC had disposed of substantially all of these businesses with no gain or loss recognized in net income. The net liabilities of businesses to be disposed were reflected at their estimated realizable values of \$119 million at December 31, 2000, and included in accounts payable and accrued liabilities in the Consolidated Balance Sheets. As discussed in Note 14, certain guarantees related to these businesses remain open.

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 and Changes in Estimates			Balance Dec. 31, 2001
(In millions of dollars)		1999	2000	2001	
1999 Sedgwick Plan:					
Termination payments to employees	\$183	\$ (93)	\$(67)	\$(20)	\$ 3
Other employee-related costs	5	(2)	(3)	—	—
Future rent under noncancelable leases	48	(8)	(12)	(8)	20
Leasehold termination and related costs	49	(10)	(12)	(8)	19
	\$285	\$(113)	\$(94)	\$(36)	\$42
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)	\$(66)	\$(47)	\$ 7
Future rent under noncancelable leases	31	(5)	(7)	(7)	12
Leasehold termination and related costs	16	(3)	(7)	(3)	3
Other integration related costs	25	(25)	—	—	—
	\$266	\$(107)	\$(80)	\$(57)	\$22
Number of employee terminations	2,100	(1,300)	(800)	—	—
Number of office consolidations	50	(20)	(24)	(6)	—

Changes in estimates are attributable to differences in actual cost from initial estimates in implementing the original plan of integration. As a result of changes in estimates during the fourth quarter of 2001, reserves related to the 1999 Sedgwick Plan of \$3 million were reversed and recorded as a reduction of goodwill. MMC also recorded a special credit of \$7 million related to the 1999 MMC Plan, representing reductions of estimated costs of \$5 million for employee termination costs and \$2 million related to office consolidations. This \$7 million was included in the net special credit of \$13 million in 2001, as discussed in Note 12.

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. 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 in 2000, 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.

The actions contemplated by these plans were substantially complete by year-end 2000. Some accruals, primarily for future rent under noncancelable leases and salary continuance arrangements, are expected to be paid 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)	2001	2000	1999
Income before income taxes and minority interest:			
U.S.	\$1,070	\$1,415	\$1,004
Other	520	540	251
	\$1,590	\$1,955	\$1,255
Income taxes:			
Current—			
U.S. Federal	\$ 490	\$ 436	\$ 362
Other national governments	131	82	74
U.S. state and local	45	60	56
	666	578	492
Deferred—			
U.S. Federal	(128)	79	2
Other national governments	52	87	40
U.S. state and local	9	9	(10)
	(67)	175	32
Total income taxes	\$ 599	\$ 753	\$ 524

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

December 31, (In millions of dollars)	2001	2000
Deferred tax assets:		
Accrued expenses not currently deductible	\$703	\$ 736
Differences related to non-U.S. operations	188	232
Accrued retirement benefits	57	106
Other	22	5
	\$970	\$1,079
Deferred tax liabilities:		
Prepaid dealer commissions	\$233	\$ 392
Unrealized securities holding gains	121	143
Differences related to non-U.S. operations	59	43
Depreciation and amortization	74	98
Other	19	12
	\$506	\$ 688
Balance sheet classifications:		
Current assets	\$ —	\$ —
Other assets	423	419
Accrued income taxes	41	(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,	2001	2000	1999
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	2.2	2.3	2.4
Differences related to non-U.S. operations	(1.1)	(1.0)	2.1
Other	1.6	2.2	2.3
Effective tax rate	37.7%	38.5%	41.8%

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 made this election, resolving the issue with the IRS.

Taxing authorities periodically challenge positions taken by MMC on its tax returns. On the basis of present information, 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	
	2001	2000	2001	2000
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 2,115	\$1,940	\$ 170	\$ 150
Service cost	63	59	5	3
Interest cost	154	143	15	12
Actuarial loss	105	83	37	17
Benefits paid	(125)	(110)	(8)	(12)
Plan amendments	(5)	—	(10)	—
Benefit obligation at end of year	2,307	2,115	209	170
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 2,584	2,614	—	—
Actual return on plan assets	(169)	59	—	—
Employer contributions	26	21	8	12
Benefits paid	(125)	(110)	(8)	(12)
Fair value of plan assets at end of year	2,316	2,584	—	—
Funded status	9	469	(209)	(170)
Unrecognized net actuarial loss (gain)	175	(354)	18	(19)
Unrecognized prior service (credit) cost	(4)	3	(11)	(2)
Unrecognized transition asset	(14)	(19)	—	—
Net asset (liability) recognized	\$ 166	\$ 99	\$ (202)	\$(191)
Amounts recognized in Balance Sheet consist of:				
Prepaid benefit cost	\$ 324	\$ 243	\$ —	\$ —
Accrued benefit liability	(203)	(196)	(202)	(191)
Intangible asset	—	3	—	—
Accumulated other comprehensive income	45	49	—	—
Net asset (liability) recognized	\$ 166	\$ 99	\$ (202)	\$(191)

