

CARBON NEUTRALITY AND INSURANCE AUSTRALIA GROUP

1. ORGANISATION AND PRODUCT INFORMATION

Organisation Name:	Insurance Australia Group Limited ABN 60 090 739 923
Inventory Period:	1 July 2012 to 30 June 2013
Disclosure Period:	1 July 2013 to 30 June 2014
Date of most recent verification:	30 June 2013 (Greenhouse gas emissions and offset data)
Carbon Neutral Disclosure Type:	Organisation
Description:	IAG's Global businesses under operational control.

ORGANISATION DESCRIPTION

Introduction

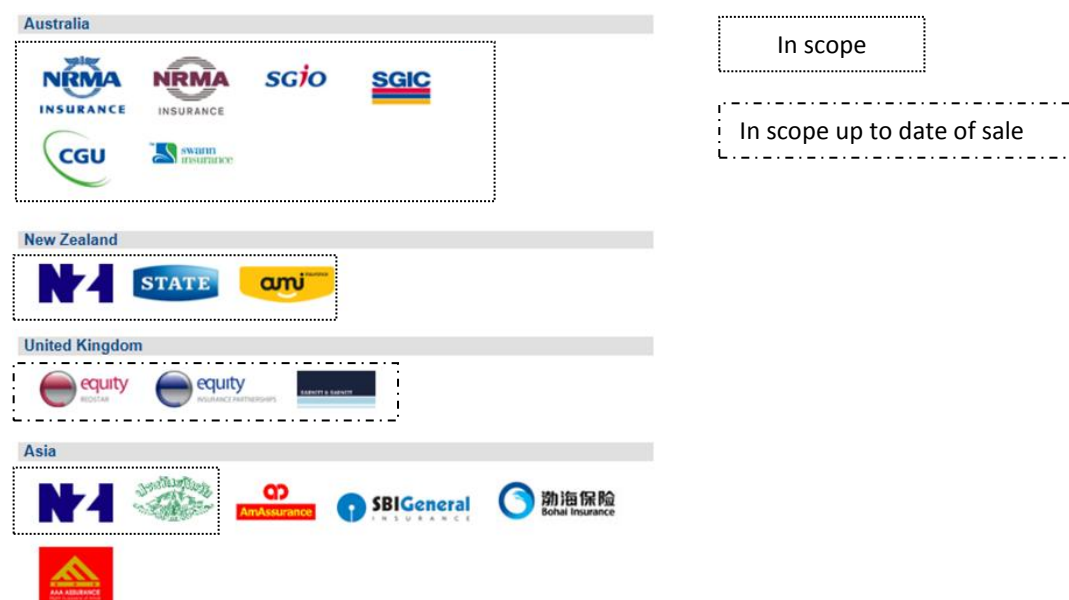
Insurance Australia Group (IAG) is a financial services organisation that has a portfolio of general insurance businesses with leading and established brands across its home markets of Australia and New Zealand, with a growing presence in Asia.

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 global businesses under operational control as defined within the boundaries set out below. Whilst Australia's National Carbon Offset Standard (NCOS) certification is not being sought, 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, Thai, and UK businesses fall into the scope of the 2013 financial year carbon inventory. IAG's former UK holdings, Equity Red Star (ERS), Equity Direct Broking and Barnett & Barnett are included up to their date of sale, which was 23 April 2013. IAG's joint venture operations in India, China, Vietnam and Malaysia are all out of scope. IAG's former UK holdings are excluded from forward GHG emissions calculations for 2014. Figure 1 sets out IAG's businesses by brands and 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



As a service based organisation, the most significant contributor to IAG’s GHG emissions inventory is from stationary energy (scope 2 electricity) consumed throughout the property portfolio and data centre. This emission source contributed 56% of the Group’s total emissions in FY13. Figure 2 illustrates the percentage of the Group’s carbon inventory by significant emission source.

Carbon inventory inclusions

IAG’s carbon inventory includes scope 1 and scope 2 emissions that would be required for reporting under the Australian 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 business sustainability reporting glossary at www.iag.com.au/sustainable/other/index.shtml.

