

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 2011 to 30 June 2012
Disclosure Period:	1 Jan 2012 to 30 June 2013
Date of most recent verification:	30 June 2012 (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, a growing presence in Asia, and other specialist underwriting operations in the UK.

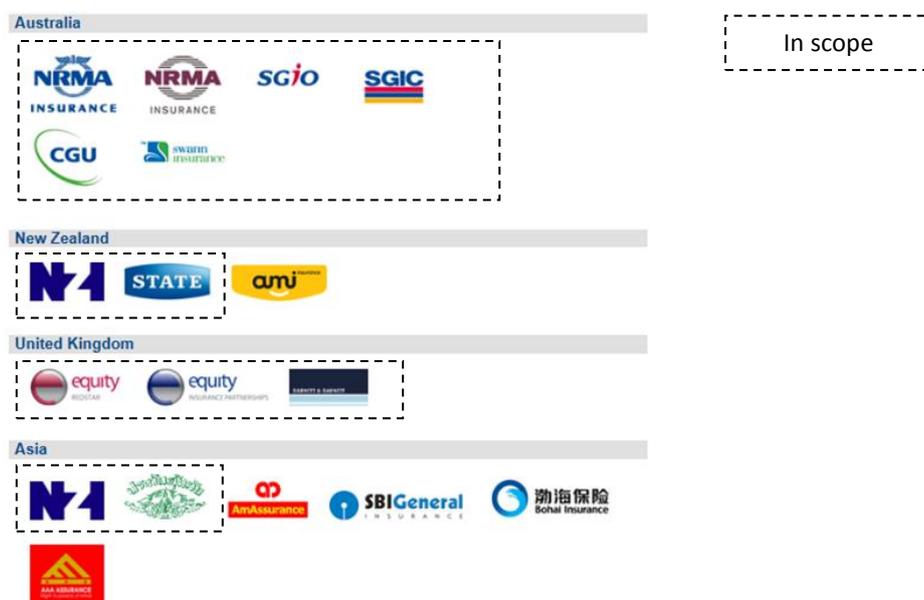
Carbon inventory boundary

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 carbon inventory. IAG's joint venture operations in India, China, Vietnam and Malaysia are all out of scope. On 5 April 2012 IAG announced that it had completed the 100% acquisition of the AMI insurance business operating in New Zealand. Given the timing of the acquisition, the emissions from the AMI entity are not included in the 12 month inventory period to 30 June 2012 (disclosed in section 2 of this document) and consequently the business is not included in IAG's carbon neutral commitment. The GHG emissions from this acquisition will be brought into scope in the following reporting period.

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 contributes 58% of the Group’s total emissions. 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.

Carbon inventory exclusions

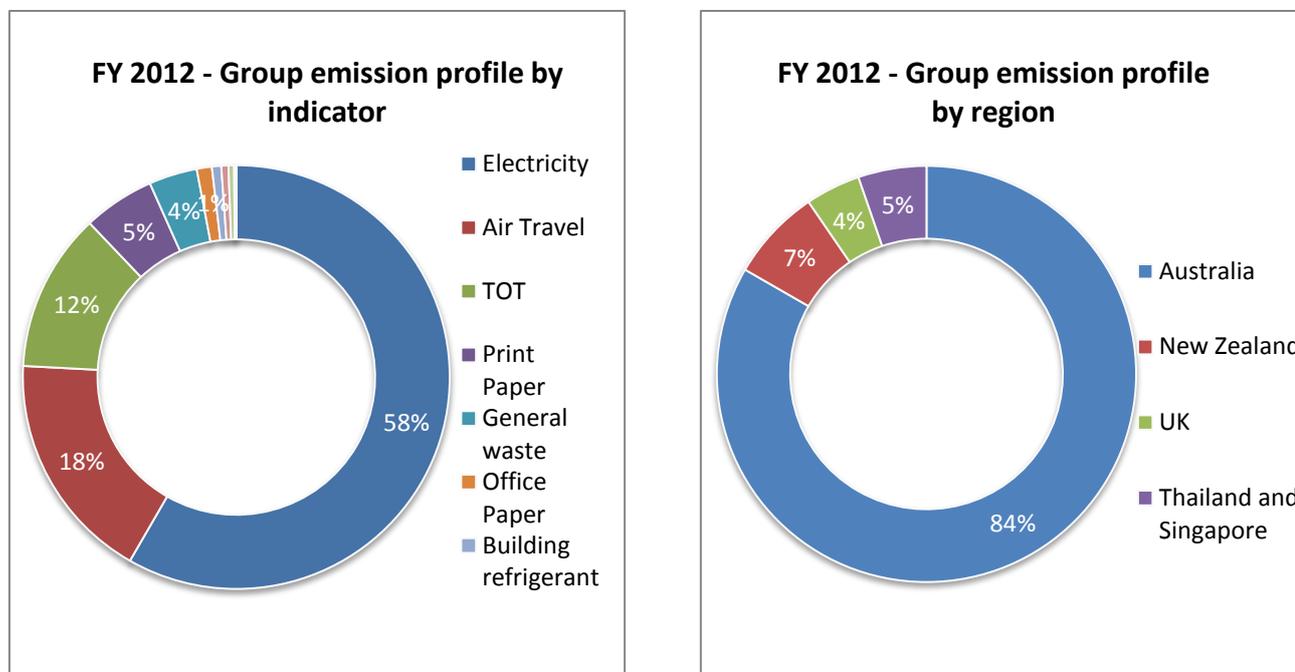
In Australia, IAG’s carbon inventory excludes vehicle refrigeration (scope 1) and waste water (scope 3). Given the nature of the operations of IAG, these emission types have been assessed as exerting an immaterial contribution to the group’s GHG emissions and are therefore excluded from the reported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

The emission profile of the group is summarised below.