The U.S. defined benefit pension plans do not have any direct or indirect ownership of MMC stock. Plan assets of approximately \$1.6 billion and \$1.7 billion at December 31, 2001 and 2000, respectively, were managed by Putnam, which includes both separately managed and publicly available investment funds.

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	
	2001	2000	2001	2000
Weighted average assumptions:				
Discount rate	7.25%	7.5%	7.25%	7.5%
Expected return on plan assets	10.0%	10.0%	—	—
Rate of compensation increase	4.0%	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 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 \$294 million, \$248 million and \$80 million, respectively, as of December 31, 2001 and \$321 million, \$269 million and \$106 million, respectively, as of December 31, 2000.

The components of the net periodic (income) 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		
	2001	2000	1999	2001	2000	1999
Service cost	\$ 63	\$ 59	\$ 63	\$ 5	\$ 3	\$ 3
Interest cost	154	143	134	15	12	11
Expected return on plan assets	(238)	(217)	(199)	—	—	—
Amortization of prior service cost (credit)	1	3	4	(1)	(1)	(1)
Amortization of transition asset	(4)	(5)	(4)	—	—	—
Recognized actuarial (gain) loss	(18)	(19)	7	—	(1)	(1)
	\$ (42)	\$ (36)	\$ 5	\$19	\$13	\$12

The assumed health care cost trend rate was approximately 11% in 2001 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	\$ 3	\$ (3)
Effect on postretirement benefit obligation	\$ 31	\$ (25)

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	
	2001	2000	2001	2000
Change in benefit obligation:				
Benefit obligation at beginning of year	\$2,692	\$2,729	\$ 38	\$ 42
Service cost	93	95	1	1
Interest cost	156	152	2	3
Employee contributions	17	18	—	—
Actuarial loss (gain)	181	32	3	(3)
Benefits paid	(109)	(101)	(2)	(2)
Foreign currency changes	(36)	(230)	(1)	(3)
Plan amendments	3	(3)	—	—
Benefit obligation at end of year	2,997	2,692	41	38
Change in plan assets:				
Fair value of plan assets at beginning of year	3,024	3,311	—	—
Actual return on plan assets	(206)	20	—	—
Company contributions	52	48	2	2
Employee contributions	17	18	—	—
Benefits paid	(109)	(101)	(2)	(2)
Foreign currency changes	(48)	(272)	—	—
Fair value of plan assets at end of year	2,730	3,024	—	—
Funded status	(267)	332	(41)	(38)
Unrecognized net actuarial loss (gain)	423	(231)	2	(1)
Unrecognized prior service cost	9	7	—	—
Net asset (liability) recognized	\$ 165	\$ 108	\$(39)	\$(39)
Amounts recognized in Balance Sheet consist of:				
Prepaid benefit cost	\$ 195	\$ 181	\$ —	\$ —
Accrued benefit liability	(30)	(73)	(39)	(39)
Net asset (liability) recognized	\$ 165	\$ 108	\$(39)	\$(39)
Weighted average assumptions:				
Discount rate	5.8%	6.0%	6.2%	6.4%
Expected return on plan assets	8.9%	8.9%	—	—
Rate of compensation increase	4.2%	4.2%	—	—

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the non-U.S. pension plans with accumulated benefit obligations in excess of plan assets were \$42 million, \$34 million and \$22 million, respectively, as of December 31, 2001 and \$54 million, \$42 million and \$28 million, respectively, as of December 31, 2000.

