



Leading the Response to Climate Change

SUSTAINABILITY REPORT 2006



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MMC is a global professional services firm with annual revenues of approximately \$12 billion. It is the parent company of Marsh, the world's leading risk and insurance services firm; Guy Carpenter, the world's leading risk and reinsurance specialist; Kroll, the world's leading risk consulting company; Mercer, a major global provider of human resource and specialty consulting services; and Putnam Investments, one of the largest investment management companies in the United States. More than 55,000 employees provide analysis, advice, and transactional capabilities to clients in more than 100 countries.

MMC's 2006 sustainability report is available in hard copy and can be downloaded from MMC's website (www.mmc.com).

DEAR COMMUNITY MEMBER



I am pleased to introduce MMC's first sustainability report and new sustainability policy. Our report this year focuses on climate change and MMC's efforts in this area. Although this is our first published report, MMC has a long history of acting responsibly for the environment. Much of our effort today, as in the past, comes through the energy, commitment, and innovation of our operating companies, in particular Marsh, which has played a leadership role on climate change both within our organization and the insurance industry.

At MMC, we believe that climate change is one of the most significant emerging risks facing the world today and that, as a leading global business advisor, we have a duty to our clients and the public to heighten the discussion around climate risk issues and lead the way in developing risk management solutions.

We are pleased to be working with some of the leading thinkers and activists in the field to contribute to an enhanced understanding of the difficult challenges climate change poses.

While our efforts have largely been dedicated to promoting awareness and debate, we have also been focused on better managing our company's impact on the environment and on devising tools to help organizations more effectively measure and report on climate risk. Our ultimate goal is to develop solutions wherever possible, and, to that end, we are eager to enter into partnerships where our expertise can contribute to innovation.

We are proud of the commitment displayed by our employees in leading the response to climate change. We have accomplished much, but we still have far to go. Through this report, we hope you gain an appreciation of our efforts to date.

Sincerely,

A handwritten signature in black ink that reads "Michael Cherkasky". The signature is fluid and cursive, with the first name and last name clearly legible.

Michael G. Cherkasky

President and Chief Executive Officer



MMC'S POLICY ON SUSTAINABILITY AND CLIMATE CHANGE

MMC recognizes that climate change is a complex global issue at the intersection of science, risk, and public policy. It is a challenge that our clients—and the world—will face for a very long time. We are committed over the long term to contributing to resolution of this challenge.

To that end, MMC has adopted the following policy on sustainability and climate change:

A healthy and sustainable environment is a precursor to the long-term well-being of society, the strength of the economy, and the continuing success of our business. We recognize that climate change is one of the most significant risks facing the world today and that it can have profound impacts upon citizens, governments, and businesses. It is a growing risk that we expect to face with our clients for a very long time. MMC is committed to working toward a sustainable world, where today's actions do not jeopardize those of future generations, and we recognize that reducing global greenhouse gas emissions will be critical for accomplishing this goal.

MMC is committed to leading and inspiring in our response to climate change. We will work to enhance global understanding of this challenge and provide our expertise where it can be useful. We are dedicated to assisting our clients in reducing and managing climate risks as well as finding and optimizing new economic opportunities in developing solutions to climate change. We will advocate for sound public policies that provide needed clarity and assist in addressing this risk. We will strive to understand the sustainability impact of our own activities and that of the work we do on our clients' behalf. We will work to reduce the greenhouse gas emissions resulting from our own operations and our environmental footprint and provide transparent public reporting on our progress.

The following pages summarize our climate-focused activities and strategies over the past year.





CLIMATE THOUGHT LEADERSHIP

Participating in the World Economic Forum's Global Risks Network

Through the Global Risks Network, MMC has been working in collaboration with the World Economic Forum, Citigroup, Swiss Re and the University of Pennsylvania's Wharton School Risk Center to identify major global risks, assess their economic impact, and develop mitigation solutions. Each year the Global Risks Network captures its findings in the Global Risks Report, which is released in conjunction with the World Economic Forum's annual meeting in Davos, Switzerland.



The January 2007 report focused on the movement of risks, possible risk scenarios, and risk mitigation. It addressed climate change as a global risk with impacts far beyond the environment and broke new ground in exploring the geopolitical implications of climate risk. Effective mitigation of climate change, the report noted, may ultimately improve resilience to oil price shocks in developed countries by moving them from hydrocarbons to alternative energy sources; ineffective mitigation of climate change will almost certainly be a factor in major interstate and civil wars within the next 50 years.

