MARSH & MCLENNAN COMPANIES, INC.
Form 10-K
March 01, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006
Commission File No. 1-5998

Marsh & McLennan Companies, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**36-2668272**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1166 Avenue of the Americas
New York, New York 10036-2774
(Address of principal executive offices; Zip Code)

(212) 345-5000
Registrant□s telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $1.00 per share	New York Stock Exchange
Preferred Stock Purchase Rights	Chicago Stock Exchange
	London Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant□s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of □accelerated filer and large accelerated filer□ in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x.

As of June 30, 2006, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately $14,805,115,605 based on the average of the high and low prices as reported on the New York Stock Exchange.

As of February 16, 2007, there were outstanding 552,775,515 shares of common stock, par value $1.00 per share, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Marsh & McLennan Companies, Inc.’s Notice of Annual Meeting and Proxy Statement for the 2007 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains “forward-looking statements,” as defined in the Private Securities Litigation Reform Act of 1995. These statements, which express management’s current views concerning future events or results, use words like “anticipate,” “assume,” “believe,” “continue,” “estimate,” “expect,” “intend,” “plan,” “p similar terms, and future or conditional tense verbs like “could,” “should,” “will” and “would.” For example, we may use forward-looking statements when addressing topics such as: the impact of acquisitions and dispositions; future actions by our management or regulators; the outcome of contingencies; changes in our business strategy; changes in our business practices and methods of generating revenue; the development and performance of our services and products; market and industry conditions, including competitive and pricing trends; changes in the composition or level of MMC’s revenues; our cost structure and the outcome of restructuring and other cost-saving initiatives; and MMC’s cash flow and liquidity.

Forward-looking statements are subject to inherent risks and uncertainties. Factors that could cause actual results to differ materially from those expressed or implied in our forward-looking statements include:

- the economic and reputational impact of litigation and regulatory proceedings concerning our insurance and reinsurance brokerage and investment management operations;

- the fact that MMC’s agreement to sell Putnam, announced on February 1, 2007, is subject to a number of closing conditions, some of which are outside of MMC’s control, and we cannot be certain that the transaction will close as planned or that the announced sale price will not be adjusted pursuant to the terms of the sale agreement;

- Putnam’s performance between now and the closing of the announced sale later in 2007, including the actual and relative investment performance of Putnam’s mutual funds and institutional and other advisory accounts, Putnam’s net fund flows and the level of Putnam’s assets under management;

- our ability to effectively deploy MMC’s proceeds from the sale of Putnam, and the timing of our use of those proceeds;

- the fact that our estimate of the dilutive impact of the sale of Putnam on MMC’s future earnings per share is necessarily based on a set of current management assumptions, including assumptions about MMC’s use of sale proceeds and the operating results of Putnam and MMC’s other subsidiaries;

- our ability to achieve profitable revenue growth in our risk and insurance services segment by providing both traditional insurance brokerage services and additional risk advisory services;

- our ability to retain existing clients and attract new business, and our ability to retain key employees;
- revenue fluctuations in risk and insurance services relating to the net effect of new and lost business production and the timing of policy inception dates;
- the impact on risk and insurance services commission revenues of changes in the availability of, and the premiums insurance carriers charge for, insurance and reinsurance products, including the impact on premium rates and market capacity attributable to catastrophic events such as hurricanes;
- the impact on renewals in our risk and insurance services segment of pricing trends in particular insurance markets, fluctuations in the general level of economic activity and decisions by insureds with respect to the level of risk they will self-insure;
- the impact on our consulting segment of pricing trends, utilization rates, legislative changes affecting client demand, and the general economic environment;

- our ability to implement our restructuring initiatives and otherwise reduce or control expenses and achieve operating efficiencies, including our ability to generate anticipated savings and operational improvements from the actions we announced in September 2006;
- the impact of competition, including with respect to pricing and the emergence of new competitors;
- fluctuations in the value of Risk Capital Holdings investments;
- our ability to make strategic acquisitions and dispositions and to integrate, and realize expected synergies, savings or strategic benefits from, the businesses we acquire;
- our exposure to potential liabilities arising from errors and omissions claims against us;
- our ability to meet our financing needs by generating cash from operations and accessing external financing sources, including the potential impact of rating agency actions on our cost of financing or ability to borrow;
- the impact on our operating results of foreign exchange fluctuations;
- potential costs and difficulties in complying with a wide variety of foreign laws and regulations, particularly given the global scope of our operations; and
- changes in the tax or accounting treatment of our operations, and the impact of other legislation and regulation, including as to licensing matters, in the jurisdictions in which we operate.

The factors identified above are not exhaustive. MMC and its subsidiaries operate in a dynamic business environment in which new risks may emerge frequently. Accordingly, MMC cautions readers not to place undue reliance on its forward-looking statements, which speak only as of the dates on which they are made. MMC undertakes no obligation to update any such statement to reflect events or circumstances after the date on which it is made.

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ANNUAL REPORT ON FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2006

PART I

ITEM 1. BUSINESS.

References in this report to we, us and our are to Marsh & McLennan Companies, Inc. (MMC) and one or more of it subsidiaries, as the context requires.

GENERAL

MMC is a global professional services firm. Through our subsidiaries, we provide clients with analysis, advice and transactional capabilities across four operating segments:

- **Risk and Insurance Services,** which includes risk management activities (risk advice, risk transfer and risk prevention and mitigation solutions) as well as insurance and reinsurance broking and services;

- **Risk Consulting and Technology,** which includes risk consulting and related investigative, quantitative, intelligence, financial, security and technology services;

- **Consulting,** which includes human resource consulting and related services, and specialized management and economic consulting services; and

- **Investment Management,** which includes investment management for both individual and institutional investors.

Our approximately 55,000 employees serve a diverse range of clients in more than 100 countries. In our Risk and Insurance Services, Risk Consulting and Technology, and Consulting segments, our worldwide client base includes corporations in numerous industries, small and mid-size businesses, governments and other public entities, not-for-profit organizations and individuals. Our Investment Management business serves both institutional and individual investors, primarily in the United States. We provide financial information about our segments in our consolidated financial statements included under Item 8 of this report.

OUR BUSINESSES

Risk and Insurance Services

Risk and Insurance Services is MMC's largest business segment, generating approximately 45% of total operating segments revenue in 2006 and employing approximately 28,000 colleagues worldwide. In this segment, our subsidiaries and other affiliated entities act as brokers, agents, consultants, and advisors for insureds, insurance and reinsurance underwriters and other brokers in the areas of:

- risk management, insurance broking, consulting and insurance program management services, primarily under the name of ***Marsh***; and

- reinsurance broking, catastrophe and financial modeling services and related advisory functions, primarily under the name of ***Guy Carpenter***.

Marsh

Marsh and its subsidiaries, primarily organized under Marsh Inc., operate through a global network of approximately 400 offices in over 100 countries. The Marsh companies provide risk management, insurance broking, consulting and insurance program management services to a wide range of businesses, government entities and professional service organizations around the world. Marsh's clients vary by size, industry, geography and risk exposure.

Client Relationships. In its main risk consulting and insurance broking practice, Marsh employs a team approach to address its clients' individual risk management and insurance needs. Each client relationship is coordinated by a client executive who assembles the resources needed to analyze, measure and manage the client's various risks. The client executive draws from colleagues who specialize in specific industries (e.g., financial services, telecom, life sciences, health care, construction, transportation) and/or risk specialty areas (e.g., property, casualty, workers compensation, environmental, aviation, marine & energy, political risk, financial and professional liability).

Risk Analysis. Marsh's risk and insurance professionals identify, analyze and estimate risks that arise from client operations and assets. These client risks relate to physical damage to property, various liability exposures, and other factors that could result in financial loss, as well as large and complex risks that require access to world insurance and financial markets. Marsh professionals address traditional property and liability risks and a widening range of financial, strategic and operating exposures, including those relating to employment practices, the development and operation of technology resources, intellectual property, the remediation of environmental pollution, mergers and acquisitions, the interruption of revenue streams derived from leasing and credit operations and political risks.

Risk Advice. Marsh advises clients in structuring programs for retaining, mitigating, financing, and transferring risk in combinations that vary according to the client's particular needs and circumstances. In addition to insurance, Marsh might help a client develop risk management strategies that include loss-control services (such as business continuity planning, ergonomic and workplace safety programs and loss information management), or alternative risk financing (such as the securitization of risk, the placement of risk with the capital markets and self-insured programs). Marsh's professionals help clients implement their risk management and mitigation strategies by negotiating and executing transactions with the worldwide insurance and capital markets, establishing and managing specialized insurance companies owned by clients (sometimes known as "captive insurance companies") and implementing various loss-control programs.

Global Consumer Practice and Other Activities. In addition to its main risk management and broking practice described above, Marsh operates a global consumer practice that provides advice, broking and program management services to corporate and association clients globally and to individual and small business clients primarily in the United States. Marsh professionals in this practice design, market and administer a variety of insurance and insurance-related products and services, such as consumer property and casualty programs and life insurance, purchased by an association's or professional group's members or provided to employees of corporate clients as part of a voluntary payroll deduction program. Other areas of the consumer practice include: private client services, which provides specialized risk and insurance programs to high-net-worth individuals and family offices; Marsh financial services, which offers key-person and executive benefit programs, as well as planning and wealth preservation solutions to affluent individuals; and a small commercial practice, which offers standardized insurance programs to small businesses and franchise operations. Marsh subsidiaries also provide insurance support services such as claims collection, claims advocacy, injury management, claims administration, and other insurance- and risk- related services.

Subsidiaries in the Risk and Insurance Services segment, under various names apart from Marsh, also provide underwriting management services to insurers in the United States and Canada, primarily for professional liability coverages.

<u>Guy Carpenter</u>

Guy Carpenter's approximately 2,600 professionals around the world provide their clients with reinsurance solutions that include:

- risk management modeling and advice;
- the placement of reinsurance coverage with reinsurance markets worldwide;
- risk-transfer financing in the capital markets;
- contract and claims management; and
- run-off services administration.

Reinsurance is a form of risk transfer that an insurance company or other risk assumption entity (such as a captive insurer or a governmental entity) purchases in order to reduce its exposure to liability on the insurance policies it has written. The purchaser of reinsurance spreads its risk by transferring (or "ceding") a portion of its underwriting liability to another insurance provider, which is known as the "reinsurer." Reinsurance enables the ceding entity, among other things, to expand its underwriting capacity, stabilize its underwriting results, secure protection against large or unexpected losses, or withdraw from ("run-off") a class or line of business in an orderly fashion.

Acting as a broker or intermediary on all classes of reinsurance, Guy Carpenter places two main types of property and casualty reinsurance. Treaty reinsurance involves the transfer of a portfolio of risks. Facultative reinsurance entails the transfer of part or all of the coverage provided by a single insurance policy.

Guy Carpenter also provides reinsurance services in a broad range of specialty practice areas, including accident and health, agriculture, alternative risk transfer, environmental, general casualty, investment banking, life and annuity, marine and energy, professional liability, program manager solutions, property, retrocessional reinsurance (reinsurance between reinsurers), structured risk, surety, terror risk, and workers compensation. In addition, Guy Carpenter provides its clients with numerous reinsurance-related services, such as actuarial, enterprise risk management, financial and regulatory consulting and portfolio analysis. Guy Carpenters Instrat® unit delivers advanced risk assessment analytics, catastrophe modeling and exposure management tools to assist clients in the reinsurance decision-making process.

Guy Carpenter offers run-off services for inactive clients in North America and elsewhere through Reinsurance Solutions International, LLC and ReSolutions International Limited, respectively. These subsidiaries also offer reinsurance and insurance administration solutions on a fee basis.

Marsh & McLennan Risk Capital Holdings

MMC owns investments in private equity funds and insurance and financial services firms through its subsidiary Marsh & McLennan Risk Capital Holdings (Risk Capital Holdings).

Compensation for Services

Marsh and Guy Carpenter are compensated for brokerage and consulting services primarily through fees paid by clients and commissions paid out of premiums charged by insurance and reinsurance companies. Commission rates vary in amount depending upon the type of insurance or reinsurance coverage provided, the particular insurer or reinsurer, the capacity in which the broker acts

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and negotiations with clients. For billing and other administrative services, Marsh and Guy Carpenter receive interest income on certain funds (such as premiums and claims proceeds) held in a fiduciary capacity for others.