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		
	2001	2000	1999	2001	2000	1999
Service cost	\$ 93	\$ 95	\$ 96	\$ 1	\$ 1	\$ 1
Interest cost	156	152	156	2	3	2
Expected return on plan assets	(254)	(243)	(238)	—	—	—
Amortization of prior service cost	—	1	—	—	—	—
Amortization of transition asset	—	(6)	(6)	—	—	—
Recognized actuarial (gain) loss	(2)	—	1	—	—	—
	\$ (7)	\$ (1)	\$ 9	\$ 3	\$ 4	\$ 3

The assumed health care cost trend rate was approximately 6.6% in 2001, gradually declining to 4.3% in the year 2010. 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, LLC 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 SIP is an Employee Stock Ownership Plan under U.S. tax law and Plan assets of approximately \$1.5 billion at December 31, 2001 and 2000 were invested in MMC stock. In addition, SIP plan assets of approximately \$455 million and \$626 million were managed by Putnam. The cost of these defined contribution plans was \$83 million, \$79 million and \$74 million for 2001, 2000 and 1999, respectively.

7 Stock Benefit Plans

As provided under SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") 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 2001, 2000 and 1999 would have been reduced to the pro forma amounts indicated in the table below.

(In millions of dollars, except per share figures)			
	2001	2000	1999
Net Income:			
As reported	\$ 974	\$1,181	\$ 726
Pro forma	\$ 860	\$1,100	\$ 673
Net Income Per Share:			
<i>Basic:</i>			
As reported	\$3.54	\$ 4.35	\$2.76
Pro forma	\$3.13	\$ 4.05	\$2.56
<i>Diluted:</i>			
As reported	\$3.39	\$ 4.10	\$2.62
Pro forma	\$2.99	\$ 3.82	\$2.42

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 2001, 2000 and 1999, respectively: dividend yield of 2.0% for 2001, 2.0% for 2000 and 3.0% for 1999; expected volatility of 32.7% in 2001, 26.3% in 2000 and 22.7% in 1999; risk-free interest rate of 4.6% in 2001, 6.5% in 2000 and 5.2% in 1999 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, 2001, 2000 and 1999 was \$27.97, \$26.70 and \$16.09 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 adopted. 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 Plans (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 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 stock plans. There were 43,533,711, 52,150,871 and 15,671,576 shares available for awards under the 2000 Plans and prior plans at December 31, 2001, 2000 and 1999, respectively.

Stock Options: Options granted under the 2000 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 2000 Plans and prior plans are as follows:

	2001		2000		1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance at beginning of period	31,135,015	\$60.41	30,018,436	\$48.91	26,492,820	\$38.27
Granted	7,867,204	\$92.84	7,184,130	\$91.33	7,992,425	\$75.86
Exercised	(3,260,755)	\$39.89	(5,399,469)	\$35.68	(3,809,839)	\$29.95
Forfeited	(707,506)	\$82.50	(668,082)	\$70.79	(656,970)	\$57.61
Balance at end of period	35,033,958	\$69.16	31,135,015	\$60.41	30,018,436	\$48.91
Options exercisable at year-end	18,324,520	\$52.95	15,610,530	\$42.88	15,231,609	\$34.25

The following table summarizes information about stock options at December 31, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding at 12/31/01	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at 12/31/01	Weighted Average Exercise Price
\$23.81-35.72	6,276,812	2.6 years	\$30.02	6,276,812	\$30.02
\$35.73-53.57	3,130,727	5.0 years	\$41.58	3,129,977	\$41.58
\$53.58-80.36	10,934,227	6.5 years	\$68.78	6,795,047	\$67.29
\$80.37-124.66	14,692,192	8.6 years	\$92.05	2,122,684	\$91.60
\$23.81-124.66	35,033,958	6.5 years	\$69.16	18,324,520	\$52.95

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 122,900, 127,800 and 100,700 restricted shares granted in 2001, 2000 and 1999, respectively. MMC recorded compensation expense of \$11 million in 2001, \$13 million in 2000 and \$8 million in 1999, 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 196,691, 137,391 and 167,845 restricted stock units awarded during 2001, 2000 and 1999, respectively. The total value of the restricted stock units at the time of the award was \$19 million, \$14 million and \$12 million in 2001, 2000 and 1999, 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 723,615, 648,726 and 1,618,064 deferred stock units awarded during 2001, 2000 and 1999, respectively. The total value of the deferred stock unit awards was \$76 million, \$60 million and \$99 million in 2001, 2000 and 1999, respectively. The cost of the awards is amortized over the vesting period, which is generally three years, however, 1999 operating expenses reflect \$71 million of charges 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 ("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, which would represent approximately 12% of the outstanding shares on a fully diluted basis, as increased for certain issuances of Putnam Class A Common

