

CARBON NEUTRALITY AND IAG

1. ORGANISATIONAL INFORMATION

| | |
|-----------------------------------|--|
| Organisation Name: | Insurance Australia Group Limited ABN 60 090 739 923 |
| Inventory Period: | 1 July 2016 to 30 June 2017 (FY2017) |
| Date of most recent verification: | 30 June 2017 (greenhouse gas emissions) |
| Carbon Neutral Disclosure Type: | Organisation |
| Description: | IAG’s global businesses under operational control |

Introduction

IAG is Australasia’s largest general insurance company. We serve markets in Australia, New Zealand and Asia. Our purpose is to make your world a safer place and our commitment to carbon neutrality reflects the responsible approach we take in business. Our pursuit of carbon neutrality helps our actions to remain consistent with our purpose and supports our public position on climate change¹.

Carbon inventory boundary

IAG’s carbon neutrality is for a defined inventory of greenhouse gas (GHG) emissions. These emissions result from the activities of IAG’s businesses under operational control as defined within the boundaries set out below. While IAG does not seek certification with Australia’s *National Carbon Offset Standard (NCOS)*, IAG recognises and adopts the principles of carbon neutrality set out in the NCOS guidance in our Australian business and where practical in all other businesses.

IAG’s Australian, New Zealand, Asia head office, Indonesian, Thai and Vietnam businesses fall into the scope of the FY2017 carbon inventory. IAG’s joint venture operations in India and Malaysia are out of scope.

Figure 1 sets out IAG’s businesses by country, and demonstrates those businesses included and excluded from the scope of our carbon inventory for carbon neutrality based on operational control.

Figure 1 - Group Operating Model



¹ IAG’s public policy position on climate change is available at www.iag.com.au/shared-value/our-commitments

Carbon inventory inclusions

IAG's carbon inventory includes scope 1 and scope 2 emissions that would be required for reporting under Australia's *National Greenhouse and Energy Reporting Act* (NGER Act), and where appropriate and material, in line with NCOS significant scope 3 emissions. For completeness and transparency IAG has included various emission sources within the carbon inventory that represent a small proportion of the overall GHG emissions of the Group.

Emission factors are sourced from geographically relevant standards and are disclosed in IAG's Data summary and glossary of terms at www.iag.com.au/shared-value/reports.

As a service based organisation, the most significant contributor to IAG's carbon inventory is from stationary energy (scope 2 electricity) consumed throughout the property portfolio and data centres. This emission source contributed 52.1% of the Group's total emissions in FY2017. Figure 3 illustrates the percentage of the Group's carbon inventory by significant emission source.

Carbon inventory exclusions

IAG's carbon inventory excludes emissions from wastewater (Scope 3). Given the nature of IAG's operations, this emission source has been assessed as exerting an immaterial contribution to the Group's carbon footprint and is therefore excluded. In New Zealand and Asia, other immaterial sources of emissions have also been excluded. This is detailed in section 2 of this document.

The FY2016 emission profile of the Group is summarised below.

Figure 2 - IAG FY2017 Emissions profile by area of operation (% CO2e)