We also receive certain investment-related revenues from Risk Capital Holdings. For a more detailed discussion of revenue sources and factors affecting revenue in our Risk and Insurance Services segment, see Item 7 (Managements Discussion and Analysis of Financial Condition and Results of Operations) of this report.

Risk Consulting & Technology

MMCs Risk Consulting and Technology segment generated 8% of total operating segments revenue in 2006. This segment consists of ***Kroll, Inc***. and its subsidiaries.

Kroll has approximately 3,900 colleagues in 27 countries, and also uses a worldwide network of consultants with specialized expertise. Kroll provides a broad range of investigative, intelligence, financial, security and technology services to corporate, government, institutional and individual clients. Kroll develops, markets and delivers consulting-based services and technology-enabled solutions through four business groups:

- Consulting Services;
- Corporate Advisory & Restructuring;
- Security; and
- Technology Services.

Three of Kroll's four business groups, Consulting Services, Corporate Advisory & Restructuring and Security, provide consulting and related services. Kroll's *Consulting Services Group* provides a wide range of services to help clients mitigate business, financial and physical risks and achieve their legal, operational and financial objectives. This group consists of two primary businesses which operate globally. Business Intelligence & Investigations provides the following services: information gathering and analysis to help clients identify business risks and make informed decisions; conducting investigations to help clients to uncover wrongdoing; litigation support; locating misappropriated assets; and managing programs to protect intellectual property, prevent money laundering and ensure the integrity of vendors. Financial Advisory Services provides a full range of forensic accounting, litigation consulting, and valuation services to help clients uncover fraud, comply with securities and corporate governance regulations, value businesses and assess financial damages for insurance claims and litigation.

The *Corporate Advisory & Restructuring Group* provides domestic and cross-border professional services with the objective of maximizing the value of financially-troubled companies for the benefit of their stakeholders. Working on behalf of companies or creditors in North America and Europe, this group provides interim and crisis management, operational turnaround, strategic advisory, corporate finance, recovery and restructuring, and liquidation services.

The *Security Group* serves clients operating in U.S. and non-U.S. locations, including high risk areas of the world, such as multinational corporations, government agencies, high-net-worth individuals, architectural firms, and private and public sector organizations. Services provided by this group include: security consulting; architectural security engineering; outsourced security operations and management; executive protection; high risk environment intelligence and protective services; crisis and kidnap response; travel safety training programs; and training programs for executives, security professionals and military personnel. The Security Group also includes Kroll's U.S. government services business, which conducts security clearance investigations of government personnel and monitors law enforcement agencies and other public and private entities' compliance with federal consent decrees and other government mandates.

Kroll's fourth business group, *Technology Services*, provides technology-enabled solutions through Kroll Ontrack and Kroll Factual Data, as well as Kroll's Background Screening and Substance Abuse Testing businesses. Kroll Ontrack provides large-scale electronic and paper-based discovery, computer forensics, and data recovery solutions to help companies, law firms, and government agencies quickly and cost-effectively review, manage and produce relevant evidence. Its data recovery solutions are offered in North America, Europe and Asia-Pacific, and its legal technologies solutions are offered in the United States and Canada. Kroll Factual Data offers information services to mortgage and consumer lending businesses, landlords, employers and other business customers in the United States. Kroll's Background Screening business provides employee and vendor background investigations and identity theft services to a wide range of business and non-profit clients worldwide. The Substance Abuse Testing business provides substance abuse testing to corporate, institutional and government clients in the United States, Canada and Europe.

Compensation for Services

Kroll receives compensation in the form of fees paid by clients. These fees are typically earned on an hourly, project, fixed fee or per unit basis. For a more detailed discussion of revenue sources and factors affecting revenue in our Risk Consulting and Technology segment, see Item 7 ("Management's Discussion and Analysis of Financial Condition and Results of Operations") of this report.

Consulting

MMC conducts business in its Consulting segment through Mercer Inc. and its subsidiaries and affiliates. Consulting is MMC's second-largest business segment, generating 35% of total operating segments revenue in 2006 and employing approximately 19,800 colleagues worldwide. Mercer operates through two main business groups, each divided into lines of business, as follows:

- ***Mercer Human Resource Consulting***, consisting of the following lines of business:

Retirement & Investments

Health & Benefits

Talent

Outsourcing

- ***Mercer Specialty Consulting***, consisting of the following lines of business:

Management Consulting

Organizational Design and Change Management

Economic Consulting

Mercer Human Resource Consulting

With approximately 16,700 colleagues in 41 countries, Mercer Human Resource Consulting, or Mercer HR, is a leading global provider of a broad range of human resource (HR) advice and solutions. Mercer HR also provides related financial advice, products and services in the retirement and health and benefits areas. Mercer HRs clients include a majority of the companies in the Fortune 1000 and FTSE 100. Mercer HR also serves medium and small market organizations.

Mercer Human Resource Consulting operates in the following four lines of business:

Retirement & Investments

Working together, the groups within Retirement and Investments offer clients a full suite of retirement advice and solutions.

Mercer Retirement professionals provide consulting advice to corporate, governmental and institutional clients on the design, financial management, administration and communication of a broad range of retirement plans. Mercer consultants offer consulting services in many retirement-related areas, such as defined benefit and defined contribution plans, executive retirement plans, retiree medical benefits and the retiree benefits aspects of mergers and acquisitions.

Through Mercer Investment Consulting, we provide advice to medium and long term investors (either directly or through third parties) on investment strategy and choice of investment managers. Mercer Investment Consulting offers customized guidance at each stage of the investment decision, risk management and investment monitoring process. Mercer consultants in this line of business work with institutional pension fund investors, non-pension investors, third party providers (including funds of managers) and retail intermediaries in more than 35 countries.

Through Mercer Global Investments, we provide global, multi-manager investment solutions to institutional investors (primarily retirement plan sponsors and trustees) and individual investors (in Australia and prospectively in other countries), primarily for investment of their retirement plan assets. Mercer Global Investments offers a diverse range of investment options to meet a full spectrum of risk/ return preferences. We manage 69 investment vehicles across a range of investment strategies in four geographic regions (US, Canada, Europe and Australia/New Zealand). Within this context, we help our clients with: strategy (defining objectives, asset liability analysis, strategic asset allocation); portfolio structuring (implementation, manager selection, draft investment guidelines, trust and custody); and evaluation (performance reporting, cash flow management, manager compliance). As of December 31, 2006, Mercer Global Investments had assets under management of approximately $13.6 billion worldwide.

Health & Benefits

Mercers Health & Benefits professionals work with small, medium and large organizations in the public and private sectors to design, implement, and administer a broad range of employee and retiree health and welfare programs. Mercer Health & Benefits provides clients advice and solutions related to a broad spectrum of health and welfare related issues including health care strategy, health care funding, pharmacy, and disease and absentee management. This support of our clients is provided through traditional consulting as well as commission-based brokerage services in connection with the selection of insurance companies and healthcare providers.

Talent

Mercers Human Capital professionals provide consulting services and related content products to help clients optimize workforce performance. Mercer works with clients to design, analyze and align their compensation and performance management systems, including both executive compensation and broad-based employee compensation programs. Mercers Human Capital business also provides data, software and compensation administration services to help companies manage and operate their compensation and total rewards programs. In addition, Mercer Human Capital advises HR executives on how to improve the efficiency and effectiveness of their companies HR functions. Executing broad human capital and benefits strategies requires a robust communications capability. Within the Human Capital line of business Mercers employee communications business provides this capability to its clients.

Outsourcing

Through Mercer HR Services, Mercer provides outsourced HR administration, technology and business process solutions globally, primarily to Fortune 1000 organizations. Mercer HR Services helps employers reduce costs, streamline operations and improve productivity of HR staff and employees. Our technology, administration and outsourcing services include health and group benefits administration, defined benefit and defined contribution administration and total benefits outsourcing.

Mercer Specialty Consulting

The Mercer Specialty Consulting companies have more than 3,100 colleagues serving clients in over 50 countries. The businesses operate as a portfolio of focused management and economic consulting practices that assist corporate enterprises in the areas of strategy development, operational improvement, risk management, organizational and leadership development, regulatory economics and litigation support.

Mercer Management Consulting, employing approximately 1,100 colleagues, advises on issues of business strategy and operational excellence, primarily serving large corporations in North America, Europe and the Asia Pacific region. Mercer Management consultants help clients anticipate and realize future sources of value growth based on insights into rapidly changing customer priorities, economics and markets.

Mercer Oliver Wyman consultants provide strategy and risk management consulting, primarily to clients in the financial services sector. Mercer Oliver Wyman also provides actuarial consulting services to insurance companies, government entities and other organizations. Mercer Oliver Wyman has approximately 1000 colleagues throughout North America, Europe and the Asia Pacific region.

Lippincott Mercer, with more than 100 colleagues, advises leading corporations around the world on corporate branding, identity and image, and has helped create some of the worlds most recognized brands.

Mercer Delta Organizational Consulting helps CEOs, senior executives, and boards of directors of major global corporations, government agencies, and private institutions transform their business through a unique combination of consulting services and leadership programs. From its offices in North America and Western Europe, Mercer Deltas more than 250 colleagues provide advisory services related to driving growth (both organic and through mergers and acquisitions), accelerating execution of strategy, and building talent. Specific issues on which Mercer Delta has consulted include board and senior leadership effectiveness, executive development, coaching, management of the talent pipeline, organizational design and culture, and transformation management.

National Economic Research Associates, or NERA, is a team of more than 600 colleagues operating worldwide. NERA consultants provide independent research and analysis to achieve practical solutions to highly complex business and legal issues relating to competition, regulation, public policy, strategy, finance and litigation. NERA's clients include corporations, governments, law firms, regulatory agencies, trade associations, and international agencies. Practice areas include the communications industry, where NERA has been involved in nearly every spectrum auction on behalf of the sponsor or a bidder, and transfer pricing, in which NERA professionals advise multinational corporations on the pricing of goods, services and intangible properties that move across different operating units or geographical boundaries.

Compensation for Services

Mercer Human Resource Consulting and the Mercer Specialty Consulting Businesses are compensated for advice and services primarily through fees paid by clients. Mercer Human Resource Consulting Health & Benefits business is compensated through commissions from insurance companies for the placement of insurance contracts (comprising more than half of the revenue) and consulting fees. Mercer Global Investment's discretionary investment management business and certain of Mercer HR Services' defined contribution administration services are compensated through

fees based on assets under management. For a more detailed discussion of revenue sources and factors affecting revenue in the Consulting segment, see Item 7 ("Management's Discussion and Analysis of Financial Condition and Results of Operations") of this report.

Investment Management

MMC conducts business in its Investment Management segment through ***Putnam Investments Trust*** and its subsidiaries. Investment Management generated 12% of total operating segments revenue in 2006 and employs approximately 2,600 colleagues as of January 1, 2007. Primarily through its office in Boston, Massachusetts, Putnam provides investment management and related services through a broad range of investment products, including its own family of mutual funds, which are offered to individual and institutional investors. Putnam has been engaged in the investment management business since 1937 and is one of the largest mutual fund managers in the United States. In addition to its Boston headquarters, Putnam has offices in London and Tokyo.

On January 31, 2007, MMC entered into an agreement with Great-West Lifeco Inc. ("GWL"), a majority-owned subsidiary of Power Financial Corporation, pursuant to which GWL agreed to purchase Putnam for $3.9 billion in cash. The parties expect the transaction to close in mid-2007, subject to regulatory consents and other contractually-provided closing conditions. For more detailed information regarding the sale of Putnam, see Item 7 ("Management's Discussion and Analysis of Financial Condition and Results of Operations") of this report.