Stock to MMC. Through December 31, 2001, Putnam made awards pursuant to the Equity Plan with respect to 1,712,000, 2,041,000 and 3,100,200 shares of Class B Common Shares and shares subject to options in 2001, 2000 and 1999, respectively. These awards included 856,000, 1,020,500 and 1,550,100 restricted shares with a value of \$91 million, \$90 million and \$120 million in 2001, 2000 and 1999, respectively. These awards also included 856,000, 1,020,500 and 1,550,100 shares subject to options in 2001, 2000 and 1999, respectively. There were 2,405,070 shares available for grant related to the Equity Plan at December 31, 2001. 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.

Pursuant to an executive compensation agreement, Putnam awarded 100,000 and 105,000 restricted stock units in 2001 and 1999, respectively, with a value of \$11 million and \$8 million and 50,000 and 105,000 options in 2001 and 1999, respectively, related to Class B Common Shares to an executive of Putnam. These 105,000 shares awarded in 1999 are incremental to the available shares discussed above.

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 2001, 2000 and 1999: dividend yield of 5.0% for 2001, 2000 and 1999; expected volatility of 42.4% in 2001, 38.3% in 2000 and 33.2% in 1999; risk-free interest rate of 4.6% in 2001, 6.5% in 2000 and 5.2% in 1999; 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 \$29.66 in 2001, \$24.43 in 2000 and \$17.64 in 1999.

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 1,427,536, 2,099,990 and 2,368,734 shares in 2001, 2000 and 1999, respectively. At December 31, 2001, 19,604,180 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 278,163, 384,507 and 339,594 shares in 2001, 2000 and 1999, respectively. At December 31, 2001, 32,382 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 2001, 2000 and 1999 and was estimated using the Black-Scholes model with the following assumptions: dividend yield of 2.0% for 2001 and 2000 and 3.0% for 1999; expected life of one year; expected volatility of 37.3% for 2001, 26.3% for 2000 and 22.7% for 1999; and risk-free interest rate of 2.4% for 2001, 6.1% for 2000 and 5.5% for 1999. The weighted average fair value of each purchase right granted in 2001, 2000 and 1999 was \$28.17, \$34.40 and \$16.15, respectively.

8 Long-term Commitments

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 97% of MMC's lease obligations are for the use of office space.

The accompanying Consolidated Statements of Income include net rental costs of \$364 million, \$359 million and \$363 million for 2001, 2000 and 1999, respectively, after deducting rentals from subleases (\$8 million in 2001 and 2000, and \$7 million in 1999).

At December 31, 2001, 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
2002	\$ 391	\$ 28	\$ 363
2003	355	24	331
2004	323	23	300
2005	285	21	264
2006	253	21	232
Subsequent years	1,806	233	1,573
	\$3,413	\$350	\$3,063

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, 2001, 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
2002	\$28
2003	18
2004	10
Subsequent years	—
	\$56

9 Short-term Debt

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

December 31, (In millions of dollars)	2001	2000
Commercial paper	\$741	\$331
Current portion of long-term debt	16	6
	\$757	\$337

The weighted average interest rates on outstanding commercial paper borrowings at December 31, 2001 and 2000 are 2.1% and 6.5%, respectively.

In June 2001, MMC arranged a \$1.6 billion revolving credit facility for the use of its subsidiary, Marsh USA Inc. The credit facility replaced a similar facility that expired during 2001. Borrowing under the facility, which expires in June 2002, is guaranteed by MMC and supports Marsh USA Inc.'s commercial paper borrowing. At MMC's option, repayment of any outstanding borrowing under this facility can be extended up to one year from the expiration date. Commitment fees of 5 basis points are payable on any unused portion. The facility requires MMC to maintain consolidated net worth of at least \$3.5

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, 2001.

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 \$1.0 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. No amounts were outstanding under this revolving credit facility at December 31, 2001 or December 31, 2000.

MMC maintains credit facilities with various banks, primarily related to operations located outside the United States, aggregating \$214 million at December 31, 2001 and \$277 million at December 31, 2000. No amounts were outstanding under these facilities at December 31, 2001 and 2000.