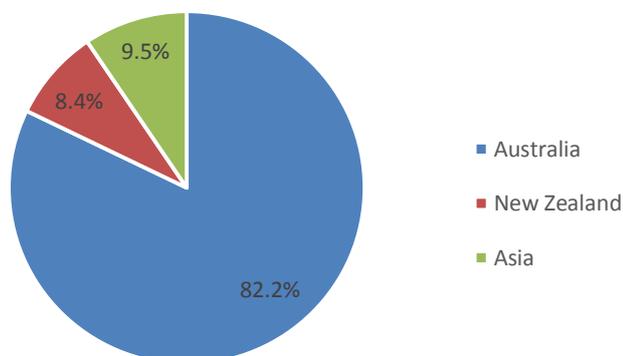
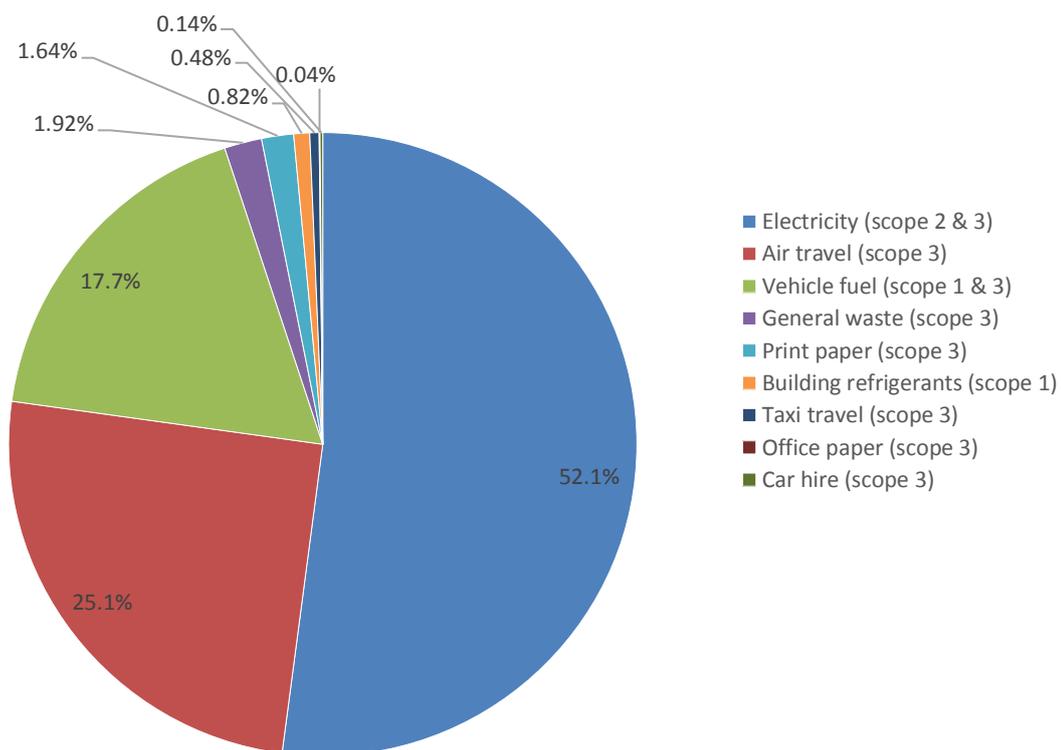


Figure 3 - IAG FY2017 Emissions profile by source (% CO₂e)



2. FY2017- TOTAL CARBON FOOTPRINT

The FY2017 carbon footprint for all in-scope carbon inventory items for the entities where operational control is exercised has been set out in the table below. All GHG emissions reported are presented as a gross figure in metric tonnes of carbon dioxide equivalent (CO₂-e). IAG's FY2017 carbon emissions have been verified by Ernst & Young (EY). Refer to www.iag.com.au/shared-value for the assurance statement.

| Emissions source | Australia (tonnes CO ₂ -e) | New Zealand (tonnes CO ₂ -e) | Asia (tonnes CO ₂ -e) | Total (tonnes CO ₂ -e) |
|--|--|--|-------------------------------------|--------------------------------------|
| Scope 1 | | | | |
| Tool of Trade Vehicle Fleet fuel consumption | 5,504 | 1,479 | 2,293 | 9,637 |
| Building Refrigerants | 445 | N/R | N/R | 445 |
| Scope 2 | | | | |
| Electricity | 22,706 | 896 | 2,012 | 25,614 |
| Scope 3 | | | | |
| Electricity | 2,617 | 80 | - | 2,697 |
| Tool of Trade Vehicle Fleet fuel consumption | 291 | 78 | - | 370 |
| Air Travel | 11,376 | 1,733 | 558 | 13,667 |
| Print Paper | 506 | 134 | 254 | 894 |
| Office Paper | 2 | N/R | 21 | 23 |
| Taxi Travel | 260 | N/R | N/R | 260 |
| Rental Car | 77 | N/R | N/R | 77 |
| Waste to Landfill | 892 | 154 | N/R | 1,046 |
| Total | 44,677 | 4,555 | 5,138 | 54,370 |

See IAG's Data summary and Glossary of Terms at www.iag.com.au/shared-value for details of how each emission source is calculated.