Investment Management Services

Putnam provides investment management and related services through a broad range of investment products that are offered directly or through intermediaries to both individual and institutional investors. Products that Putnam sponsors for individual retail investors include a family of open-end and closed-end mutual funds (the "Putnam Funds"), college savings plans, annuity products and offshore products. Putnam also provides investment management services on a separately managed or commingled basis to individuals, corporate profit-sharing and pension funds, state and other governmental and public employee retirement funds, university endowment funds, charitable foundations, collective investment vehicles (both U.S. and non-U.S.) and other domestic and foreign institutional accounts. Putnam also provides investment management services in the capacity of sub-advisor for investment products sponsored or co-sponsored by other institutions.

Putnam manages its mutual funds, institutional client accounts and other portfolios in order to meet varying investment objectives, and to afford investors in the Putnam Funds and other clients the opportunity to allocate their investments among various investment products as their changing needs and worldwide economic and market conditions warrant. The investment process used by Putnam in managing its assets is based upon both fundamental and quantitative research. Fundamental research includes valuation analysis, economic, political, industry and company research, company visits, and the utilization of such sources as company public records and activities, management interviews, company-prepared information, and other publicly available information, as well as analyses of suppliers, customers and competitors. Quantitative analysis includes the analysis of past trends and the use of sophisticated financial modeling to gauge how particular securities may perform. Putnam also incorporates a risk-management capability that analyzes securities across all the Putnam Funds and other portfolios to identify areas of over-concentration and potential risks.

Putnam's assets under management consisted of the following levels and composition at December 31, 2006 and 2005 (in $ billions):

	December 31, 2006	December 31, 2005
Mutual Funds:		
Growth Equity	**$ 26**	$ 31
Value Equity	**37**	37
Blend Equity	**28**	26
Fixed Income	**33**	32
Total Mutual Fund Assets	**124**	126
Institutional:		
Equity	**36**	34
Fixed Income	**32**	29
Total Institutional Assets	**68**	63
Total Ending Assets	**$ 192**	$ 189
The asset information above includes the following:		
Assets from Non-US Investors	**$ 36**	$ 32
Assets in Prime Money Market Funds	**$ 4.3**	$ .5
Average Assets Under Management:		
Quarter	**$ 189**	$ 188
Year-to-Date	**$ 186**	$ 196
Net Flows including Dividends Reinvested:		
Quarter	**$ (0.1)**	$ (6.4)
Year-to-Date	**$ (15.8)**	$ (31.7)
Impact of Market/Performance on Ending Assets Under Management	**$ 18.9**	$ 7.2

Markets for Putnam's Services and Products

Retail. Putnam generally markets its investment products for individual investors to intermediaries such as broker-dealers, financial planners, and registered investment advisers, who use them to meet the investment needs and objectives of their clients' overall investment programs. These products consist of:

- the Putnam Funds;

- insurance products, such as variable annuities and variable life insurance policies, that use mutual funds as the underlying funding vehicles; and

- separately managed accounts and other platforms sponsored by broker-dealers, financial planners and registered investment advisers.

The Putnam Funds are publicly-held investment companies registered under the Investment Company Act of 1940. These retail mutual funds cover a broad range of domestic and international equity, fixed-income, blended and money market investment portfolios. As of December 31, 2006, the Putnam Funds included 96 open-end investment companies (mutual funds), which are available for

investments and withdrawals on most business days; and 11 closed-end funds, which are not available for investments or withdrawals but the shares of which are traded on various major domestic stock exchanges.

Institutional. Putnam provides investment management services and products to defined benefit and defined contribution retirement plans sponsored by corporations, state, municipal and other governmental authorities, retirement plans sponsored by unions under the Taft-Hartley Act, endowments, foundations and other institutional customers. Putnam provides its products and services to defined contribution plans in various ways, including through financial intermediaries, on a bundled basis in conjunction with its affiliate Mercer Human Resources Services, or on an “investment only” basis typically for larger plans. In the employee benefit plan market, investment options are usually selected by the plan sponsors and may include Putnam mutual funds and other Putnam-managed products, as well as employer stock and other investments that are not managed by Putnam. In addition, Putnam offers its investment services directly to employee benefit plans, endowments, foundations and other institutional investors, either as separate accounts or in the form of collective trusts and other pooled vehicles that are made available solely to institutional investors.

International. Putnam provides investment management products and services in a number of international markets, including Europe, Japan, Australia, Canada and several other countries. Putnam markets its products and services to both retail and institutional clients in most of these countries, through direct sales and marketing activities, joint ventures and independent distributors.

Private Equity. Putnam offers private equity and alternative investment funds to institutional and high-net-worth individual investors in conjunction with Thomas H. Lee Partners, L.P., or THL, a private equity firm. Putnam has a joint venture arrangement with THL and THL’s partners in connection with which it owns a minority interest in THL for purposes of participating in THL’s traditional business of managing private equity and leveraged buyout funds. Putnam and certain of its employees also are investors in certain of these private equity and other funds.

Related Financial and Administrative Services

In support of Putnam’s primary investment management business, Putnam subsidiaries provide other related services, including transfer agency, underwriting, distribution, shareholder services, custodial, trustee and other fiduciary services. PFTC, a Massachusetts trust company, serves as transfer agent, dividend disbursing agent, registrar and, until recently, custodian for the Putnam Funds and provides custody services to certain commingled and other accounts. As of December 31, 2006, custody and fund accounting services for the Putnam Funds were transferred to State Street Bank and Trust Company. In the future, Putnam may also transfer custody and fund accounting services for certain commingled and other accounts to an outside service provider.

Putnam Retail Management Limited Partnership, or PRM, a Putnam subsidiary and a registered broker-dealer and member of the National Association of Securities Dealers, or NASD, acts as principal underwriter of the shares of the open-end Putnam Funds, selling primarily through independent broker-dealers, financial planners and financial institutions, including banks, and directly to certain large 401(k) plans and other institutional accounts.

Compensation for Services

Putnam's revenue is derived primarily from investment management and 12b-1 fees received from the Putnam Funds and investment management fees for institutional accounts. Putnam also receives fees from the Putnam Funds for administrative services performed by PFTC. For a more detailed discussion of revenue sources and factors affecting revenue in our Investment Management segment, see Item 7 ("Management's Discussion and Analysis of Financial Condition and Results of Operations") of this report.

Regulation

MMC's activities are subject to licensing requirements and extensive regulation under United States federal and state laws, as well as laws of other countries in which MMC's subsidiaries operate. See Item 1A ("Risk Factors") below for a discussion of how actions by regulatory authorities or changes in legislation and regulation in the jurisdictions in which we operate may have an adverse effect on our businesses.

Risk and Insurance Services. While laws and regulations vary from location to location, every state of the United States and most foreign jurisdictions require insurance market intermediaries and related service providers (such as insurance brokers, agents and consultants, reinsurance brokers, managing general agents and third party administrators) to hold an individual and/or company license from a governmental agency or self-regulatory organization. Some jurisdictions issue licenses only to individual residents or locally-owned business entities; in this case, if MMC has no licensed subsidiary, we may maintain arrangements with residents or business entities licensed to act in such jurisdiction.

Beginning in January 2005, all European Union member states were required to implement the Insurance Mediation Directive. This Directive aims to apply consistent minimum professional standards to insurance intermediaries, including a licensing system based on an assessment of factors such as professional competence, financial capacity and professional indemnity insurance. As member states of the European Union adopt regulations to comply with the Directive, our insurance intermediary operations in the European Union have become or will become subject to enhanced regulatory requirements. In January 2005, as part of the implementation of the Directive in the United Kingdom, the power and responsibilities of the Financial Services Authority, or FSA, were expanded to include regulation of insurance and reinsurance intermediaries in the United Kingdom.

Insurance authorities in the United States and certain other jurisdictions in which MMC's subsidiaries do business, including the FSA in the United Kingdom, also have enacted laws and regulations governing the investment of funds, such as premiums and claims proceeds, held in a fiduciary capacity for others. These laws and regulations typically provide for segregation of these fiduciary funds and limit the types of investments that may be made with them.

Certain of MMC's risk and insurance services activities are governed by other regulatory bodies, such as investment, securities and futures licensing authorities. In the United States, Marsh and Guy Carpenter use the services of MMC Securities Corp., an NASD-registered broker dealer and an indirect, wholly-owned subsidiary of MMC, primarily in connection with investment banking-related services and advising on alternative risk financing transactions. In the European Union, these businesses receive securities transfer services from another MMC subsidiary, MMC Securities Ltd., which is regulated by the FSA for the conduct of investment business in the United Kingdom.

In some jurisdictions, insurance-related taxes may be due either directly from clients or from the insurance broker. In the latter case, the broker customarily looks to the client for payment.

Risk Consulting and Technology. Certain of Kroll's risk consulting and investigative activities are licensed and regulated at the federal, state and local level in the United States and abroad. Many of these activities also involve the use of data from outside sources, including third party vendors and governmental records. As a result, changes in existing, or the implementation of new, laws and regulations, particularly relating to privacy, could interfere with Kroll's historical access to and use of such data. Substance abuse testing laboratories operated by a Kroll subsidiary are certified on the federal level and licensed in a number of states.

Consulting. Certain of Mercer HRs retirement-related consulting services are subject to pension law and financial regulation in many countries, including by the Securities and Exchange Commission, or SEC, in the United States and the FSA in the United Kingdom. In addition, the trustee services, investment services (including advice to individuals on the investment of personal pension assets and assumption of discretionary investment management responsibilities) and retirement and employee benefit program administrative services provided by Mercer Human Resource Consulting and its

subsidiaries and affiliates are subject to investment and securities regulations in various jurisdictions. The benefits insurance consulting and brokerage services provided by Mercer Human Resource Consulting and its subsidiaries and affiliates are subject to the same licensing requirements and regulatory oversight as the insurance market intermediaries described above regarding our Risk and Insurance Services businesses. In the United States, Mercer Human Resource Consulting and Mercer Management Consulting use the services of MMC Securities Corp. primarily in connection with the sale of retirement and employee benefit plans, and investment banking services, respectively.

Investment Management. Virtually all aspects of Putnams investment management business are subject to extensive regulation and supervision by various federal, state, and foreign regulatory authorities. Putnams activities are subject to regulation by the SEC and other federal, state and self-regulatory authorities in the United States, by the FSA in the United Kingdom, by the Financial Services Agency in Japan, and by the national securities regulatory authorities in certain other countries in which it does business. The Investment Advisers Act of 1940 (the Advisers Act) imposes numerous obligations on certain of Putnams subsidiaries which are registered in the United States as investment advisers, including record-keeping, operating and marketing requirements, disclosure obligations and prohibitions on fraudulent activities. The Investment Company Act of 1940 (the 1940 Act) imposes similar obligations on the investment companies that are advised by Putnam. The SEC is authorized to institute proceedings and impose sanctions for violations of the Advisers Act and the 1940 Act, ranging from fines and censure to termination of an investment advisers registration.

Competitive Conditions

MMC faces strong competition in all of its business segments from providers of similar products and services. MMC also encounters strong competition throughout its businesses from both public corporations and private firms in attracting and retaining qualified employees.

Risk and Insurance Services. MMCs combined insurance and reinsurance broking services business is the worlds largest of its kind. The principal bases upon which our insurance and reinsurance businesses compete include the range, quality and cost of the services and products provided to clients. MMC encounters strong competition in the risk and insurance services business from other insurance and reinsurance brokerage firms that operate on a nationwide or worldwide basis, from a large number of regional and local firms in the United States, the European Union and elsewhere, from insurance and reinsurance companies that market and service their insurance products without the assistance of brokers or agents and from other businesses, including commercial and investment banks, accounting firms and consultants, that provide risk-related services and products.

Certain insureds and groups of insureds have established programs of self insurance (including captive insurance companies) as a supplement or alternative to third-party insurance, thereby reducing in some cases their need for insurance placements. There are also many other providers of affinity group and private client services, including specialized firms, insurance companies and other institutions.

The continuing impact of legal and regulatory proceedings concerning our insurance brokerage operations also could affect Marshs competitive position. These proceedings are discussed in more detail in note 16 to the consolidated financial statements included under Item 8 of this report. Please also read our discussion of the risks associated with these proceedings and their impact under Item 1A (Risk Factors) below.