10 Long-term Debt

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

December 31, (In millions of dollars)	2001	2000
Commercial paper	\$1,000	\$1,000
Senior notes—6.625% due 2004	597	596
Senior notes—7.125% due 2009	398	398
Mortgage—9.8% due 2009	200	200
Notes payable—8.62% due 2012	76	80
Notes payable—7.68% due 2006	62	62
Other	17	17
	2,350	2,353
Less current portion	16	6
	\$2,334	\$2,347

Commercial paper borrowings of \$1.0 billion at December 31, 2001 and 2000 have been classified as long-term debt based on MMC's

intent and ability to maintain or refinance these obligations on a long-term basis.

In June 1999, MMC issued \$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 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 2002 and in the four succeeding years are \$16 million, \$1 billion, \$605 million, \$5 million and \$65 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)	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 537	\$ 537	\$ 240	\$ 240
Long-term investments	826	826	976	976
Short-term debt	757	758	337	337
Long-term debt	2,334	2,455	2,347	2,414

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 \$182 million and \$99 million at December 31, 2001 and 2000, respectively, which are carried on a cost basis. MMC monitors these investments for impairment and makes appropriate reductions in carrying values when necessary.

MMC has classified as available for sale primarily equity securities having an aggregate fair value of \$644 million and \$877 million at December 31, 2001 and 2000, respectively. Gross unrealized gains amounting to \$360 million and \$459 million and gross unrealized losses of \$16 million and \$46 million at December 31, 2001 and 2000, respectively, have been excluded from earnings and reported, net of deferred income taxes, as accumulated other comprehensive loss which is a component of stockholders' equity.

MMC recorded net (losses) gains associated with its long-term investments of (\$111) million, \$72 million and \$53 million, in 2001, 2000 and 1999, respectively. Proceeds from the sale of available for sale securities for the years ended December 31, 2001, 2000 and 1999 were \$155 million, \$237 million and \$105 million, respectively. Gross realized gains on available for sale securities sold during 2001, 2000 and 1999 amounted to \$112 million, \$108 million and \$53 million, respectively. In 2001 and 2000, MMC recorded losses of \$223 million and \$36 million, respectively, related to the decline in value of certain long-term investments that were other than temporary. The cost of securities sold is determined using the average cost method for equity securities.

In October 2000, MMC entered into an agreement to purchase a minority investment in the publicly traded common stock of Gruppo Bipop-Carire S.p.A. ("Bipop") as part of a new agreement that expanded the companies' existing joint venture in Italy, and Putnam became the exclusive investment management partner for Bipop's planned expansion into other parts of Western Europe. The committed purchase price of \$286 million was recorded as a liability as of December 31, 2000 in accounts payable and accrued liabilities along with a corresponding available for sale security included in long-term investments in the Consolidated Balance Sheets. The Bipop common shares have subsequently declined in value. MMC determined this decline was other than temporary, and in the fourth quarter of 2001, recorded a pretax \$222 million charge to income to write down the cost basis of the investment to its fair value.

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.

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.

Option Contracts: In 2001, MMC entered into a series of options contracts to hedge the variability of cash flows from forecasted sales of certain available for sale equity investments. The sales are forecasted to occur over the next twelve quarters. The hedge is achieved through the use of European style put and call options, which mature on the dates of the forecasted sales. Gains or losses on the option

contracts are deferred in Other Comprehensive Loss until the related forecasted sales occur. The hedging relationship is considered perfectly effective because all critical terms of the hedge and the forecasted sales match. As a result no hedge ineffectiveness will be recognized in earnings. At December 31, 2001, the net decrease in fair value of the option contracts of \$2 million was recorded as a liability and a increase of Accumulated Other Comprehensive loss on the balance sheet. MMC expects approximately \$1 million to be reclassified into earnings over the next year as the related forecasted sales occur.

12 Charges related to September 11 and Special Charges/Credits

As a result of the events of September 11 and the subsequent business environment, MMC recorded a pretax charge of \$187 million. Services and benefits provided to victims' families and employees, such as salary and benefit continuance, counseling and a commitment to the MMC Victims Relief Fund, make up \$69 million of the charges. Write-off or impairments of intangibles and other non-cash assets were \$32 million and charges related to disruption of business operations amounted to \$25 million. The above charges are shown net of expected insurance recoveries.