Carbon inventory exclusions

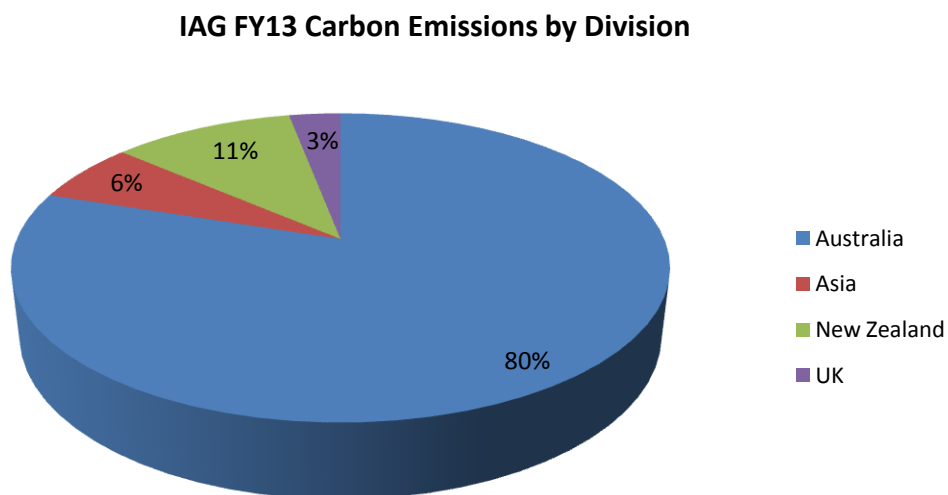
In Australia, IAG’s carbon inventory excludes vehicle refrigeration (scope 1) and waste water (scope 3). Given the nature of the operations of IAG, these emission types have been assessed as exerting an immaterial contribution to the group’s GHG emissions and are therefore excluded from the reported carbon footprint.

In IAG’s other in-scope businesses, other immaterial sources of emissions have also been excluded. This is detailed in section 2 of this document.

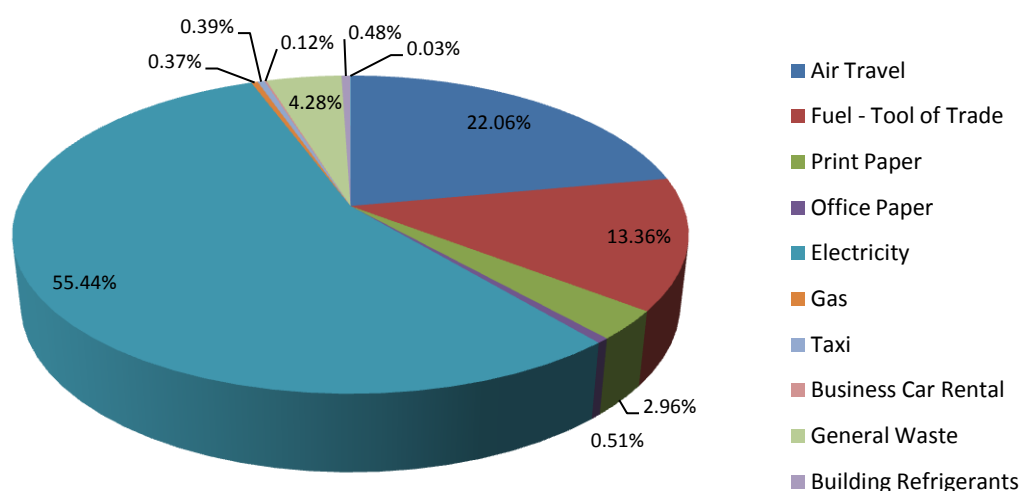
To take account of the impact of these omitted GHG emissions, an uplift of 5% has been applied to the level of carbon offset units that have been purchased and retired by IAG’s businesses to offset its carbon footprint.

Figure 2 & 3 - GROUP EMISSIONS PROFILE

The FY13 emission profile of the group is summarised below.



IAG FY13 Carbon Emissions by Source



2. TOTAL CARBON FOOTPRINT

The total 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. Emissions for financial year 2012-2013 (FY2013) are shown. All GHG emissions reported are presented as a gross figure in metric tonnes of CO₂-e. Net balance (www.netbalance.com) has provided a limited assurance statement on sustainability metrics which include scope 1, scope 2, and scope 3 emissions that are detailed below. Refer to www.iag.com.au/sustainable for the assurance statement.