Risk Consulting and Technology. In risk consulting and technology, we face competition from local, regional, national and international firms that provide similar services in the fields of accounting, corporate advisory and restructuring services, investigative and security services, consulting and technology services. Krolls Consulting Services Group faces competition from local, regional, national and international accounting firms and forensic accounting, litigation support, investigative and other specialist and consulting firms. Kroll's Corporate Advisory & Restructuring Group faces competition from national and international accounting firms and specialist recovery firms. Kroll's Security Group faces competition from international and local security firms, government security contractors, and architectural engineering firms. Kroll's Technology Services Group faces competition from small, independent service providers and technology companies.

Consulting. MMC's consulting and HR outsourcing businesses face strong competition from other privately and publicly held worldwide and national companies, as well as regional and local firms. These businesses compete generally on the basis of the range, quality and cost of the services and products provided to clients. Competitors include independent consulting and outsourcing firms, as well as consulting and outsourcing operations affiliated with accounting, information systems, technology and financial services firms.

Mercer Investment Consulting faces competition from many sources, including multi-manager services offered by other investment consulting firms and financial institutions. Mercer Global Investments, Mercer HR's recently established multi-manager business, in particular faces significant competition from better-established rivals with greater experience in that market.

In many cases, clients have the option of handling the services provided by Mercer internally, without assistance from outside advisors.

Investment Management. Putnam's investment management business is highly competitive. Putnam competes with other providers of investment products and services primarily on the basis of the range of investment products offered, investment performance, distribution, scope and quality of shareholder and other services, and general reputation in the marketplace. Sales of Putnam Fund shares are also influenced by general securities market conditions, government regulations, global economic conditions and advertising and sales promotional efforts. Putnam competes with other mutual fund firms and institutional asset managers that offer investment products similar to Putnam's as well as products which Putnam does not offer, including passively managed funds such as index funds. Putnam also experiences competition from a number of mutual fund sponsors that offer their funds to the general public without sales charges, which Putnam does not do.

Many securities dealers, whose large retail distribution systems play an important role in the sale of shares in the Putnam Funds, also sponsor competing proprietary mutual funds. To the extent that such securities dealers value the ability to offer customers a broad selection of investment alternatives, they will continue to sell independent funds, such as Putnam's, notwithstanding the availability of proprietary products. However, to the extent that these firms limit or restrict the sale of Putnam Fund shares through their brokerage systems in favor of their proprietary mutual funds, Putnam's assets under management, and thus Putnam's revenues, might decline.

In addition to the preceding discussion, see "Risk Factors — Competitive Risks," in Part 1A of this report.

Segmentation of Activity by Type of Service and Geographic Area of Operation.

Financial information relating to the types of services provided by MMC and the geographic areas of its operations is incorporated herein by reference to note 17 to the consolidated financial statements included under Item 8 of this report.

Employees

As of January 1, 2007, MMC and its consolidated subsidiaries employed about 55,200 people worldwide, including approximately 28,300 in risk and insurance services, approximately 3,900 in risk consulting and technology, approximately 19,800 in consulting and approximately 2,600 in investment management. Approximately 600 individuals are employed by MMC at the parent-company level.

EXECUTIVE OFFICERS OF MMC

The executive officers of MMC are elected annually by MMCs board of directors. As of March 1, 2007, the following individuals were executive officers of MMC:

Matthew B. Bartley, age 50, is chief financial officer of MMC. Prior to assuming his current position in September 2006, Mr. Bartley was treasurer of MMC, a position he held since joining MMC in April 2001. Previously, Mr. Bartley was vice president of taxes at Engelhard Corporation, a multinational specialty chemicals and precious metals company, with responsibility for tax and transaction planning, execution and reporting. Prior to that role, he served for close to ten years in senior international treasury and tax positions at PepsiCo, Inc., where he was responsible for global strategic transaction planning and execution across international operating businesses.

Michael A. Beber, age 47, is senior vice president and chief strategic development officer of MMC, a position he has held since January 2005. From February 1999 through January 2005, Mr. Beber was executive vice president for strategic development of Kroll Inc. From July 2004 through January 2005 he was also president of Krolls Background Screening Group. From August 1991 to January 1999, Mr. Beber was a principal with Kroll Lindquist Avey, which Kroll acquired in June 1998. Prior to joining Lindquist Avey, Mr. Beber was a partner with BDO LLP, a senior manager with KPMG Peat Marwick, and a senior accountant with PriceWaterhouse.

Peter J. Beshar, age 45, is executive vice president and general counsel of MMC. Before joining MMC in November 2004, Mr. Beshar was a litigation partner in the law firm of Gibson, Dunn & Crutcher LLP. Mr. Beshar joined Gibson, Dunn & Crutcher in 1995 after serving as an Assistant Attorney General in the New York Attorney Generals office.

M. Michele Burns, age 49, is chairwoman and chief executive officer of Mercer Human Resource Consulting. Ms. Burns joined MMC as executive vice president on March 1, 2006, assumed the position of chief financial officer of MMC on March 31, 2006 and moved to her current position with Mercer on September 25, 2006. Prior to joining MMC, Ms. Burns was executive vice president and chief financial officer since May 2004, and chief restructuring officer since August 2004, of Mirant Corporation, an energy company. Prior to joining Mirant, she was executive vice president and chief financial officer of Delta Air Lines, Inc. from August 2000 to April 2004. She held various other positions in the finance and tax departments of Delta beginning in January 1999. Delta filed for protection under Chapter 11 of the United States Bankruptcy Code in September 2005.

Mathis Cabiallavetta, age 62, is vice chairman, office of the CEO of MMC, chairman of MMC International and a member of MMCs International Advisory Board. He is chairman of Marsh AG, Switzerland and a member of the board of directors of Kessler & Co, Switzerland. He is also a member of the board of directors of Altria Group, Inc., vice president of the Swiss American Chamber of Commerce, and a member of the Advisory Board of General Atlantic Partners in New York. Prior to joining MMC in 1999, Mr. Cabiallavetta was chairman of the board of UBS AG, a company he joined in 1971.

Michael G. Cherkasky, age 56, is president and chief executive officer of MMC, a position he has held since October 2004. He also served as chairman and chief executive officer of Marsh Inc. from October 2004 until September 2005. Before its business combination with MMC in July 2004, Mr. Cherkasky was president and chief executive officer of Kroll Inc. Mr. Cherkasky joined Kroll in 1994, becoming president and chief executive officer in 2001. Prior to joining Kroll, Mr. Cherkasky spent 16 years in the criminal justice system, including serving as chief of the Investigations Division for the New York County District Attorneys Office.

John Drzik, 44, is president and chief executive officer of Mercer Specialty Consulting, a position he assumed in June 2006. Mr. Drzik is also president of Mercer Oliver Wyman, which was formed following MMCs acquisition of Oliver, Wyman & Company in 2003. Mr. Drzik joined Oliver, Wyman & Company in 1984, became president in 1995, and was appointed chairman in 2000, a position he held until MMCs acquisition of the firm, when he became president of the new organization.

Simon Freakley, age 45, is president and chief executive officer of Kroll Inc., a position he has held since October 2004. Mr. Freakley was previously a director of Kroll Inc. since June 2003 and head of Krolls Consulting Group since April 2004. He was president of Krolls Corporate Advisory & Restructuring Group from September 2002 until its consolidation with Kroll's Consulting Services Group in April 2004. From 1996 until his appointment as Kroll's CEO, Mr. Freakley was also managing partner of Kroll Ltd. (previously Kroll Buchler Phillips and Buchler Phillips), Kroll's U.K.-based corporate advisory and restructuring subsidiary. Mr. Freakley joined Buchler Phillips in 1992, and in 1999, the firm was acquired by Kroll.

E. Scott Gilbert, age 51, is senior vice president and chief compliance officer of MMC. Prior to joining MMC in January 2005, he had been the chief compliance counsel of the General Electric Company since September 2004. Prior thereto, he was counsel, litigation and legal policy at GE. Between 1986 and 1992, when he joined GE, he served as an Assistant United States Attorney for the Southern District of New York.

Charles E. Haldeman Jr., age 58, is president and chief executive officer of Putnam Investments. Mr. Haldeman joined Putnam in October 2002 as senior managing director and co-head of Investments. He was named president and chief executive officer in November 2003. Before joining Putnam, Mr. Haldeman was president and chief executive officer of Delaware Investments from 2000 to 2002, president and chief operating officer of United Asset Management Corporation from 1998 to 2000, and a partner and director of Cooke & Bieler, Inc. from 1974 to 1998.

David Nadler, age 58, is vice chairman, office of the CEO of MMC and a member of MMC's International Advisory Board. Dr. Nadler founded the Delta Consulting Group, Inc., a consulting firm specializing in executive leadership and organizational change, in 1980. He served as chairman and chief executive officer of that firm until its acquisition by MMC's subsidiary Mercer Inc. in 2000, when it became Mercer Delta Consulting, LLC. Dr. Nadler served as chairman and CEO of Mercer Delta through December 2005 and remains chairman and senior partner of that firm.

Michael A. Petrullo, age 38, is senior vice president and chief administrative officer of MMC. After MMC's acquisition of Kroll in July 2004, Mr. Petrullo became chief financial officer for the risk consulting businesses of Marsh and Kroll until assuming his current position with MMC in January 2005. Mr. Petrullo was chief operating officer and executive vice president of Kroll Inc. from December 2002 to July 2004. Prior thereto, he was deputy chief operating officer of Kroll from June through December of 2002, the acting chief financial officer of Kroll from November 2001 to June 2002, and vice president and controller of Kroll from August 2001 to November 2001. He was vice president-finance of Kroll's Investigations and Intelligence Group from February 1999 until August 2001. He joined Kroll Associates in 1995, serving as assistant controller through February 1998.

David Spiller, 50, is president and chief executive officer of Guy Carpenter & Company, LLC. Prior to assuming his current position on July 1, 2006, he served as president of Guy Carpenter since joining the firm in January 2006. Before joining Guy Carpenter, Mr. Spiller was chief executive officer of Benfield Ltd., the U.K. subsidiary of Benfield Group Limited, a reinsurance and risk intermediary, where he was responsible for all business and offices outside of the United States. In addition to his leadership position with Benfield Ltd., Mr. Spiller was a managing director and held various other management positions with the Benfield Group. He had transitioned to Benfield through its merger with Greig Fester Group in 1997, where he had held the position of chief executive officer since 1995. Mr. Spiller had joined Greig Fester in 1979.

Brian M. Storms, age 52, is chairman and chief executive officer of Marsh Inc. Prior to assuming his current position in September 2005, Mr. Storms was president and chief executive officer of Mercer Human Resource Consulting, which he joined in August of 2004 as vice chairman. Prior to joining Mercer, he served as president since 2001 and then as chief executive officer since July 2002 of UBS Global Asset Management, Americas. Prior thereto, he was president of Mitchell Hutchins, the asset

management subsidiary of Paine Webber, from 1999 until UBS AG's acquisition of Paine Webber Group Inc. in November 2000. From 1996 through 1999 Mr. Storms was president of Prudential Investments.

AVAILABLE INFORMATION

MMC is subject to the informational reporting requirements of the Securities Exchange Act of 1934. In accordance with the Exchange Act, MMC files with the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. MMC makes these reports available free of charge through its website, www.mmc.com, as soon as reasonably practicable after they are filed with the SEC. The public may read and copy such materials at the SECs Public Reference Room at 100 F Street, NE, Washington, DC, 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, such as MMC; the address of that site is http://www.sec. gov.

MMC also posts on its website the following documents with respect to corporate governance:

- Guidelines for Corporate Governance;
- Code of Business Conduct and Ethics;
- procedures for addressing complaints and concerns of employees and others; and
- the charters of the Audit Committee, Compensation Committee, Compliance Committee and Directors and Governance Committee of MMCs Board of Directors.

All of the above documents are available in printed form to any MMC stockholder upon request.

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Item 1A. Risk Factors

In addition to the other information in this report and our other filings with the SEC, you should carefully consider the following risk factors in evaluating MMC and its businesses. The risks described below have the potential to materially adversely affect our business, financial condition or results of operations.

Litigation-Related Risks

Continuing legal and regulatory proceedings concerning MMC may have a material adverse effect on our business, financial condition or results of operations.