3. EMISSION REDUCTION MEASURES

In FY2017 we managed our emissions through a combination of efficiency initiatives to decrease our footprint and the purchase of carbon offsets for those emissions remaining. Efficiency initiatives included the following:

- Upgrade of the Uninterruptable Power Supply units at Australian Data Centre and Perth office;
- Installation of lighting controls and LED lamps, and replacement of gas hot water systems with heat pumps at Australian Data Centre;
- Rationalising design of power and cooling systems in computer server rooms at selected offices alongside Australian office consolidation.

IAG remains committed to managing and reducing carbon emissions across our businesses. In FY2017, IAG achieved its 2020 emissions reduction target (10% reduction in scope 1 and 2 emissions from 2015 levels) through a combination of energy efficiency measures within our property portfolio, and through the group property strategy, which seeks to improve the utilisation of working space and the operational efficiency of IAG's working environment.

4. OFFSET BALANCE, PURCHASE AND RETIREMENT

Approach

Since 1 January 2012, IAG has purchased and retired carbon offsets to meet its carbon neutral commitment. Our approach is to forward estimate our emissions footprint and purchase sufficient offset units to maintain our carbon neutral status over time.

At the end of each year, we compare the offsets purchased and retired against our actual footprint to confirm our carbon neutral position. This alerts us to any discrepancy and guides the forward management of our offset program.

Units that are in excess of our measured footprint are assigned to offset the emissions of the subsequent year.

Reconciliation of historic carbon offsets purchased and carbon emission footprints

IAG reviewed the balance of the offsets we have purchased up until the end of FY2016 against our measured carbon emissions footprint until the end of FY2017.

| Period | Carbon offsets available for emissions in period ² (tonnes CO2e-) | IAG's carbon footprint ³ (tonnes CO2e-) | Balance at end of period |
|---------------|---|---|--|
| FY2016 | 7,418 (rolled-over from FY15 balance) ⁴ plus 151,757 (purchased new in FY16) | 61,486 | 97,689t CO2e- available for offsetting emissions in FY17 and beyond. |
| FY2017 | 97,689 (rolled-over from FY16 balance) | 54,370 | 43,319t offsets (purchased in FY16) remain available to offset future emissions. |

Through the forward purchase made in FY2016, this review shows IAG remained carbon neutral throughout FY2017. 43,319 tonnes of carbon offset units from our purchase in FY16 remain available for IAG to use in future. IAG assigns those units come from the projects and certificates listed in the table below.

² Refer to IAG's Carbon Neutral Disclosure Reports for additional details on offsets that were purchased prior to FY17. These can be found at www.iag.com.au/shared-value.

³ Refer to IAG's Data Summary and Glossary of Terms for details on IAG's carbon footprint. These can be found at www.iag.com.au/shared-value.

⁴ IAG's 2015 Carbon Neutral Disclosure Report includes a review of IAG's carbon offset balance up until EOFY15. This can be found at www.iag.com.au/shared-value.

| Offset type | Project name | Registry | Serial numbers | Tonnes CO2-e |
|--|--|----------|--|---------------|
| Non-Kyoto Australia Carbon Credit Unit (NKACCU) | Congararra Regeneration Project, Australia | ANREU | 3,741,371,548 - 3,741,393,900 | 15,000 |
| Gold Standard Voluntary Emission Reductions (VER) | Biogas Program for Animal Husbandry Sector, Vietnam | Markit | GS1-1-VN-GS1083-4-2013-4665-2918 to 22917 | 10,000 |
| ACCU | Savannah Fire Burning ACCUs from Western Australia | ANREU | 3,744,303,307 – 3,744,313,306 | 5,000 |
| Voluntary Carbon Standard (VCU) – Voluntary Carbon Standard (VCS) | VP Biosupply Wastewater Treatment and Biogas Utilization Project, Thailand | APX | 2567-109831947-109842145-VCU-018-MER-TH-13-415-01012010-31122010-0 2566-109812146-109831946-VCU-018-MER-TH-13-415-01012009-31122009-0 | 13,319 |
| Total quantity (tCO2-e) of carbon offsets available from FY2016 purchase: | | | | 43,319 |