Emissions source	Australia (tonnes CO ₂ -e)	New Zealand (tonnes CO ₂ -e)	UK (tonnes CO ₂ -e) up to sale date 23/04/13	Asia (tonnes CO ₂ -e)	Total (tonnes CO ₂ -e)
Scope 1					
Tool of Trade Vehicle Fleet fuel consumption	5,585	1,805	64	1,248	8,703
Gas Consumption	N/R	N/R	239	N/R	239
Building Refrigerants	311	N/R	N/R	N/R	311
Scope 2					
Electricity Consumption	32,027	1,257	1,361	1,475	36,120
Scope 3					
Air Travel	10,172	2,938	118	1,151	14,377
Rail Travel	N/A	N/A	21	N/R	21
Print Paper	1,079	626	N/R	222	1,928
Office Paper	27	148	143	11	329
Taxi Travel	253	N/R	N/R	N/R	253
Rental Car	79	N/R	N/R	N/R	79
Waste To Landfill	2,614	177	N/R	N/R	2,791
Total	52,147	6,950	1,946	4,108	
Total 2012-2013 GHG emissions:					65,151

Please refer to IAG's business sustainability reporting glossary at www.iag.com.au/sustainable for details of how each emission source is calculated.

The 2013 financial year inventory is used to forecast the carbon footprint for the 2014 financial year.

3. EMISSION REDUCTION MEASURES

Total Group CO₂-e emissions remained relatively the same compared to 2012. While some areas of the business declined, others increased due to business changes. For example, AMI is included for the first time in 2013 for New Zealand. The total represents a 7.5% reduction per full time equivalent employee from 5.3 tonnes to 4.9 tonnes. Areas that achieved reductions were aided by the following initiatives:

- Moved from using a traditional auction house for selling salvaged vehicles to an online auctioneer;
- Introduced new technology to change the way we print at 11 major sites across Australia, to reduce paper, toner and energy consumption;
- In our data centre we've rationalised hardware, moderated temperature controls, improved air flow and continued our server virtualisation programme;
- Reduced consumption of fuel by the tool of trade fleet in IAG's Australian operations.

IAG has reported on progress in reducing emissions in the IAG Annual Review at www.iag.com.au/reportingcentre/2013/index.html.

IAG believes that efficient management of all resources across our business is part of good business management. Through a focus on IAG's carbon neutral commitment and internal balanced score card measures, IAG's Australian and New Zealand businesses have reduced emissions by 27% since 2006, when the business made the commitment to become carbon neutral. IAG began reporting on emissions from the UK and Thailand businesses in FY2010. IAG continues to be committed to reducing emissions across our businesses.

4. OFFSET PURCHASE AND RETIREMENT

Approach:

IAG has adopted a forward purchasing offset model to meet its carbon neutrality commitment. IAG has calculated its forecast GHG emissions for financial year 2013-2014 (FY14) using the actual GHG emissions reported in the 2012-2013 (FY2013) carbon inventory. The FY2014 forward calculation excludes GHG emissions from the UK because IAG Group sold its UK holdings in April 2013. 5% more offsets have been purchased and retired across the Group to accommodate those immaterial emission sources not included in the carbon inventory.

IAG has purchased and retired offsets in advance of 2013-2014 (FY14) estimated GHG emissions occurring.

At the end of the 2013-2014 financial year, IAG will undertake a reconciliation process to confirm actual GHG emissions for the year, and purchase and retire additional offsets if required. The process of updating the GHG inventory and reconciliation and retirement of offsets will be subject to external verification.

Forecast Group GHG emissions in scope for 2013-2014 at the time of purchase: 60,617¹ tonnes CO₂-e.

Carbon offset selection:

IAG has clear offset purchasing guidelines for the purchase of robust and verified offsets. This includes criteria such as:

- All projects are additional, permanent, measurable, transparent, independently audited and registered.
- Where possible, carbon offsets are purchased through a formally regulated market. Where this is not possible due diligence will be carried out to ensure that the offsets are genuine, not subject to fraudulent issue and not previously traded and retired.

¹ This does not include the 5% uplift.

- Sourcing projects either domestically or in countries that align to IAG’s operations e.g. China, India, Thailand and Australia.

IAG has purchased only those offsets that meet NCOS requirements.

Governance and oversight of the purchase of IAG’s offset portfolio has been undertaken by the Carbon Offset Purchase Steering Committee, drawn from across the business and from various functions, sponsored by IAG’s Group General Manager, Strategy.