In January 2005, MMC and its subsidiary Marsh entered into an agreement (the Settlement Agreement) with the New York State Attorney General (NYAG) and the New York State Insurance Department (NYSID) to settle a civil complaint filed in New York State court by NYAG in October 2004 (the NYAG Lawsuit) and a related citation (the Citation) issued by NYSID at approximately the same time. Among other things, the NYAG Lawsuit and the Citation had alleged that Marshs use of market service agreements with various insurance companies entailed fraudulent business practices, bid-rigging, illegal restraint of trade and other violations of the New York business and insurance statutes, and was not adequately disclosed to Marshs clients or MMCs investors. Following the announcement of the NYAG Lawsuit and related actions taken by MMC, MMCs stock price dropped from approximately $45 per share to a low of approximately $22.75 per share.

Pursuant to the Settlement Agreement, MMC established a fund of $850 million, payable over four years, for policyholder clients in the U.S who placed insurance through Marsh between 2001 and 2004. Approximately 70,000 eligible policyholders have elected to receive an aggregate distribution of approximately $750 million under this fund.

Notwithstanding the Settlement Agreement, numerous other lawsuits have been commenced against us, one or more of our subsidiaries, and our current and former directors and officers, relating to matters alleged in the NYAG Lawsuit. Numerous putative class action suits purportedly brought on behalf of policyholders and our shareholders against us, certain of our subsidiaries and certain of our current and former officers and directors are pending in various federal and state courts and in Canada. Shareholder derivative suits have been filed in various jurisdictions. There are also several actions brought by individual policyholders and additional suits may be filed by other policyholders. The myriad claims asserted in these suits include alleged violations of federal securities and antitrust laws, ERISA, RICO, and other statutory and common law claims, and seek significant damages. In addition, the States of Connecticut and Florida have brought lawsuits against MMC and Marsh.

Further, following the filing of the NYAG Lawsuit, MMC and certain of its subsidiaries received notices of investigations and inquiries, together with requests for documents and information, from attorneys general, departments of insurance and other governmental entities in a significant number of jurisdictions (other than New York) that relate to the allegations in the NYAG Lawsuit. MMC also has been contacted by certain state attorneys general and commissioners of insurance indicating that they may seek additional monetary or other remedies from MMC.

An adverse outcome under any of the lawsuits and regulatory actions involving MMC and its subsidiaries could have a material adverse effect on our business, financial condition or results of operations. The lawsuits and regulatory actions also could result in negative publicity, reputational damage and harm to our client and employee relationships. Any of these developments could negatively affect our business, financial condition or results of operations.

For further information about the above and other legal and regulatory matters involving MMC and its subsidiaries, see note 16 to our consolidated financial statements included under Item 8 of this report.

MMC has agreed to retain specified liabilities of Putnam, the outcome of which may have a material adverse effect on our financial condition or results of operations.

On February 1, 2007, we announced our agreement to sell Putnam to Great-West Lifeco., Inc., which we expect to close in mid-2007. Under the stock purchase agreement relating to the sale, MMC has agreed to indemnify Great-West Lifeco., Inc. for liabilities that may arise in connection with specified regulatory and litigation matters involving Putnam, including certain claims, litigation or investigations relating to “excessive fees” or “market-timing.” The matters for which MMC has retained indemnification obligations are more fully described in note 16 to our consolidated financial statements included under Item 8 of this report. Adverse outcomes in the matters for which MMC has retained indemnification obligations could have a material adverse effect on our financial condition or results of operations.

Risks Relating to Our Business Model and Operations

We may not be as successful as we hope in implementing Marsh’s evolving business model.

Since 2004, Marsh has made significant changes to its business model, including the elimination of market service agreements with insurers. The elimination of market service revenue has negatively affected our financial results. In 2004, we recognized market service revenue of $516 million, relating to insurance placements made before October 1, 2004. In 2005 and 2006, respectively, we recognized $114 million and $43 million of market service revenue relating to placements made before October 1, 2004.

Under MMC’s current business model, Marsh seeks to increase revenue through higher commissions and fees that are disclosed to its clients, and to generate profitable revenue growth by focusing on the provision of value-added risk advisory services beyond traditional brokerage activities. Marsh’s current business and compensation model continues to evolve and in some respects remains untested. We cannot be certain that it will generate the profitable revenue growth we are targeting. The inability to derive adequate revenues from Marsh’s current business and compensation model may significantly impede improvement in our operating results and profitability.

We may not achieve all the cost savings and operational improvements we expect from our September 2006 restructuring initiative and other changes to our MMC-wide operating model.

In September 2006, we announced a series of restructuring and other initiatives designed to enhance MMC’s operational efficiency and improve our profitability. These initiatives, which involve information technology, real estate, corporate functions, and operating company business processes, are expected to yield annualized savings of approximately $350 million by the end of 2008, with associated charges of approximately $225 million. We cannot be certain that we will achieve our targeted cost savings and operational improvements on the announced timetable, or at all. If we do not, the impact of the 2006 restructuring initiatives on our operating margin will not be as significant as we currently expect.

In addition, MMC believes that future revenue growth will partly depend on increased collaboration among MMCs operating companies in accessing their respective client bases. Similarly, MMC believes that improvements to its future operating efficiency will depend on its ability to rationalize and consolidate business processes and infrastructure across the entire company. Our attempt to achieve these goals entails risks because MMC, due in part to its history of growth through acquisitions, has not traditionally operated in the integrated fashion that management currently envisions. For example, to achieve the above goals we must improve and rationalize our technology infrastructure; standardize a variety of business operational functions; develop increasingly scalable services; improve our ability to market services across our operating companies; create compensation systems that track

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and reward cross-business collaboration; and market MMCs brands in a more unified manner. Any inability to execute these changes may significantly impede improvement in our operating results and profitability.

We are subject to significant uninsured exposures arising from errors and omissions claims.

MMCs operating companies provide numerous services for clients around the world. For example, Marsh advises on and places insurance coverage, and sometimes provides related services such as risk management advice and claims management and collections. Guy Carpenter performs similar services in its role as a reinsurance broker. Mercer renders a variety of consulting and investment management services. As a result of these and other activities, MMC operating companies are potentially subject to errors and omissions, or E&O, claims by clients and third parties who may allege that they were damaged as a result of MMCs failure to perform its duties as expected. MMC works hard to minimize its potential E&O exposures by, among other things, prevention and remediation efforts and employee education/training, but it is not possible to prevent E&O exposures completely. When E&O claims do arise, claimants often seek monetary damages. In the case of Marsh and Guy Carpenter, claimants may allege losses representing the value of insurance or reinsurance coverage lost due to broker negligence. In the case of Mercer, claimants may allege losses due to negligent investment or consulting advice.

E&O claims in any given case can be significant and may subject MMC, in addition to potential liability for monetary damages, to reputational harm and diversion of personnel and management resources. Since 2001, the worldwide market for professional liability insurance for E&O claims in the financial services industry has contracted significantly, which has caused MMC to assume increasing levels of self-insurance for its potential E&O exposures. MMC uses internal actuarial and other estimates, and case-level reviews by inside and outside counsel, to establish loss reserves which it believes are adequate to provide for this self-insured retention. These reserves are reviewed quarterly and adjusted as developments warrant. Nevertheless, given the unpredictability of E&O claims and of litigation which could flow from them, it is possible that an adverse outcome in a particular matter could have a material adverse effect on MMCs financial condition or results of operations in a given quarterly or annual period. For further information about our E&O exposure and related insurance coverage, including self-insurance, see note 16 to our consolidated financial statements appearing under Item 8 of this report.

Credit rating downgrades could negatively affect our financing costs if we need to raise additional capital.

MMCs credit rating was lowered following the filing of the NYAG Lawsuit in October 2004, and both Moodys and Standard & Poors currently have MMC on a negative credit outlook. If we need to raise capital in the future (for example, in order to fund maturing debt obligations or finance acquisitions or other initiatives), any further credit rating downgrade could negatively affect our financing costs or access to financing sources.

We may not be able to successfully integrate the businesses we acquire.

We have a history of numerous acquisitions, including our $1.9 billion acquisition of Kroll in July 2004; nine acquisitions in 2005 for total consideration of $68 million; and 16 acquisitions in 2006 for total consideration of $200 million. We expect that acquisitions will continue to be a part of our growth strategy.

Acquired businesses may not achieve the levels of revenue, profit or productivity we anticipate or otherwise perform as we expect. In addition, acquisitions involve special risks, including the potential assumption of unanticipated liabilities and contingencies and difficulties in integrating acquired

businesses. While we intend that our acquisitions will improve our competitiveness and profitability, we cannot be certain that our past or future acquisitions will be accretive to earnings or otherwise meet our operational or strategic expectations.

We are exposed to multiple risks associated with the global nature of our operations.

We do business worldwide, and we plan to expand our operations further into Asia and other foreign markets. This subjects us to significant legal, economic, operational and market risks. These risks include, among others:

- the economic and political conditions in foreign countries;
- the imposition of local investment or other restrictions by foreign governments;
- potential costs and difficulties in complying, or monitoring compliance, with rules relating to trade sanctions administered by the U.S. Office of Foreign Assets Control, the requirements of the U.S. Foreign Corrupt Practices Act and the rules thereunder, or other U.S. laws and regulations applicable to business operations abroad;
- the imposition of controls or limitations on the conversion of foreign currencies or remittance of dividends and other payments from foreign subsidiaries;
- the imposition of withholding and other taxes on remittances and other payments from subsidiaries;
- difficulties in monitoring employees in geographically dispersed locations; and
- potential costs and difficulties in complying with a wide variety of foreign laws and regulations administered by foreign government agencies.

Some of our subsidiaries in foreign countries receive revenue that differs from their functional currencies. Also, we generally must translate the financial results of our foreign subsidiaries into U.S. dollars. Although we may use derivative financial instruments to help protect against adverse effects due to exchange rate fluctuations, we cannot eliminate these risks, and significant changes in exchange rates may have an adverse effect on our financial results.

Competitive Risks

Each of our businesses operates in a highly competitive environment.

We encounter strong competition for talent in our risk and insurance services business. This competition comes from other insurance brokerage firms which also operate on a nationwide or worldwide basis, from a large number of regional and local firms throughout the world, from insurance and reinsurance companies that market and service their insurance products without the assistance of brokers or agents and from other businesses that provide risk-related services. Our consulting and risk consulting and technology businesses compete with independent consulting firms and organizations affiliated with accounting, information systems, technology and financial services firms around the world, and experience significant competition for talent. Any inability to respond successfully to this competition could have a material negative impact on our business or results of operations.

In addition, growing competition due to new legislative or industry developments could adversely affect us. These developments include:

- the selling of insurance by insurance companies directly to insureds without the involvement of a broker or other market intermediary;
- changes in our business compensation model as a result of regulatory investigations;

- an increase in competition from existing or recently-formed insurance brokers who have not agreed to limit their use of market service arrangements, thereby giving them a competitive advantage over those brokers, such as Marsh, which have agreed to limit the use of such arrangements;
- the establishment of programs in which state-sponsored entities provide property insurance or reinsurance or other alternative types of coverage in catastrophe-prone areas; and
- the creation of in-house servicing capabilities by insurance companies or by certain insurance consumers which compete with the third party administration and other administration, servicing and risk management products offered by our consulting and risk consulting and technology segments.

Increased competition as a result of these developments could cause the supply of, and demand for, our products and services to change, which could adversely affect our results of operations and financial condition.

We may experience loss of key personnel and clients.

Across all of our businesses, we must preserve our capabilities to serve clients and the capacity to support staff development. Retention of our employees therefore is critical to us, and the loss of key managerial personnel or significant revenue producers could have a material adverse effect on our business and results of operations. Since late 2004 we have developed compensation programs to retain, motivate, and reward certain key employees, but we cannot be certain of our ability to retain our key employees or attract similar new employees in the future. In addition, as a result of the recent legal and regulatory matters referred to above under Litigation-Related Risks, as well as Marshs newly competitive business environment, we may lose important clients or experience difficulty in generating new business. In that event, our business or results of operations could be materially adversely affected.

Regulatory Risks

Actions by regulatory authorities or changes in legislation and regulation in the jurisdictions in which we operate may have an adverse effect on our business.