Our work with the Global Risks Network is critical for setting the global business and governmental agenda around risk issues and our climate analysis plays a central part in these efforts.

Collaborating in a Sustainable Governance Forum Partnership on Climate Risk

In 2006, we launched a collaborative effort to educate independent corporate board members about the potential liabilities and strategic business opportunities that global climate change can create. The effort, which helps guide company leaders in integrating climate planning and preparedness into key aspects of their business consideration, was announced by former President Bill Clinton at a plenary session of the 2006 annual meeting of the Clinton Global Initiative.

The collaboration drew together institutions with complementary expertise in the area of climate change: Marsh, one of MMC's operating companies and the world's leading risk and insurance services firm; Yale University, one of the nation's leading academic institutions; and Ceres, the nation's largest coalition of investors and environmental groups working with companies on environmental and social issues.

Training of more than 200 independent U.S. board members began in Spring 2007 through a curriculum known as the Sustainable Governance Forum on Climate Risk. Training will continue through September 2008. MMC, Yale and Ceres have combined their intellectual capital and research to develop the training, with a \$250,000 contribution by MMC to produce the materials.



This partnership built on other educational work we have undertaken with clients, such as “*Climate Change: Business Risks and Solutions*,” a 32-page report released in April 2006 that describes the potential impact of climate change on business risk, including the strong threat of increasingly volatile weather conditions; commercial insurance markets, business resources, personnel, and corporate preparedness; and the legal and regulatory environment.

Partnering on the Pew Center’s Business Environmental Leadership Council

In July 2006, MMC joined the Pew Center on Global Climate Change’s Business Environmental Leadership Council (BELC) and endorsed its efforts to address the impacts of global climate change. Marsh CEO Brian Storms was the keynote speaker at the BELC’s 2006 annual meeting.

Established by the Pew Center in 1998, the BELC is comprised of a diverse group of mainly Fortune 500 companies that advocate responsive climate policies and pursue business opportunities around climate change. Individually and collectively, these companies demonstrate that it is possible to take action to address climate change while maintaining competitive excellence, growth, and profitability. The BELC is the largest U.S.-based association of corporations focused on addressing the challenges of climate change, with 40 members representing \$2 trillion in market capitalization and more than three million employees.

Our affiliation with the Pew Center represents an acknowledgment of the unique role and responsibility facing the insurance industry in confronting climate change. As noted by Eileen Claussen, president of the Pew Center on Global Climate Change, “The insurance industry is uniquely positioned to face both the risks and opportunities presented by climate change. [MMC] recognizes the responsibility that leading companies have in developing solutions to deal with the most dangerous impacts of climate change.”

Engaging in Global Dialogue through the Global Roundtable on Climate Change

Since 2004, MMC has participated in the Global Roundtable on Climate Change, an initiative of The Earth Institute at Columbia University. The twice-a-year Roundtable of more than 100 high-level stakeholders and experts explores areas of potential consensus regarding core scientific, technological, and economic issues critical to shaping public policies on climate change.

In February 2007, after three years of careful discussion, the Roundtable issued a Joint Statement on “The Path to Climate Sustainability.” The Statement offered a proactive





framework for global action post-Kyoto to mitigate risks and impacts while also meeting the global need for energy, economic growth, and sustainable development. The agreement called on governments to set scientifically informed targets for greenhouse gases and carbon dioxide emissions, place a price on carbon emissions, and set forth policies aimed at addressing energy efficiency and de-carbonization in all sectors. The statement has been endorsed by companies from a range of sectors and industries, including MMC.

Other ways in which MMC lent its expertise include Marsh Risk Initiative Director Gary S. Guzy's testimony to the Climate Change Executive Committee Task Force of the National Association of Insurance Commissioners (NAIC) at their 2006 annual meeting in St. Louis. This testimony was designed to help state insurance regulators assist the NAIC understand the risk context in which they are operating and the role that the insurance industry plays in understanding, monetizing, and managing a diverse array of climate risks.



Promoting Leadership in the Call for Domestic Policy Certainty

We recognize the challenge to businesses posed by the lack of regulatory certainty in the climate change arena and the potential for even greater climatic risks posed by delay in developing a global response. Given the continuing refinement of the science and consequences of climate change, MMC has deliberately ranged itself with companies calling for thoughtful and determined global action. While differences of opinion remain among the business community, we have recently seen a shift toward the position that we have taken. We will continue as a pioneer on the issue of how best to respond to climate risk. For these reasons, MMC has added our voice to the commitments by chief executive officers who lead the U.S. Climate Action Partnership (USCAP). We have pledged to work with policymakers and lend our risk expertise to underscore the urgent need for a policy framework on climate change by advocating for domestic climate change emissions reduction policies that promote certainty and predictability for U.S. businesses. USCAP companies represent a combined market capitalization of more than \$750 billion and the participating environmental groups have more than one million members and exert global policy influence.