As a result of weakening business conditions, which were exacerbated by the events of September 11, MMC adopted a plan to provide for staff reductions and office consolidations, primarily in the consulting segment. The charge of \$61 million is comprised of \$44 million for severance and related benefits affecting 750 people and \$17 million for future rent under non-cancelable leases. Actions under the plan are expected to be substantially completed by June 30, 2002.

<i>(In millions of dollars)</i>	Initial Balance	Utilized	Balance at Dec. 31, 2001
Termination payments			
to employees	\$ 44	\$ (14)	\$ 30
Future rent under			
noncancelable leases	17	—	17
	\$ 61	\$ (14)	\$ 47
Number of			
employee terminations	750	(506)	244
Number of			
office consolidations	9	(2)	7

In the fourth quarter of 2001, MMC recorded a special credit of \$13 million attributable to changes in estimates in connection with integration and restructuring plans provided for in prior years. Changes in estimated costs resulted in a reversal of reserves of \$5 million for employee termination costs and \$2 million related to office consolidations associated with the Sedgwick transaction and a \$6 million reversal of reserves related to office consolidation costs associated with MMC's 1997 combination with Johnson & Higgins ("J&H"). The combined impact of the charges related to September 11 and the Special Credit was a \$.38 reduction in diluted earnings per share for the year.

During 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.

13 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.

14 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. Insurance coverage applicable to such matters includes elements of both risk retention and risk transfer.

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. 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. As of December 31, 2001, settlements and related costs previously paid amount to approximately \$465 million, of which approximately \$140 million is due from or has been paid by insurers. The remaining contingent exposure for pension redress and related costs is estimated to be \$160 million, essentially all of which is expected to be recovered from insurers.

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.

Putnam Investment Management LLC and Putnam Retail Management, Limited Partnership, two indirect subsidiaries of MMC, as well as entities from approximately two dozen other mutual fund

companies were named as defendants in an action entitled Richard Nelson, et. al. v. AIM Advisors, Inc. et. al., Civ. A. No. 01-CV-282, in the United States District Court for the Southern District of Illinois. This purported nationwide class action alleged that the distribution and advisor fees paid by the various mutual funds from May 1, 1991 to the present were unlawful and excessive, that each fund complex exercised a controlling influence over statutorily independent directors of each fund and that these fees were thus not properly approved. The complaint alleged that the defendants' actions violated the Investment Company Act of 1940, as well as common law fiduciary duties, and sought, among other things, actual and punitive damages and declaratory relief. The Court, responding to motions by Putnam and the other defendants, has ordered that the respective claims asserted against the defendants be severed into separate actions and transferred to a more convenient forum for each defendant. In Putnam's case, this transfer will be to the United States District Court for the District of Massachusetts. MMC and the Putnam subsidiaries believe that this action is without merit, and intend to defend vigorously against this litigation.

As part of the combination with Sedgwick, MMC acquired several insurance underwriting businesses that were already in run-off, including River Thames Insurance Company Limited. Guarantees issued by Sedgwick with respect to certain liabilities of River Thames remain open.

Although the ultimate outcome of all matters referred to above cannot be ascertained and liabilities in indeterminate amounts may be imposed on MMC and its subsidiaries, on the basis of present information, 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.

15 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 charges and

charges related to September 11. 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
2001 —					
Risk and Insurance Services	\$ 5,152 ^(a)	\$1,139	\$ 7,859	\$307	\$202
Investment Management	2,631	584 ^(b)	2,525	124	102
Consulting	2,160	313	1,904	72	86
	\$ 9,943	\$2,036	\$12,288	\$503	\$390
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

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)	2001	2000	1999
Income Before Income Taxes and Minority Interest:			
Total segment operating income	\$2,036	\$2,283	\$1,902
Charges related to September 11 and special (charges) credits (see Note 12)	(174)	2	(337)
Corporate expense	(116)	(127)	(103)
Reclassification of minority interest	17	21	5
Operating income	1,763	2,179	1,467
Interest income	23	23	21
Interest expense	(196)	(247)	(233)
Total income before income taxes and minority interest	\$1,590	\$1,955	\$1,255

(In millions of dollars)	Total Operating Segments	Corporate/ Eliminations	Total Consolidated
--------------------------	--------------------------------	----------------------------	-----------------------