Our activities are subject to licensing requirements and extensive regulation under the laws of the United States and its various states, the European Union and the European and other countries in which our subsidiaries operate. Some of this regulation has only recently been instituted; for example, in January 2005, as part of the United Kingdoms implementation of the EU Insurance Mediation Directive, our insurance and reinsurance services activities in the United Kingdom came under the jurisdiction of the Financial Services Authority. Many of our businesses depend on the validity of, and continued good standing under, the licenses and approvals pursuant to which they operate, as well as compliance with applicable regulations.

In all jurisdictions, applicable laws and regulations are subject to amendment or interpretation by regulatory authorities. Generally, such authorities are vested with relatively broad discretion to grant, renew and revoke licenses and approvals, and to implement regulations. Licenses may be denied or revoked for various reasons, including the violation of such regulations, conviction of crimes and similar matters. Possible sanctions that may be imposed include the suspension of individual employees, limitations on engaging in a particular business for specified periods of time, revocation of licenses, censures, redress to clients and fines. In some instances, we follow practices based on our interpretations, or those generally followed by the industry, of laws or regulations, which may prove to be different from those of regulatory authorities. Accordingly, the possibility exists that we may be precluded or temporarily suspended from carrying on some or all of our activities or otherwise fined or penalized in a given jurisdiction.

We cannot be certain that our risk and insurance services, consulting and risk consulting and technology activities will continue to be conducted in any given jurisdiction as they have been in the past. Any significant impairment of our ability to conduct our business as we historically have done could have a material adverse effect on our business, financial condition or results of operations. For further information about regulatory conditions affecting our business segments, see Item 1 (Business) of this report.

Risks Related to The Risk and Insurance Services Business

Volatility or declines in premiums and other trends in the insurance and reinsurance markets may significantly impede our ability to generate improved revenue growth and profitability.

MMCs risk and insurance services segment represented 45% of our total operating segment revenue in 2006. We derive much our revenue in that segment from fees paid by clients and commissions paid out of premiums charged by insurance and reinsurance providers. We do not determine the insurance premiums on which much of our revenues are based, and these premiums may vary widely over market cycles or across coverage types or geographic locations conditions. For example, for several years through late 2000, heavy competition for market share among insurance carriers, increased underwriting capacity and improved economies of scale following consolidations resulted in flat or reduced premium rates (a soft market), which in turn put downward pressure on Marshs and Guy Carpenters commission revenue in many lines and in many geographic areas. The insurance industry then transitioned to a hard market, in which premium rates were stable or increasing, particularly following the events of September 11^{th}. Since 2004, the market has again softened in many lines and in geographic areas, although, within that general pattern, an unusually high incidence of hurricanes and other natural disasters periods has hardened the market in certain geographic areas and business lines. Because of these market fluctuations, which MMC cannot predict or control, revenues and profitability in our risk and insurance services segment may be volatile or subject to downward pressure.

In addition, we may continue to witness trends toward the development of alternative insurance markets, which deprive brokers of the opportunity to generate premium-based revenue. These trends include greater levels of self-insurance by corporations and other entities, the use of captive insurers and the advent of capital markets-based solutions to traditional insurance needs. While Marsh and Guy Carpenter historically have been able to participate in some of these activities on behalf of their customers, and have obtained fee revenue for such services, the continuation of trends like the foregoing may impede our ability to improve revenues and profitability in our risk and insurance services segment.

Risks Related to the Consulting and Risk Consulting and Technology Businesses

In addition to engaging in the risk and insurance services industry through Marsh and Guy Carpenter, MMC participates significantly in the consulting industry and related activities. Our consulting segment, consisting of Mercer HR and Mercer Specialty, represented 35% of our total operating segment revenue in 2006 and our risk consulting and technology segment, consisting of Kroll, contributed 8%. These businesses entail their own risks.

Demand for Mercers and Krolls services may decrease for various reasons, including a general economic downturn or a decline in a clients or an industrys financial condition.

We cannot be certain that demand for our consulting and risk consulting and technology services will continue to grow, or that we will compete successfully with existing or new competitors. Demand for our services also may change based on the evolving needs or financial circumstances of our clients. Economic downturns affecting particular clients or industry groups could reduce demand for our services and increase price competition.

In addition, the demand for many of Mercer HRs benefits services is affected by government regulation and taxation of employee benefits plans. This regulation and taxation drive our clients needs for compliance-related services. Significant changes in tax or social welfare policy or regulations could lead some employers to discontinue their employee benefit plans, including defined benefit pension plans, thereby reducing the demand for our services. A simplification of regulations or tax policy also could reduce the need for our services.

Our results may suffer if we are unable to achieve or maintain adequate utilization and suitable billing rates for our consultants.

In many cases, Mercer's and Kroll's clients are free to terminate our engagements at any time. If clients reduce the scope of, or terminate the use of our services with little or no notice, our consultant utilization rate might decline. In that case, we must rapidly re-deploy our consultants to other engagements in order to minimize the potential negative impact on our financial performance. Moreover, because a significant portion of our work is project-based rather than recurring in nature, our consultants' utilization depends on our ability to continually secure additional engagements.

In addition, our profitability at Mercer and Kroll is largely a function of the rates we are able to charge for our services and the staffing costs for our personnel. Accordingly, if we are not able to maintain the rates we charge for our services or appropriate staffing costs of our personnel, we will not be able to sustain our profit margin and our profitability will suffer. The prices we are able to charge for our services are affected by a number of factors, including:

- clients' perception of our ability to add value through our services;
- market demand for the services we provide;
- our ability to develop new services and the introduction of new services by competitors;
- the pricing policies of our competitors; and
- general economic conditions.

If we are unable to achieve and maintain adequate overall utilization as well as maintain or increase the billing rates for our consultants, our financial results could materially suffer.

Quarterly revenues and profitability may fluctuate significantly in our consulting and risk consulting and technology segments.

Quarterly variations in Mercer's and Kroll's revenues and operating results may occur due to several factors. These include:

- the significance of client engagements commenced and completed during a quarter;
- the unpredictability of the timing and amount of success fees, particularly at Kroll;
- the possibility that clients may decide to delay or terminate a current or anticipated project as a result of factors unrelated to our work product or progress;
- fluctuations in consultant hiring and utilization rates and clients' ability to terminate engagements without penalty;
- the success of strategic acquisitions, alliances or investments; and
- general economic conditions, since results of operations in our consulting businesses are directly affected by the level of business activity of our clients, which in turn are affected by the level of economic activity in the industries and markets that they serve.

In addition, a significant portion of total operating expenses at Mercer and Kroll is relatively fixed. Therefore, a variation in the number of client assignments or in the timing of the initiation or the completion of client assignments can cause significant variations in quarterly operating results for these businesses.

Acceleration of the shift by employers from defined benefit plans to defined contribution plans could adversely affect Mercer HRs operating results.

Mercer HR currently provides clients with actuarial and consulting services relating to both defined benefit and defined contribution plans. Defined benefit pension plans generally require more services than defined contribution plans because defined benefit plans typically involve large asset pools, complex calculations to determine employer costs, funding requirements and sophisticated analysis to match liabilities and assets over long periods of time. If organizations shift to defined contribution plans more rapidly than we anticipate and we do not adjust our service offerings to take account of that change, Mercer HRs operating results could be adversely affected.

Item 1B. Unresolved Staff Comments.

There are no unresolved comments to be reported pursuant to Item 1B.

Item 2. Properties.

MMC and its subsidiaries have major office locations in and around New York, London and Boston. We also maintain other offices around the world.

MMC and certain of its subsidiaries, including Marsh USA Inc., Mercer Human Resource Consulting, Inc. and Mercer Management Consulting, Inc., own, directly and indirectly through special-purpose subsidiaries, a 55% condominium interest covering approximately 894,000 square feet in a 44-story building in midtown Manhattan in New York City, which serves as MMCs worldwide headquarters. MMCs owned interest is financed by a loan that is non-recourse to MMC (except in the event of certain prohibited actions) and secured by a first mortgage lien on the condominium interests and a first priority assignment of leases and rents. In the event of a default in the payment of the loan and certain credit rating downgrade events, MMC would be obligated to pay rent for the entire occupancy of the mortgaged property. MMC leases an additional 556,000 square feet of space in its headquarters building of which 322,000 square feet has been subleased to third parties. MMC and its subsidiaries lease an additional 673,000 square feet in various locations around New York City in support of its operations, including a lease covering approximately 420,000 rentable square feet in a building in Hoboken, New Jersey.

The principal offices of the Marsh and Mercer subsidiaries in the United Kingdom currently are located in the City of London, comprising 354,000 square feet under a long term lease. Marsh and Mercer subsidiaries lease an additional 362,000 square feet of office space in and around London in support of their operations, of which approximately 209,000 square feet are subleased to third parties.

The principal executive offices of the Putnam subsidiaries comprise approximately 300,000 square feet of leased space located in the financial district of Boston, Massachusetts. Putnam also leases approximately 656,000 square feet in various locations in the Boston area for investor services and other activities in support of its operations.

Item 3. Legal Proceedings.

Information regarding legal proceedings is set forth in note 16 to the consolidated financial statements appearing under Item 8 (Financial Statements and Other Supplementary Data) of this report.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for MMC’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

For information regarding dividends paid and the number of holders of MMC’s common stock, see the table entitled “Selected Quarterly Financial Data and Supplemental Information (Unaudited)” on the last page of Item 8 (“Financial Statements and Other Supplementary Data”) of this report.

MMC’s common stock is listed on the New York, Chicago and London stock exchanges. The high and low stock prices (NYSE composite quotations) for our common stock for each quarterly period and year in 2006 and 2005 are as follows:

	2006 Stock Price Range		2005 Stock Price Range	
	High	Low	High	Low
First Quarter	$32.73	$28.94	$34.25	$27.00
Second Quarter	$31.29	$25.90	$30.90	$26.87
Third Quarter	$29.49	$24.00	$30.50	$26.67
Fourth Quarter	$32.47	$27.27	$33.42	$26.79
Full Year	$32.73	$24.00	$34.25	$26.67

On February 27, 2007, the closing price of MMC’s common stock on the NYSE was $29.28.

The following table sets forth information regarding MMC’s purchases of its common stock on a monthly basis during the fourth quarter of 2006. Share repurchases are recorded on a trade date basis.

Issuer Repurchases of Equity Securities

Period	**(a) Total Number of Shares Purchased**	**(b) Average Price Paid per Share**	**(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)**	**(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs**
October 1, 2006 – October 31, 2006	0	—	0	49,904,636
November 1, 2006 – November 30, 2006	0	—	0	49,904,636
December 1, 2006 – December 31, 2006	0	—	0	49,904,636
Total	0	—	0	49,904,636

(1) On March 18, 1999, MMC’s board of directors authorized the repurchase of up to 40 million shares of MMC’s common stock, and on May 18, 2000 the board further authorized the repurchase of up to an additional 88 million shares. There is no expiration date specified under either of these authorizations. While MMC made no share repurchases in 2005 or in 2006, in previous years MMC has repurchased, and in the future may repurchase, shares of its common stock, on the open market or otherwise, for treasury and to meet requirements for the issuance of shares relating to MMC’s various stock compensation and benefit programs. The timing and level of MMC’s share repurchase activity may be affected by MMC’s priorities relating to the use of its cash flows for a variety of purposes. These purposes may include, in addition to share repurchases, the funding of dividends, acquisitions, investments, pension contributions and debt reduction.

Item 6. Selected Financial Data.