Collaborating with The Albright Group on Risk Leadership Forums

Working in conjunction with The Albright Group and its principal, former Secretary of State Madeline Albright, MMC has engaged business leaders in a series of worldwide leadership forums designed to foster critical thinking on key business risks, including global climate change. These forums have increased business understanding about the climate challenge, as well as its intersection with energy security and energy pricing issues.

Leading Insurance Industry Exploration of Risk Management Tools

MMC recognizes the importance of risk management approaches in fostering technological innovations that will assist in meeting the climate challenge, such as the demonstration and deployment of large-scale carbon capture and storage technologies. We are working with the World Resources Institute, an independent environmental research and policy analysis think tank, to host a technical workshop on insurability issues raised by carbon capture and storage. Our goal is to enhance the exchange of information between risk managers and underwriters, on the one hand, and environmental and project experts who have been involved in carbon capture and storage demonstration.

MMC was commissioned by the United Nations Environment Programme and the Global Environment Facility (GEF) to undertake an Assessment of Financial Risk Management Instruments for Renewable Energy Projects. This two-year study is aimed at facilitating innovation in the risk management area. It will provide the GEF, public agencies, and industry with a systematic and comprehensive analysis to determine more efficient public sector intervention options. The ultimate goal is to bring about the faster and more systematic deployment of renewable energy technologies by supporting and influencing the development of markets for renewable energy technology project risk management instruments. The study is available at www.marsh.com.

Promoting Sound Climate Risk Disclosure

MMC served as a 2006 sponsor of the release of the annual survey of carbon emissions practices of the world's largest companies, prepared by the Carbon Disclosure Project (CDP). The CDP asks companies to openly disclose investment-relevant information concerning climate change risks and opportunities. The CDP recognized MMC as a Best in Class member of the Climate Leaders Index for its work in addressing and advising on global climate change issues. MMC continues to be closely involved with a number of efforts designed to foster more robust, transparent, and consistent metrics for climate risk reporting by public companies, and has served as a leader in the development of the Global Principles for Responsible Investing, prepared under the auspices of the Secretary General of the United Nations.



MMC's operating companies represent deep expertise across a variety of professional disciplines. MMC is drawing on this organization-wide knowledge base to help our clients increase their resilience in the face of climate risks and optimize the opportunities created by the new economic landscape of climate change. Our advice to clients includes:

- Business risk assessments and economic evaluations of physical, competitive, compliance, litigation, and strategic risks.
- Business continuity planning.

- Climate risk strategy development, including asset allocation in view of climate risk and an understanding of climate risk adjusted costs of capital.
- Directors' and officers' liability analysis in view of evolving science, legal, and disclosure standards.
- Arrangement of insurance related to renewable energy risks.
- Market forecasting and strategic consulting relating to greenhouse gas emissions trading.
- Due diligence regarding new emissions reduction projects and development of “wrap-around” insurance products designed to facilitate emissions trading.
- Understanding the impact upon brand value of climate actions and developing strategies to enhance brand value from climate positioning.
- Assistance to pension funds and their boards regarding responsible investing.
- Assistance in responding to increasing calls for environmental disclosure and shareholder activism regarding environmental issues.



MANAGING OUR OWN ENVIRONMENTAL IMPACT

MMC is committed to lessening our own environmental footprint. We seek to enhance the efficiency of our operations and—as a result—our bottom line, while advancing societal good.

As a professional services firm, MMC does not independently create new greenhouse gases. We do, however, use energy to power our offices, our business equipment, and the transportation used by our employees. We have retained ICF International, Inc. (ICF) to assist us in understanding our global greenhouse gas footprint, and in improving our operational efficiency regarding this footprint.

In 2006, we first undertook to compile a greenhouse gas emissions inventory, based upon our prior year's emissions. This inventory focused on assessing office equipment use and space conditioning needs for the spaces occupied by MMC. ICF estimated that MMC's 2005 greenhouse gas inventory was 192,354 tonnes of carbon dioxide equivalent for U.S. operations; 12,449 tonnes of carbon dioxide equivalent for Canadian operations; and 58,556 tonnes of carbon dioxide equivalent for all other geographic areas. MMC's full 2006 Carbon Disclosure Project response is available on the Carbon Disclosure Project and MMC websites.