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 2011-2012 (FY2012) 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 report 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 report.

The 2011-2012 inventory is used to forecast the carbon footprint for the 2012-2013 financial year.

Emissions source	Australia (tonnes CO ₂ -e)	New Zealand (tonnes CO ₂ -e)	UK (tonnes CO ₂ -e)	Asia (Thailand and Asia head office, tonnes CO ₂ -e)	Total (tonnes CO ₂ -e)
Scope 1					
Tool of Trade Vehicle Fleet fuel consumption	5,493	1,102	107	1,185	7,887
Gas Consumption	N/R	N/R	350	N/R	350
Building Refrigerants	459	N/R	N/R	N/R	459
Scope 2					
Electricity Consumption	33,987	970	1,726	1,294	37,977
Scope 3					
Air Travel	8,230	2,057	367	767	11,421
Rail Travel	N/A	N/A	25	N/R	25
Print Paper	3,055	316	N/R	161	3,532
Office Paper	439	94	190	22	745
Taxi Travel	276	N/R	N/R	N/R	276

Rental Car	81	N/R	N/R	N/R	81
Waste To Landfill	2,274	108	N/R	N/R	2,382
Total	54,294	4,647	2,765	3,429	
Total 2011-2012 GHG emissions:					65,135

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

3. EMISSION REDUCTION MEASURES

IAG’s emission reduction targets to FY2012 were to decrease emissions by 5% per annum.

Initiatives to achieve these targets have included:

- Installation of video conferencing and tele-presence facilities across the portfolio to reduce air travel
- Property portfolio retro-fits (including efficient lighting installation)
- Implementation of the desk top power down initiative that is able to remotely turn off and restart PC’s on the network in our Australian operations
- The occupation of a number of 5*green star rated buildings
- Moving to a more sustainable vehicle fleet including hybrids and more fuel efficient vehicles.

IAG has reported on progress in reducing emissions in the annual business sustainability report (www.iag.com.au/sustainability).

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 Thai 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 2012-2013 using the actual GHG emissions reported in the 2011-2012 (FY2012) carbon inventory. 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:

- For the actual CO₂-e emissions for the six months to June 2012 and
- In advance of the 2012-2013 estimated GHG emissions occurring

At the end of the 2012-2013 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 2012-2013 are: 64,500¹ 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.

¹ This does not include the 5% uplift.

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

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 105,000 tonnes CO₂-e offsets have been retired to cover both the six months to June 2012 and the forecast emissions for the 2012-2013 (FY2013) reporting period.

Offset type	Project name	Registry	Serial numbers	Offset quantity (Tonnes CO ₂ -e)
Voluntary Carbon Standard (VCU) – Voluntary Carbon Standard (VCS)	Hebei Chongli County Qingsanying Second Phase 49.3MW Wind Power Project	Markit	2185-89205218-89225217-VCU-008-MER-CN-1-807-08012009-31122009-0	20,000
			2185-89225218-89241967-VCU-008-MER-CN-1-807-08012009-31122009-0	16,750
				36,750
VCU-VCS	Siam Cement Biomass Project	Markit	2170-88077640-88104139-VCU-008-MER-TH-4-403-01072009-30092009-0	26,500
			1696-69949240-69954239-VCU-008-MER-TH-4-403-01012009-30062009-0	5,000
				31,500
Gold Standard - VER	Antai Group Waste Gas Recovery for Power Generation Project	Gold Standard VER Registry	GS1-1-CN-605-15-2010-142-152092 to 173091	21,000
VCU-VCS	Redd Forests Grouped Project: Protection of Tasmanian Native Forest	Markit	1613-67401951-67402700-VCU-006-MER-AU-14-641-01042010-30062011-0	750
			1613-67410881-67415880-VCU-006-MER-AU-14-641-01042010-30062011-0	5,000
			1613-67341035-67346034-VCU-006-MER-AU-14-641-01042010-	5,000

Offset type	Project name	Registry	Serial numbers	Offset quantity (Tonnes CO ₂ -e)
			30062011-0	5,000
			1613-67365148- 67370147-VCU-006-MER- AU-14-641-01042010- 30062011-0	15,750
Total Quantity (CO₂-e) of carbon offsets purchased and retired:				105,000

5. Further information

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

23 August 2012



Brett Ward
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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, IAG’s self-managed approach for carbon neutrality and associated offsetting, as stated in the Carbon Neutral Program Disclosure (‘disclosure document’). The work performed is detailed in the terms of the engagement dated 31 July 2012 and described below with respect to the carbon neutral calculation for an 18 month period ending 30 June 2013.