Marsh & McLennan Companies, Inc. and Subsidiaries
FIVE-YEAR STATISTICAL SUMMARY OF OPERATIONS

For the Years Ended December 31, *(In millions except per share figures)*	**2006**	2005[b]	2004[b]	2003	2002	Compound Growth Rate 2001-2006
Revenue:						
Service Revenue	**$ 11,699**	$ 11,395	$ 11,527	$ 11,100	$ 10,039	4%
Investment Income (Loss)	**222**	183	200	100	67	
Total Revenue	**11,921**	11,578	11,727	11,200	10,106	4%
Expenses:						
Compensation and Benefits	**7,113**	6,897	6,685	5,710	5,025	9%
Other Operating Expenses	**3,350**	3,788	3,476	3,032	2,845	1%
Regulatory and Other Settlements	**—**	40	969	10	—	
Total Expenses	**10,463**	10,725	11,130	8,752	7,870	6%
Operating Income	**1,458**[a]	853[a]	597[a]	2,448	2,236	(3)%
Interest Income	**64**	47	21	24	19	
Interest Expense	**(303)**	(332)	(219)	(185)	(160)	
Income Before Income Taxes and Minority Interest	**1,219**	568	399	2,287	2,095	(5)%
Income Taxes	**388**	191	239	751	731	
Minority Interest, Net of Tax	**13**	10	8	20	18	
Income From Continuing Operations	**818**	367	152	1,516	1,346	(3)%
Discontinued Operations, Net of Tax	**172**	37	24	24	19	70%
Net Income	**$ 990**	$ 404	$ 176	$ 1,540	$ 1,365	—
Basic Income Per Share Information:						
Income From Continuing Operations	**$ 1.49**	$ 0.68	$ 0.29	$ 2.85	$ 2.49	(3)%
Income From Discontinued Operations	**$ 0.31**	$ 0.07	$ 0.04	$ 0.04	$ 0.03	73%
Net Income	**$ 1.80**	$ 0.75	$ 0.33	$ 2.89	$ 2.52	—
Average Number of Shares Outstanding	**549**	538	526	533	541	
Diluted Income Per Share Information:						
Income From Continuing Operations	**$ 1.45**	$ 0.67	$ 0.29	$ 2.77	$ 2.42	(3)%
Income From Discontinued Operations	**$ 0.31**	$ 0.07	$ 0.04	$ 0.04	$ 0.03	60%
Net Income	**$ 1.76**	$ 0.74	$ 0.33	$ 2.81	$ 2.45	1%
Average Number of Shares Outstanding	**557**	543	535	548	557	
Dividends Paid Per Share	**$ 0.68**	$ 0.68	$ 1.30	$ 1.18	$ 1.09	(8)%
Return on Average Stockholders' Equity	**18%**	8%	3%	29%	27%	
Year-end Financial Position:						
Working capital	**$ 285**	$ 911	$ 256	$ 189	$ (199)	
Total assets	**$ 18,137**	$ 17,892	$ 18,498	$ 15,053	$ 13,855	
Long-term debt	**$ 3,860**	$ 5,044	$ 4,691	$ 2,910	$ 2,891	
Stockholders' equity	**$ 5,819**	$ 5,360	$ 5,056	$ 5,451	$ 5,018	
Total shares outstanding (net of treasury shares)	**552**	546	527	527	538	
Other Information:						
Number of employees	**55,500**	54,900	63,900	60,400	59,400	
Stock price ranges —						
U.S. exchanges — High	**$ 32.73**	$ 34.25	$ 49.69	$ 54.97	$ 57.30	

Low	**$ 24.00**	$ 26.67	$ 22.75	$ 38.27	$ 34.61

(a) Includes net restructuring costs of $87 million, $317 million and $337 million in 2006, 2005 and 2004, respectively.

(b) Certain balances have been reclassified to conform with current presentation. See Note 1 to the Consolidated Financial Statements.

See Managements Discussion and Analysis of Financial Condition and Results of Operations, appearing under Item 7 of this report, for discussion of significant items affecting our results of operations in 2006 and 2005.

Item 7. Managements Discussion and Analysis of Financial Condition and Results of Operations.

General

Marsh & McLennan Companies, Inc. and Subsidiaries (MMC) is a global professional services firm. MMCs subsidiaries include Marsh Inc. (Marsh), which provides risk and insurance services; Guy Carpenter & Company, LLC (Guy Carpenter), which provides reinsurance services; Kroll Inc. (Kroll), which provides risk consulting and technology services; Mercer Inc. (Mercer), which provides human resource and specialty consulting services; and Putnam Investments (Putnam), which provides investment management services. MMCs approximately 55,000 employees worldwide provide analysis, advice and transactional capabilities to clients in over 100 countries.

MMC operates in four principal business segments based on the services provided. Risk and Insurance Services includes risk management and insurance and reinsurance broking and services, provided primarily by Marsh and Guy Carpenter. Risk Consulting & Technology, conducted through Kroll, includes risk consulting and related investigative, intelligence, financial, security and technology services. Consulting, which comprises the activities of Mercer Human Resource Consulting and Mercers Specialty Consulting Businesses, includes human resource consulting and related services, and specialized management and economic consulting services. We conduct Investment Management through Putnam. Please see Note 18 to the consolidated financial statements, which discusses MMCs agreement to sell Putnam to Great-West Lifeco Inc. A fuller description of our segments business activities is included in Part I, Item 1 of this report.

We describe the primary sources of revenue and categories of expense for each segment below, in our discussion of segment financial results. Management evaluates performance based on segment operating income, which reflects expenses directly related to segment operations, but not MMC corporate-level expenses. A reconciliation of segment operating income to total operating income is included in Note 17 to the consolidated financial statements included elsewhere in this report. The accounting policies used for each segment are the same as those used for the consolidated financial statements.

This MD&A contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. See Information Concerning Forward-Looking Statements at the outset of this report.

Significant Developments in 2006

MMCs historical financial information should be viewed in light of the significant developments discussed below.

As described more fully below, results of operations in 2006 reflect, among other items:

- stock option expense under SFAS 123(R) (Share-Based Payment), which MMC adopted effective July 1, 2005. MMCs 2006 results include stock option expense in each segment for the full year. The 2005 results reflect a charge for six months (from the date of adoption on July 1, 2005) recorded in corporate expenses;
- restructuring savings and charges under MMCs 2005 and 2006 restructuring plans;
- the sale of Sedgwick Claims Management Services in the first quarter of 2006, the gain from which appears in discontinued operations;
- the sale of Price Forbes, MMCs U.K.-based wholesale brokerage business in the third quarter of 2006, the loss from which, net of current year earnings, is included in discontinued operations;

- the sale of Kroll Security International (KSI), Kroll's international high-risk asset and personal protection division in the fourth quarter of 2006, the gain from which, net of current year operating loss, is included in discontinued operations; and
- the continuing decline in market service revenues in the risk and insurance services segment.

Consolidated Results of Operations

For the Years Ended December 31,

(In millions, except per share figures)	**2006**	2005	2004
Revenue:			
Service revenue	**$ 11,699**	$ 11,395	$ 11,527
Investment income (loss)	**222**	183	200
Operating revenue	**11,921**	11,578	11,727
Expense:			
Compensation and benefits	**7,113**	6,897	6,685
Other operating expenses	**3,350**	3,788	3,476
Settlement and other costs	—	40	969
Operating expenses	**10,463**	10,725	11,130
Operating income	**$ 1,458**	$ 853	$ 597
Income from Continuing Operations	**$ 818**	$ 367	$ 152
Discontinued Operations, net of tax	**172**	37	24
Net income	**$ 990**	$ 404	$ 176
Income from Continuing Operations Per Share:			
Basic	**$ 1.49**	$ 0.68	$ 0.29
Diluted	**$ 1.45**	$ 0.67	$ 0.29
Net Income Per Share:			
Basic	**$ 1.80**	$ 0.75	$ 0.33
Diluted	**$ 1.76**	$ 0.74	$ 0.33
Average number of shares outstanding:			
Basic	**549**	538	526
Diluted	**557**	543	535

Consolidated operating income in 2006 increased 71% to $1.5 billion, resulting from a 3% increase in operating revenue and a 2% decrease in operating expenses. Revenue increases in consulting and risk consulting & technology were partly offset by decreases in risk and insurance services and investment management. The decrease in operating expenses reflects cost savings from restructuring activities, reduced net restructuring and related charges as well as lower costs related to several significant expense items, discussed in more detail below under "Consolidated Revenue and Expense". These expense savings were partly offset by incremental costs, primarily related to stock options under SFAS 123(R).

Results from discontinued operations in 2006 were $172 million net of tax, primarily resulting from the gain on the sale of Sedgwick Claims Management Services in January 2006. In the third quarter of 2006, MMC completed the sale of Price Forbes, its U.K.-based wholesale insurance broker. The loss on the disposal of Price Forbes and net income associated with its 2006 results are included in discontinued operations. The results of Price Forbes were insignificant to MMC's 2005 results and, therefore, prior year amounts have not been restated. In the fourth quarter of 2006, Kroll completed the sale of Kroll Security International ("KSI"), its international high-risk asset and personal protection division. The gain on the disposal of KSI, and the financial results associated with 2006 and prior periods, are included in discontinued operations.

Consolidated Revenues and Expenses

Consolidated revenue for the year ended December 31, 2006 was $11.9 billion, a 3% increase over the prior year. Higher revenue in the consulting and risk consulting & technology segments was partly offset by lower revenue in the risk and insurance services and investment management segments. Consolidated revenue increased 3% on an underlying basis, which includes the impact of a $71 million reduction in market services revenue.

MMC does business in over 100 countries, as a result of which the impact of foreign exchange rate movements may impact period-to-period comparisons of revenue. Similarly, the revenue impact of acquisitions and dispositions may affect period-over-period comparisons of revenue. Underlying revenue measures the change in revenue from one period to another by identifying these impacts. The impact of foreign currency translations, acquisitions and dispositions on MMC’s operating revenues by segment is as follows:

	Twelve Months Ended December 31,			**Components of Revenue Change**		
			% Change		**Acquisitions/**	
(In millions, except percentage figures)	**2006**	2005	**GAAP Revenue**	**Currency Impact**	**Dispositions Impact**	**Underlying Revenue**
Risk and Insurance Services						
Insurance Services	**$ 4,390**	$ 4,567	(4)%	—	(2)%	(2)%
Reinsurance Services	**880**	836	5%	—	—	5%
Risk Capital Holdings (a)	**193**	189	2%	—	(5)%	7%
Total Risk and Insurance Services	**5,463**	5,592	(2)%	—	(2)%	—
Risk Consulting & Technology (b)	**979**	872	12%	—	3%	9%
Consulting						
Human Resource Consulting	**3,021**	2,794	8%	1%	—	7%
Specialty Consulting	**1,204**	1,008	19%	1%	2%	16%
Total Consulting	**4,225**	3,802	11%	1%	1%	9%
Investment Management	**1,385**	1,506	(8)%	—	—	(8)%
Total Operating Segments	**$12,052**	$11,772	2%	—	—	2%
Corporate/Eliminations	**(131)**	(194)				
Total Revenue	**$11,921**	$11,578	3%	—	—	3%

	Twelve Months Ended December 31,			Components of Revenue Change		
			%Change		Acquisitions/	
(In millions, except percentage figures)	2005	2004	GAAP Revenue	Currency Impact	Dispositions Impact	Underlyin Revenue
Risk and Insurance Services						
Insurance Services	$ 4,567	$ 5,166	(12)%	1%	—	(13)%
Reinsurance Services	836	859	(3)%	1%	—	(4)%
Risk Capital Holdings (a)	189	180	5%	—	(8)%	13%
Total Risk and Insurance Services	5,592	6,205	(10)%	1%	—	(11)%
Risk Consulting & Technology (b)	872	371	135%	(1)%	114%	22%
Consulting						
Human Resource Consulting	2,794	2,786	—	1%	—	(1)%
Specialty Consulting	1,008	851	19%	—	1%	18%
Total Consulting	3,802	3,637	4%	1%	—	3%
Investment Management	1,506	1,710	(12)%	—	—	(12)%
Total Operating Segments	$ 11,772	$ 11,923	(1)%	1%	4%	(6)%

Corporate/Eliminations	(194)	(196)				
Total Revenue	$ 11,578	$ 11,727	(1)%	1%	4%	(6)%

(a) Risk Capital Holdings owns MMC’s investments in private equity funds, insurance and financial services firms.

(b) Certain reclassifications have been made to prior year amounts to conform with current presentation. The data presented excludes the KSI division, which is included in discontinued operations.