Offsets retired:

A total of 65,500 tonnes CO₂-e offsets have been retired to cover the forecast emissions for the 2013-2014 (FY2014) reporting period.

Offset type	Project name	Registry	Serial numbers	Offset quantity (Tonnes CO ₂ -e)
Voluntary Carbon Standard (VCU) – Voluntary Carbon Standard (VCS)	Bundled wind energy generation projects in Gujarat, India	APX	1388-60408600-60431524-VCU-003-APX-IN-1-412-01012010-30062010-0	22,925
VCU-VCS	Siam Cement Biomass Project	Markit	2759-119426026-119445675-VCU-008-MER-TH-4-403-01012010-31122010-0	19,650
Gold Standard - VER	Antai Group Waste Gas Recovery for Power Generation Project	Gold Standard VER Registry	GS1-1-CN-605-15-2011-260-194831 to 207098 GS1-1-CN-605-15-2010-142-271072 to 271903	12,268 832
VCU-VCS	Redd Forests Grouped Project: Protection of Tasmanian Native Forest Protection of a Tasmanian Native Forest (Project 3: Peter Downie)	Markit	2646-115192509-115197257-VCU-016-MER-AU-14-641-01072011-15042012-0 2657-116691652-116696727-VCU-016-MER-AU-14-587-01032011-29022012-0	4,749 5,076
Total Quantity (CO₂-e) of carbon offsets purchased and retired:				65,500

5. Further information

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

21 August 2013

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Dear Brett,

Report of Factual Findings – IAG’s self-managed approach for carbon neutrality and associated offsetting.

Objective and scope of the engagement

We have performed the procedures agreed with you to report factual findings for the purpose of assisting you in assessing, in combination with other information obtained by you, Insurance Australia Group Limited’s (IAG’s) self-managed approach for carbon neutrality and associated offsetting, as stated in the document: *Carbon Neutrality and Insurance Australia Group* (‘disclosure document’). The work performed is detailed in the terms of the engagement dated 18 July 2013 and described below with respect to the carbon neutral calculation for the 12 month period ending 30 June 2014.

Management’s responsibility for the procedures agreed

Our agreed-upon procedures have been conducted on the basis that management and those charged with governance were responsible for the adequacy or otherwise of the procedures agreed to be performed by us. Management and those charged with governance were responsible for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you and where appropriate, other intended users, wish to draw on the subject matter.

Assurance Practitioner’s responsibility

Our responsibility is to report factual findings obtained from conducting the procedures agreed. We conducted the engagement in accordance with Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*. We have complied with ethical requirements equivalent to those applicable to Other Assurance Engagements, including independence.

Because the agreed-upon procedures do not constitute either a reasonable or limited assurance engagement in accordance with AUASB standards, we do not express any conclusion and provide no assurance on IAG’s self-managed approach for carbon neutrality and associated offsetting as at 30 June 2014. Had we performed additional procedures or had we performed an audit or a review of the carbon neutrality disclosure in accordance with AUASB standards, other matters might have come to our attention that would have been reported to you.

Factual Findings

The procedures were performed solely to assist you in evaluating IAG’s self-managed approach for carbon neutrality and associated offsetting. The disclosure document covers estimated emissions for the period 1 July 2013 to 30 June 2014, based on actual emissions for the immediately preceding 12 month period.

The procedures performed and the associated factual findings are as follows:

Procedures performed	Factual Findings	Errors or Exceptions Identified
<p>1. Ascertain that the emission sources and data contained in the neutrality calculation for the 12 months ended 30 June 2013 are inclusive of all emission sources and data in the assured carbon leader board for the 12 months ended 30 June 2013.</p>	<p>The carbon leader board is an internal document used by IAG to track all emission sources. Data from the carbon leader board for the 12 months ending 30 June 2013 was translated to the data summary, which is assured by Net Balance as part of a separate engagement) and located at http://www.iag.com.au/sustainable/other/index.shtml. All emission sources and data outlined in the table under "2. Total Carbon Footprint" have been included for the period 30 June 2013.</p>	<p>No errors found</p>
<p>2. Ascertain that the estimate of emissions for financial year 2014 is not less than actual emissions for the financial year 2013, less UK emissions after date of sale.</p>	<p>The estimate of emissions for the financial year 2014 is equal to the actual emissions for the year 2013, less UK emissions.</p>	<p>No errors found</p>
<p>3. Ascertain the total offsets purchased is greater than or equal to the total estimated emissions for the 12 month period to 30 June 2014</p>	<p>The estimated total emissions for 2014 are 63,205t CO₂e- (less UK emissions). Taking into account the uplift of 5%, the total estimated emissions for the 12 month period to 30 June 2014 are 66,365.</p> <p>A total of 65,500t CO₂e- was purchased as offsets.</p> <p>On review of the 2013 year emissions reconciliation, It was noted that a total of 2,241t of extra carbon offsets were purchased, leaving a buffer at 30 June 2014 of 1,376t. Therefore, the total offsets purchased for the 12 month period to 30 June 2014 is greater than the total estimated emissions for the 12 month period to 30 June 2014.</p>	<p>No errors found</p>
<p>4. Agree the purchase of the offset projects to the relevant registry, as provided by IAG.</p>	<p>All offsets were agreed to the relevant registry as detailed in Appendix 1 of this report.</p>	<p>No errors found</p>