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 2013. 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 actual emissions for the period 1 January 2012 to 30 June 2012, and estimated emissions for the period 1 July 2012 to 30 June 2013, as depicted below:



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 contained in the carbon neutrality calculation for the 12 months to 30 June 2012 are inclusive of all emission sources in the assured carbon leader board for the 12 months to 30 June 2012.</p>	<p>The carbon neutrality calculation includes all emission sources in the data summary (assured by Net Balance as part of a separate engagement) and located at www.iag.com.au/sustainability.</p>	<p>No errors found</p>
<p>2. Ascertain that the emission figures contained in the carbon neutrality calculation for the 12 months to 30 June 2012 are a direct extrapolation of emissions recorded for the 12 months to 30 June 2012.</p>	<p>Emission figures contained in the carbon neutrality calculation for the 12 months to 30 June 2012 are a direct extrapolation of emission figures in the data summary (assured by Net Balance as part of a separate engagement) and located at www.iag.com.au/sustainability.</p>	<p>No errors found</p>
<p>3. Ascertain that the estimate of emissions for financial year 2013 equals the emissions for the financial year 2012.</p>	<p>IAG has used the actual emissions for the period 1 July 2011 to 30 June 2012 to forecast total emissions for the corresponding period ending 30 June 2013, as shown in section 2 of the disclosure document.</p>	<p>No errors found</p>
<p>4. Ascertain that the 105% purchase of carbon offsets is greater than the estimated offsets required to mitigate the total emissions for IAG's Australian, New Zealand, Asia head office, Thai and UK businesses based operations for the 18th months to 30 June 2013, based on an extrapolation of business as usual emissions.</p>	<p>To ascertain that the 105% uplift was sufficient to offset all measured and non-measured emissions, Net Balance determined the percentage split for each of the emission sources included for IAG Australia (which has the largest and most complete carbon footprint). Net Balance then applied a pro-rata to the relevant emission sources that were not measured in New Zealand, Asia head office, Thai and UK businesses. For the purposes of the carbon neutrality disclosure, IAG assumes a consistent emissions profile across the divisions. For the period 1 January 2012 to 30 June 2013, the estimation for un-measured emissions in New Zealand, Asia head office, Thai and UK totalled 876t CO₂e-. In comparison, extra offsets purchased by IAG amounted to 3,449 t CO₂e-. This is 5% of the total estimated carbon footprint for the 18 months ending 30 June 2013. The purchased amount is therefore greater than the total business as usual estimated emissions for measured and un-measured sources across all IAG divisions within the carbon neutrality scope for the 18 months to 30 June 2013.</p>	<p>No errors found</p>

<p>5. Agree the purchase of the offset projects to the relevant registry as described in Appendix 1 to this report</p>	<p>All offsets were agreed to the relevant registry as detailed in Appendix 1.</p>	<p>No errors found</p>
<p>6. Ascertain the total offsets purchased was not less than the total emissions for the 6 month period to 30 June 2012 and estimated amount for the 12 month period to 30 June 2013</p>	<p>A total of 105,000t CO₂e- was purchased. The estimated total emissions were 101,551t CO₂e-. Therefore, the total offsets purchased were not less than what was required to mitigate total estimated emissions for the period.</p>	<p>No errors found</p>
<p>7. 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 and are disclosed in IAG's business sustainability reporting glossary at www.iag.com.au/sustainable. 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 at www.iag.com.au/sustainable. 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>

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
23 August 2012
Melbourne, Australia



Terence Jeyaretnam, FIEAust
Lead CSAP, Accountability UK
Director, Net Balance

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)
Hebei Chongli County Qingsanying Second Phase 49.3MW Wind Power Project	VCU	2185-89205218-89225217-VCU-008-MER-CN-1-807-08012009-31122009-0	Markit	20,000
	VCU	2185-89225218-89241967-VCU-008-MER-CN-1-807-08012009-31122009-0	Markit	16,750
Siam Cement Biomass Project	VCU	2170-88077640-88104139-VCU-008-MER-TH-4-403-01072009-30092009-0	Markit	26,500
	VCU	1696-69949240-69954239-VCU-008-MER-TH-4-403-01012009-30062009-0	Markit	5,000
Antai Group Waste Gas Recovery for Power Generation Project	GS VER	GS1-1-CN-605-15-2010-142-152092 to 173091	Gold Standard VER Registry	21,000
Redd Forests Grouped Project: Protection of Tasmanian Native Forest	VCU	1613-67401951-67402700-VCU-006-MER-AU-14-641-01042010-30062011-0	Markit	750
	VCU	1613-67410881-67415880-VCU-006-MER-AU-14-641-01042010-30062011-0	Markit	5,000
	VCU	1613-67341035-67346034-VCU-006-MER-AU-14-641-01042010-30062011-0	Markit	5,000
	VCU	1613-67365148-67370147-VCU-006-MER-AU-14-641-01042010-30062011-0	Markit	5,000
GRAND TOTAL				105,000