Revenue

In 2006, risk and insurance services revenue decreased 2% compared with 2005 and was flat on an underlying basis. A 5% increase in underlying revenue in reinsurance services was offset by a 2% decrease in insurance services, partly resulting from a $71 million decline in market service revenue. Risk consulting & technology revenue increased 12% due to growth in Kroll’s corporate advisory and restructuring, technology services and security businesses. Consulting revenue increased 11%, resulting from a 19% increase in Mercer’s specialty consulting businesses and an 8% increase in Mercer HR consulting. Investment management revenue declined 8%, primarily due to a decrease in assets under management, partly offset by higher investment gains.

During 2005, revenue in the risk and insurance services segment decreased 10% from 2004. Underlying revenue declined 11%, resulting from a $407 million decline in market services revenue, lower levels of new business and renewals and the impact of lower insurance premium rates. These declines were partly offset by the impact of foreign currency exchange rates. Risk consulting & technology revenue increased $501 million. Due to the acquisition of Kroll in July 2004, results in 2005 include a full year of revenue for Kroll, compared with six months of revenue in 2004. Underlying growth in risk consulting & technology was 22%, due to growth in technology services, corporate advisory and restructuring, and background screening. Consulting revenue increased 4%, resulting from a 19% increase in Mercer’s specialty consulting businesses. Investment management revenue declined 12% as a result of the decrease in assets under management and lower investment income.

Operating Expenses

Consolidated operating expenses in 2006 decreased 2% from 2005. The decrease in operating expenses reflects cost savings from restructuring activities; a decrease in net restructuring and related charges; lower settlement, legal and regulatory costs related to proceedings involving MMC and certain of its subsidiaries; and lower costs related to employee retention awards, partly offset by higher compensation costs, primarily in the consulting segment due to increased headcount and higher incentive compensation. Expenses in 2006 also reflect lower amortization of prepaid dealer commissions and lower costs related to professional liability claims. Expenses in 2005 include a charge of $37 million for Putnam’s estimate of costs to address issues relating to the calculation of certain amounts previously paid to Putnam by the Putnam mutual funds in the form of cost reimbursements to Putnam for transfer agency services relating to defined contribution operations. These decreases in 2006 were partly offset by higher expenses related to stock options. Due to the adoption of SFAS 123(R) on July 1, 2005, the prior year includes expenses related to stock options for only six months while 2006 includes stock option expense for the full year. In 2006, the costs related to stock options are included in segment results. In 2005, the costs related to stock options are included in Corporate.

Consolidated operating expenses in 2005 decreased 4% from 2004. This was primarily due to savings from restructuring initiatives and lower regulatory and other settlement expenses, partly offset by employee retention costs, the impact of acquisitions, higher benefits costs, and incremental costs, primarily related to stock options, resulting from the implementation of SFAS 123 (R). In addition, Putnam’s expenses in 2005 include a charge of $37 million for the estimated cost necessary to address issues relating to the calculation of certain amounts previously paid to Putnam by the Putnam mutual funds in the form of cost reimbursements to Putnam for transfer agency services relating to defined contribution operations. Expenses in 2004 include an $850 million charge related to the NYAG/NYSID settlement, costs of $224 million related to Putnam’s settlement and agreements with the SEC and Office of the Secretary of the Commonwealth of Massachusetts and restructuring costs of $337 million, partly offset by a $105 million credit from the final insurance settlement related to World Trade Center losses.

Restructuring and Related Activities

MMC initiated restructuring activities in the first quarter of 2005 (the “2005 Plan”) and the third quarter of 2006 (the “2006 Plan”). In 2006 we incurred net restructuring costs of $87 million and related charges of $38 million from actions taken under these restructuring plans. The costs and annualized savings relating to the plans are discussed below.

2005 Plan

MMCs actions under the 2005 Plan are complete. MMC is currently realizing annualized savings of approximately $400 million attributable to the 2005 Plan relating primarily to the risk and insurance services segment. In early 2006, MMC began implementing its plan to eliminate excess space in its corporate headquarters building in mid-town New York (headquarters building). Costs related to its headquarters building incurred through June 30, 2006 (approximately $40 million) and savings generated from those actions (approximately $10 million) were recognized as part of the 2005 Plan.

2006 Plan

In September 2006, MMC announced cost savings initiatives related to firm-wide infrastructure, organization structure and operating company business processes which are expected to result in annualized savings of approximately $350 million when fully implemented by the end of 2008, and result in restructuring charges and related costs of approximately $225 million. The cost savings

initiatives are expected to be implemented in several phases Phase 1 began in September 2006, with several additional phases to follow. The discussion below identifies the areas impacted and savings expected from various phases of the 2006 Plan.

Phase 1 of the 2006 Plan is expected to result in cost savings of $160 million. The expected savings from this phase comprise $70 million from operating company process improvements and $90 million from corporate infrastructure and process improvements in IT, real estate and corporate functions. Staff reductions of more than 750 are expected. During 2006, MMC recorded a net charge of $10 million in connection with actions taken under Phase 1 that includes a $74 million gain on the sale of five floors in MMCs headquarters building, more than offset by costs primarily related to severance and exit costs for facilities. Through December 2006, the actions under Phase 1 are expected to result in annualized savings of approximately $110 million beginning in the first quarter of 2007. These actions under Phase 1 are expected to be completed by the second quarter of 2007, except for certain actions related to MMCs headquarters building, discussed below.

As part of its ongoing review of operations, Marsh has identified additional actions that are expected to result in the reduction of 170 positions (Phase 2). These actions are expected to increase the expected annualized savings from the 2006 Plan by approximately $40 million and result in additional charges of approximately $40 million related to severance and exit costs for facilities. In the fourth quarter of 2006, MMC incurred costs of $14 million related to this second phase of the 2006 Plan.

MMC currently expects additional annualized savings of $190 million under one or more future phases of the 2006 Plan, resulting from infrastructure improvements in information technology, procurement, human resources, finance and real estate, as well as organizational structure and business process improvements. Detailed plans relating to these future phases are not yet complete, and may impact the amount of expected savings, expected costs or both that will result from these planned actions. Savings from these additional phases are expected to be realized as the actions are implemented through the end of 2008.

As noted above, MMC has been reducing its occupancy at its headquarters building in New York. Phase 1 of the 2006 Plan includes net costs of $8 million and expected annualized savings of approximately $25 million related to these actions. The expected net costs of $8 million comprise both gains on the sale of owned floors and losses on sub-leases of leased floors, which will be recognized at the earlier of when the floors are vacated or when sub-lease agreements are executed. During the fourth quarter of 2006, MMC sold its condominium interest in five floors of its headquarters building, realizing a gain of $74 million. The disposal of these floors is an integral part of MMCs overall restructuring plan and the gain from this disposal has been included as a reduction of other operating expenses, consistent with the classification of other costs for actions taken related to this and other facilities MMC has vacated. The sale of the five floors will reduce MMCs annual facilities costs by approximately $5 million, which is included in the $110 million of savings from Phase 1 of the 2006 Plan, as discussed above.

MMC expects to vacate an additional seven floors, five of which it leases and expects to sub-lease and two of which it owns and expects to lease to a third party. Additional costs of $60 million are expected from these remaining actions, which are expected to generate annualized savings of $20 million when completed over the next 12-18 months.

Businesses Exited in 2006 and 2005

In December 2006, Kroll completed the sale of KSI, its international security operation that provided high-risk asset and personal protection services. The financial results of KSI are included in discontinued operations.

In the first quarter of 2006, MMC determined that Price Forbes, its U.K.-based insurance wholesale operation, met the criteria for classification as a discontinued operation. The 2006 results of Price Forbes, which includes a charge to reduce the carrying amount of its assets to fair value less cost to

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sell, are included in discontinued operations in the consolidated statement of income. The prior year's amounts have not been restated because the results of Price Forbes were insignificant to MMC's 2005 results. MMC completed the sale of Price Forbes in September 2006.

In October 2005, Marsh completed the sale of Crump Group, Inc., its U.S.-based wholesale insurance broker. The gain on the sale was recognized in the fourth quarter of 2005. In December 2005 MMC agreed to sell its majority interest in Sedgwick CMS Holdings ("SCMS"). The sale of SCMS was completed on January 31, 2006, and the associated gain on the sale was recognized in the first quarter of 2006. Crump and SCMS are classified as discontinued operations in the accompanying financial statements.

In May 2005, MMC sold the assets of MMC Capital, which had been MMC's private equity management subsidiary, to Stone Point Capital LLC ("Stone Point"), an entity controlled by the former managers of MMC Capital for approximately $3 million. At the time of the asset sale, Stone Point assumed responsibility for management of the Trident Funds and other private equity funds previously managed by MMC Capital. MMC does not participate in the investment decisions or management of Stone Point or the private equity funds managed by Stone Point. MMC, through its subsidiary Risk Capital Holdings, continues to own investments in firms such as Ace Ltd., XL Capital Ltd. and Axis Capital Holdings, Ltd., as well as its investments in the Trident II and other funds managed by Stone Point.

Subsequent Event

On January 31, 2007, MMC entered into a stock purchase agreement with Great-West Lifeco Inc. ("GWL"), a majority-owned subsidiary of Power Financial Corporation, pursuant to which GWL will purchase Putnam Investments Trust. The sale includes Putnam's interest in the T.H. Lee private equity business. The after-tax cash proceeds to MMC are expected to be approximately $2.5 billion, subject to possible adjustment based on (i) changes in Putnam's adjusted stockholders' equity between September 30, 2006 and closing and (ii) any decline below an agreed threshold in Putnam's adjusted asset management revenue between December 31, 2006 and closing. For further information and a copy of the stock purchase agreement, please see our Form 8-K filed on February 1, 2007. MMC expects the sale of Putnam to close in mid-2007. Putnam is classified as part of continuing operations in this annual report because the decision to sell Putnam was not made until after December 31, 2006 and Putnam did not meet the criteria to be classified as a discontinued operation in 2006. We expect to classify Putnam as a discontinued operation in the first quarter of 2007.

Risk and Insurance Services

In the Risk and Insurance Services segment, MMC's subsidiaries and other affiliated entities act as brokers, agents or consultants for insureds, insurance underwriters and other brokers in the areas of risk management, insurance broking and insurance program management services, primarily under the name of Marsh; and engage in reinsurance broking, catastrophe and financial modeling services and related advisory functions, primarily under the name of Guy Carpenter.

Marsh and Guy Carpenter are compensated for brokerage and consulting services primarily through fees paid by clients and/or commissions paid out of premiums charged by insurance and reinsurance companies. Commission rates vary in amount depending upon the type of insurance or reinsurance coverage provided, the particular insurer or reinsurer, the capacity in which the broker acts and negotiations with clients. Revenues are affected by premium rate levels in the insurance/reinsurance markets, since compensation is frequently related to the premiums paid by insureds/reinsureds. In many cases, compensation may be negotiated in advance on the basis of the estimated value of the services to be performed. Revenue is also affected by fluctuations in the amount of risk retained by insurance and reinsurance clients themselves and by increases or decreases in the value of the risks that have been insured, new and lost business, and the volume of business from new and existing clients.

Effective October 1, 2004, Marsh eliminated contingent compensation, or market services agreements with insurers, under which it had received revenues based upon such factors as the overall volume, growth and, in some cases, profitability, of the total business placed by Marsh with a given insurer.

For billing and other administrative services, Marsh and Guy Carpenter receive interest income on certain funds (such as premiums and claims proceeds) held in a fiduciary capacity for others. The investment of fiduciary funds is regulated by state and other insurance authorities. These regulations typically provide for segregation of fiduciary funds and limit the types of investments that may be made with them. Interest income from these investments varies depending on the amount of funds invested and applicable interest rates, both of which vary from time to time.

Following the sale of MMC Capital's business in May 2005, we no longer receive fees in connection with the private equity investments previously managed by MMC Capital, nor do we receive management fees or origination fees related to this business, except that MMC retained the right to receive certain performance fees relating to the Trident II private equity partnership. We continue to receive dividends and to recognize capital appreciation or depreciation on the investments held by Risk Capital Holdings, as well as revenue on Risk Capital Holdings' sales of investments from time to time.

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

(In millions of dollars)	**2006**	2005	2004
Revenue:			
Service Revenue	**$ 5,267**	$ 5,412	$ 6,056
Investment Income	**196**	180	149
Operating Revenue			