Other Significant Items:

2001 —			
Total assets	\$12,288	\$1,005 ^(c)	\$13,293
Depreciation and amortization	503	17	520
Capital expenditures	390	43	433
2000 —			
Total assets	\$12,738	\$1,031 ^(c)	\$13,769
Depreciation and amortization	469	19	488
Capital expenditures	472	40	512
1999 —			
Total assets	\$11,762	\$1,412 ^(c)	\$13,174
Depreciation and amortization	407	24	431
Capital expenditures	394	82	476

Information by geographic area is as follows:

(In millions of dollars)	Revenue from External Customers	Fixed Assets
Geographic Area:		
2001 —		
United States	\$ 6,931	\$ 912
United Kingdom	1,545	192
Continental Europe	748	55
Other	719	76
	\$9,943	\$1,235
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

(a) Includes interest income on fiduciary funds (\$165 million in 2001, \$195 million in 2000 and \$167 million in 1999).

(b) Includes charge of \$222 million related to an other than temporary decline in value of the common stock of Gruppo Bipop Carire S.p.A.

(c) Corporate assets primarily include unallocated goodwill, insurance recoverables, prepaid pension 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 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 1, 2002

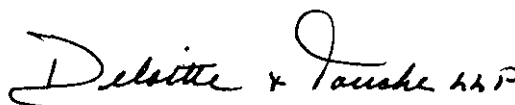
Independent Auditors' Report

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, 2001 and 2000, 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, 2001. 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.



New York, New York
March 1, 2002

SELECTED QUARTERLY FINANCIAL DATA AND SUPPLEMENTAL INFORMATION (UNAUDITED)

(In millions of dollars, except per share figures)	Revenue	Operating Income	Net Income	Net Income (Loss) Per Share ^(a)		Dividends Paid Per Share	Stock Price Range High-Low
				Basic	Diluted		
2001:							
First quarter	\$ 2,594	\$ 645	\$ 369	\$1.33	\$1.27	\$.50	\$118.06- 85.26
Second quarter	2,505	526	293	1.07	1.02	.50	\$111.80- 80.30
Third quarter	2,371	312 ^(b)	168 ^(b)	.62	.58 ^(b)	.53	\$102.79- 79.40
Fourth quarter	2,473	280 ^(c)	144 ^(c)	.52	.51 ^(c)	.53	\$111.00- 94.35
	\$ 9,943	\$1,763^(d)	\$974^(d)	\$3.54	\$3.39^(d)	\$2.06	\$118.06- 79.40
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 ^(e)	177 ^(e)	.68	.63 ^(e)	.40	\$ 81.13- 68.13
Third quarter	2,227	427	223	.84	.81	.45	\$ 81.50- 61.75
Fourth quarter	2,334	172 ^(f)	47 ^(f)	.17	.16 ^(f)	.45	\$ 96.75- 64.38
	\$ 9,157	\$1,467^(g)	\$ 726^(g)	\$2.76	\$2.62^(g)	\$1.70	\$ 96.75- 57.13

(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 does not equal the total for the year in 2001 and in 1999.

(b) Excluding one-time items of \$173 for the third quarter of 2001, operating income, net income and diluted net income per share are \$485, \$274 and \$.96, respectively.

(c) Excluding one-time items of \$223 for the fourth quarter of 2001, operating income, net income and diluted net income per share are \$503, \$286 and \$.99, respectively.

(d) Excluding one-time items of \$396 for the full year 2001, operating income, net income and diluted net income per share are \$2,159, \$1,222 and \$4.24, respectively.

(e) 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.

(f) 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.

(g) 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.

As of February 28, 2002, there were 10,927 stockholders of record.