Carbon offset units purchased and retired in FY2017

To enable IAG to remain carbon neutral in the future, IAG purchased and retired an additional 85,397 tonnes of CO2-e units from the following projects in FY17. These units also to the pool of units for IAG to use in offsetting our future emissions and remaining carbon neutral. IAG thus has a total of 128,716t CO₂e units at its disposal for offsetting its emissions in FY18 and beyond.

| Offset type | Project name | Registry | Serial numbers | Offset quantity (tonnes CO2-e) |
|-------------------|--|----------|---|--------------------------------|
| NKACCU | Lynwood Human-Induced Regeneration Project, Australia | ANREU | 3,749,368,505 – 3,749,372,004 | 3,500 |
| NKACCU | Curranyalpa Human-Induced Regeneration Project, Australia | ANREU | 3,749,707,184 – 3,749,710,683 | 3,500 |
| NKACCU | Boonora Downs Human-Induced Regeneration Project, Australia | ANREU | 3,748,598,495 – 3,748,601,994 | 3,500 |
| NKACCU | Berangabah Human-Induced Regeneration Project, Australia | ANREU | 3,749,590,448 – 3,749,593,947 | 3,500 |
| NKACCU | Quilpeta Regeneration Project, Australia | ANREU | 3,745550,154 - 3,745,554,153 | 4,000 |
| Gold Standard VER | Household Biogas Plants Installed in Rural Areas of Maharashtra, India | Markit | GS1-1-IN-GS2519-4-2016-5427-321 to 5320 | 5,000 |

| Offset type | Project name | Registry | Serial numbers | Offset quantity (tonnes CO2-e) |
|--|---|--------------|--|--------------------------------|
| VCS-VCU | Wind Power Project of CLP Wind Farms Private Ltd at Jath, India | APX | 4898-204789266-204804265-VCU-050-APX-IN-1-1479-02012016-01102016-0 | 15,000 |
| Gold Standard Certified Emission Reductions (CER) | Metro Group Energy WWT Project, Thailand | CDM Register | 9,071,345 - 9,091,344 | 20,000 |
| Gold Standard CER | Bac Lieu Province Wind Power Plant, Vietnam | CDM Register | 16,389,512 - 16,391,908 | 2,397 |
| VCS-VCU | Siam Cement Biomass Project, Thailand | APX | 5078-211153438-211158437-VCU-008-APX-TH-4-403-01012012-31122012-0 | 5,000 |
| VCS-VCU | Siam Cement Biomass Project, Thailand | APX | 4860-202490697-202500696-VCU-008-APX-TH-4-403-01012012-31122012-0 | 10,000 |
| Social Carbon VCS-VCU | 82 MW Lau Renun Hydro Power Plant, North Sumatra, Indonesia | Markit | 2931-129387229-129397228-VCU-010-MER-ID-1-488-01012012-29022012-1 | 10,000 |
| Total Quantity (CO2-e) of carbon offsets purchased and retired in FY2017: | | | | 85,397 |

Carbon offset selection

IAG considers the following to guide the purchase of carbon offsets:

- Sourcing projects that support our purpose and strategic focus areas including resilience to natural perils, community resilience and enabling resilient and responsible business operations;
- Sourcing projects in countries where IAG has business interests;
- Ensuring all projects are additional, permanent, measurable, transparent, independently audited and registered; and
- Where possible, carbon offsets are purchased through a formally regulated market. Where this is not possible due diligence is carried out to ensure that the offsets are genuine, not subject to fraudulent issue and not previously traded and retired.

5. FURTHER INFORMATION

Should you require any further information, please send queries to sharedvalue@iag.com.au