Energy costs and consumption are difficult to predict in part because MMC operates in a large number of locations worldwide, many with their own unique energy cost structures. However, increased energy prices or consumption could increase our future expenses by a consistent amount. We recognize that small elements of our supply chain (such as our copy paper supply) generate greenhouse gases during their production, and that MMC personnel engage in significant travel to fulfill their job responsibilities, creating other greenhouse gases for consideration. As a result, we have asked ICF to expand the scope of its reporting to include a more comprehensive assessment based upon consideration of these additional emissions for the calendar year.

In 2005 and 2006, MMC did not have an overall greenhouse gas emissions reduction goal in place, but undertook a number of pilot projects designed to test successful steps to



reduce energy and highlight practices that may be successful when applied more broadly. We focused this effort on our European Head Office at Tower Place in London. Best practices developed included:

- Reprogramming lighting controls to maximize efficiency.
- Adjusting landlord and tenant plan operational times.
- Programming photocopiers to power down after a reasonable period of non-use.
- Programming of plasma display screens to turn off during out of office hours.
- Placing timers on vending machines so that they turn off during out of office hours.

MMC estimates that these initiatives achieved an energy usage savings of approximately 5% at Tower Place.

We engaged the Climate Trust, an independent company funded by the British government to help business and the public sector reduce carbon emissions and capture the commercial opportunities of low carbon technology, to conduct an independent audit of our Tower Place energy usage.

We also stressed environmental issues in our consolidation of more than 1,000 MMC employees in our new Pacific Headquarters in Sydney, Australia. The facility is designed to achieve 50% reductions in greenhouse gas emissions compared to existing building stock and is the first building in Australia to make this level of commitment through conventional technology.

MMC recognizes that these pilot efforts, while useful in developing further experience in reducing greenhouse gas emissions, would be insufficient to drive the accomplishment of greenhouse gas emissions reduction targets. We are committed to lowering our greenhouse gas emissions footprint, taking into account our company's energy usage, as well as our supply purchases and employee travel. To achieve these greenhouse gas emissions reductions, we will work with ICF to benchmark our energy efficiency practices. We expect to:

- Reduce our electricity consumption through enhanced efficiency.
- More effectively manage employee travel by investing in and encouraging alternative technologies, such as teleconferencing.
- Reduce our use of raw materials, through double-sided copying and the promotion of recycling.

We also intend to implement a greenhouse gas emissions reduction target; evaluate the development of purchasing and leasing guidelines to maximize our energy efficiency; consider purchasing energy from renewable sources and creditable offset projects to lessen our overall greenhouse gas impacts; and develop employee policies that encourage and reward our employees' environmentally responsible behavior.



DEVELOPING A SOUND INTERNAL CLIMATE MANAGEMENT SYSTEM

MMC's Board of Directors receives regular business reports from MMC's operating units, which cover MMC climate-related initiatives and opportunities.

At the senior managerial level, we have created a Climate Risk Initiative Steering Committee, which provides a management structure under which senior business leaders from MMC's operating companies can address, in an integrated fashion, climate-related risks and opportunities, as well as company policy issues.



KEY FUTURE CHALLENGES FOR MMC

It's becoming clear that some climate impacts are simply too unpredictable to be amenable to traditional risk management and insurance approaches and other impacts are increasingly unavoidable through sound management practices. As climate impacts are likely to affect the poorest (and often least prepared) peoples of the world, the insurance industry will be looked to for its expertise in spreading this risk and softening the blow of its impacts. These challenges will bring us to uncharted terrain. They will demand the utmost from our company in terms of leadership and creativity.

ACKNOWLEDGEMENT

Because MMC has the opportunity to interact closely with many leading outside organizations in our work on climate change, we have the benefit of continual input regarding our firm's role in addressing this critical global challenge. We wish to thank and acknowledge the following for their input:

Dr. Paul Epstein, Professor, Harvard Medical School Center for Health and the Global Environment

Peter Goldmark, Climate and Air Program Director, Environmental Defense

Mindy S. Lubber, President, Ceres

Daniel Nielsen, Manager, Socially Responsible Investing, General Board of Pension & Health Benefits of the United Methodist Church

Larry Shapiro, Associate Director for Program Development, Rockefeller Family Fund

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