FIVEYEAR STATISTICAL SUMMARY OF OPERATIONS

For the Five Years Ended December 31, (In millions of dollars, except per share figures)	2001	2000	1999 ^(b)	1998	1997 ^(e)	Compound Growth Rate 1996-2001
Revenue:						
Risk and Insurance Services	\$ 5,152	\$ 4,780	\$ 4,523	\$ 3,351	\$2,789	22%
Investment Management	2,631	3,242	2,684	2,296	1,882	14%
Consulting	2,160	2,135	1,950	1,543	1,338	13%
Total Revenue	9,943	10,157	9,157	7,190	6,009	18%
Expenses:						
Compensation and Benefits	4,877	4,941	4,574	3,561	3,044	17%
Other Operating Expenses	3,303	3,037	3,116	2,209	2,167	17%
Total Expenses	8,180	7,978	7,690	5,770	5,211	17%
Operating Income	1,763 ^(a)	2,179	1,467 ^(c)	1,420	798 ^(f)	20%
Interest Income	23	23	21	25	24	
Interest Expense	(196)	(247)	(233)	(140)	(107)	
Income Before Income Taxes and Minority Interest	1,590	1,955	1,255	1,305	715	19%
Income Taxes	599	753	524	509	281	
Minority Interest, Net of Tax	17	21	5	—	—	
Net Income	\$ 974	\$ 1,181	\$ 726	\$ 796	\$ 434	16%
Basic Net Income Per Share Information:						
Net Income Per Share	\$3.54	\$4.35	\$2.76	\$3.11	\$1.77	11%
Average Number of Shares Outstanding	275	272	263	256	245	
Diluted Net Income Per Share Information:						
Net Income Per Share	\$3.39	\$4.10	\$2.62	\$2.98	\$1.73	10%
Average Number of Shares Outstanding	286	284	272	264	251	
Dividends Paid Per Share	\$2.06	\$1.90	\$1.70	\$1.46	\$1.26	13%
Return on Average Stockholders' Equity	19%	25%	19%	23%	17%	
Year-end Financial Position:						
Working capital	\$ (146)	\$ (480)	\$ (1,076)	\$ (1,657) ^(d)	\$ 224	
Total assets	\$13,293	\$13,769	\$13,174	\$11,871	\$7,912	
Long-term debt	\$ 2,334	\$ 2,347	\$ 2,357	\$ 1,590	\$1,240	
Stockholders' equity	\$ 5,173	\$ 5,228	\$ 4,170	\$ 3,659	\$3,233	
Total shares outstanding (excluding treasury shares)	274	276	267	257	255	
Other Information:						
Number of employees	57,800	57,000	52,900	54,300	36,400	
Stock price ranges—						
U.S. exchanges—High	\$118.06	\$135.69	\$96.75	\$64.31	\$53.33	
—Low	\$ 79.40	\$ 70.50	\$57.13	\$43.38	\$34.21	

(a) Includes one-time items of \$396 million.

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

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

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

(e) 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.

(f) Includes a special charge of \$244 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 2001 and 2000.

BOARD OF DIRECTORS AND CORPORATE OFFICERS

BOARD OF DIRECTORS

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Chairman

Mathis Cabiallavetta
Vice Chairman, MMC
Chairman, MMC Global Development

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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

Robert F. Erburu
Former Chairman,
The Times Mirror Company

Oscar Fanjul
Chief Executive Officer, Omega-Capital
Honorary Chairman, Repsol, S.A.

Ray J. Groves
President and
Chief Operating Officer, Marsh Inc.

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, DL
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

Adele Simmons
Vice Chair, 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

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

Richard M. Morrow
Former Chairman, Amoco Corporation

George Putnam
Chairman Emeritus, The Putnam Funds

Frank J. Tasco
Former Chairman, MMC

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Oscar Fanjul
Gwendolyn S. King
Adele Simmons

Compensation

Lewis W. Bernard, *Chairman*
Robert F. Erburu
The Rt. Hon. Lord Lang of Monkton, DL

Executive

Jeffrey W. Greenberg, *Chairman*
Lewis W. Bernard
The Rt. Hon. Lord Lang of Monkton, DL
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,
Executive Resources and Development

Barbara S. Perlmutter
Senior Vice President, Public Affairs

INTERNATIONAL ADVISORY BOARD

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International Advisory Board Chairman
Former Chairman, MMC

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

Raymond Barre (France)
Deputy, National Assembly
Former Prime Minister

Rolf E. Breuer (Germany)
Chairman, Deutsche Bank AG

Mathis Cabiallavetta (Switzerland)
Vice Chairman, MMC
Chairman, MMC Global Development

John R. Evans (Canada)
Chairman, Torstar Corporation

Oscar Fanjul (Spain)
Chief Executive Officer, Omega-Capital
Honorary Chairman, Repsol, S.A.

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 Finance Minister and
Former Ambassador 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 Finance Minister and
Former Ambassador to the United States

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