<p>5. Ascertain that the Carbon Neutral disclosure document being presented by IAG to explain their carbon neutral commitment refers to the Carbon Offset integrity principles outlined by the <i>National Carbon Offset Standard (section 3.1)</i></p>	<p>The disclosure document refers to the 5 offset integrity principles:</p> <ul style="list-style-type: none"> i. <i>Relevance</i> - the greenhouse gas inventory of IAG appropriately reflects the greenhouse gas emissions attributed to the organisation's scoped divisions ii. <i>Completeness</i> - IAG has defined the boundary for carbon neutrality reporting, and all sources of emissions that fall within this boundary have been accounted for. iii. <i>Consistency</i> - IAG has sourced emission factors from geographically relevant standards which are disclosed in the Glossary of Terms located at http://www.iag.com.au/sustainable/other/index.shtml. iv. <i>Transparency</i> - Greenhouse gas information has been subject to limited assurance for Scope 1, 2 and 3 emissions. Assumptions and calculation methodologies and data sources used have been disclosed in the Glossary of Terms located at http://www.iag.com.au/sustainable/other/index.shtml. v. <i>Accuracy</i> - The quantification of greenhouse gas emissions has been subjected to a limited assurance process. A buffer of 5% has been applied to ensure that all non-measured emissions within the boundary have been accounted for in line with business as usual estimations. 	<p>No errors found</p>
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Restriction on Distribution and Use of Report

This report is intended solely for the use of IAG for the purpose set out above. As the intended user of our report, it is for you and those charged with governance to assess both the procedures and our factual findings to determine whether they provide, in combination with any other information you have obtained, a reasonable basis for any conclusions which you wish to draw on the subject matter. As required by ASRS 4400, distribution of this report is restricted to those parties that have agreed the procedures to be performed with us and other intended users identified in the terms of the engagement (since others, unaware of the reasons for the procedures, may misinterpret the results). Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than the management of IAG for any consequences of reliance on this report for any purpose.

On behalf of the Net Balance team,



Director, Net Balance
21 August 2013

Enclosed:
Appendix 1 - Offset Projects agreed to Registry

Appendix 1: Offset Projects agreed to Registry

Project Details	Offset Type	Details of Transaction	Register	Offset Quantity (Tonnes CO ₂ -e)
Bundled wind energy generation projects in Gujarat, India	VCU-VCS	1388-60408600-60431524-VCU-003-APX-IN-1-412-01012010-30062010-0	APX	22,925
Siam Cement Biomass Project	VCU-VCS	2759-119426026-119445675-VCU-008-MER-TH-4-403-01012010-31122010-0	Markit	19,650
Antai Group Waste Gas Recovery for Power Generation Project	GS VER	GS1-1-CN-605-15-2011-260-194831 to 207098	Gold Standard VER Registry	12,268
	GS VER	GS1-1-CN-605-15-2010-142-271072 to 271903	Gold Standard VER Registry	832
Redd Forests Grouped Project: Protection of Tasmanian Native Forest	VCU-VCS	2646-115192509-115197257-VCU-016-MER-AU-14-641-01072011-15042012-0	Markit	4,749
Protection of a Tasmanian Native Forest (Project 3: Peter Downie)	VCU-VCS	2657-116691652-116696727-VCU-016-MER-AU-14-587-01032011-29022012-0	Markit	5,076
GRAND TOTAL				65,500