

AGL Carbon Offsets Policy



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Policy Overview

| AGL Energy Limited: AGL Carbon Offsets Policy | |
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1. Introduction and scope

This policy applies to AGL Energy Limited and all its 'controlled' subsidiary companies (together, described as "AGL") and, accordingly, to all employees of those entities.

This policy outlines AGL's planned use of carbon offsets toward achieving the greenhouse gas emissions targets outlined in AGL's Climate Transition Action Plan published in September 2022 ("CTAP"), including their overall role, and AGL's approach to sourcing and verifying carbon offsets.

2. The role of offsets in meeting AGL's Scope 1 and 2 emissions targets

AGL's operated Scope 1 and 2 greenhouse gas emissions decarbonisation strategy as set out in its CTAP relies predominantly on achieving absolute reductions in its Scope 1 and 2 emissions, through the sequential and responsible closure of AGL's operated coal-fired power stations, which account for over 95% of its annual operated Scope 1 and 2 emissions¹. Other opportunities to reduce emissions such as through advancements in technology and efficiency improvements are also expected to play a role in reducing AGL's absolute Scope 1 and 2 emissions over time.

To achieve AGL's net emissions reduction targets, carbon offsets will be used to address residual emissions where necessary, subject to availability and viability. Residual emissions are expected to include operated Scope 1 and 2 emissions arising from renewable and gas-fired generation assets, storage assets, corporate and other activities (including the operation of AGL's Energy Hubs²).

Meeting AGL's Scope 1 and 2 emissions targets will involve a multi-layered approach as outlined in Table 1 below:

Table 1: AGL's approach to meeting its Scope 1 and 2 emissions targets

| Approach | Lever | Materiality (proportion of operated Scope 1 and 2 emissions) ³ | Timing |
|---------------|---|---|---|
| AVOID | AGL will not invest in or operate additional coal-fired electricity generation assets. | N/A | Ongoing |
| REDUCE | AGL will reduce operated Scope 1 and 2 emissions through the retirement of AGL's operated coal-fired power stations, Bayswater and Loy Yang A power stations. AGL is also investing in flexible operations for its operated coal-fired power stations in the interim which will enable power stations to operate at a reduced capacity (resulting in lower emissions) over certain periods. | High (>95%) | Bayswater Power Station will be closed between 2030-2033. Loy Yang A Power Station is targeted to close by end of FY35. |
| | AGL will explore opportunities for additional reductions in Scope 1 and 2 emissions from its operational portfolio (other than Bayswater and Loy Yang A power stations), such as renewable energy sourcing, energy efficiency, electrification and fuel switching. | Low (<5%) | Ongoing |
| INVEST | AGL will transition its generation portfolio by investing in new renewable generation and firming | N/A | Ongoing |

¹ As of 30 June 2024.

² AGL is committed to repurposing its large thermal generation sites into low carbon industrial Energy Hubs. See AGL's [CTAP](#) for more information.

³ Materiality with reference to AGL's operated Scope 1 and 2 emissions in FY19 (baseline year for Scope 1 and 2 emissions targets)

| Approach | Lever | Materiality (proportion of operated Scope 1 and 2 emissions) ³ | Timing |
|----------|--|---|--|
| | capacity, to enable AGL and the National Electricity Market to decarbonise responsibly. | | |
| OFFSET | Following the closure of AGL's coal-fired power stations, offsets may be used to help achieve AGL's net zero Scope 1 and 2 emissions target where necessary. | Low (<5%) | Following closure of AGL's coal-fired power stations |
| | Prior to the closure of AGL's coal-fired power stations, offsets may also be used to help achieve AGL's interim emission reduction targets ⁴ . | N/A | Ongoing |

3. Offset credibility considerations

The general considerations for assessing the credibility of any offsets that AGL uses to help meet its Scope 1 and 2 emissions reduction targets are outlined in Table 2 below. AGL will take these factors into consideration when deciding which offsets to use. The approach that AGL takes to evaluate carbon offset quality will evolve over time as necessary to adapt to updated regulations, policies, standards, consumer preferences, and industry practice as domestic and international carbon markets mature.

Table 2: Considerations for assessing credibility of offsets used toward meeting AGL's emissions reduction targets

| Principle ⁵ | Consideration |
|--------------------------------|---|
| Effective governance | Offset projects should aim to have effective program governance to ensure transparency, accountability, and the overall quality of carbon credits. |
| Tracking | Offset projects should aim to operate or make use of a registry to uniquely identify, record, and track mitigation activities and carbon credits issued. |
| Transparency | Offset projects should aim to provide comprehensive and transparent information on all credited mitigation activities. |
| Verification | Offset projects should aim to be independently verified through recognised national/international standards by an independent, appropriately qualified third party for alignment with these principles. |
| Additionality | Offset units should aim to be additional, i.e., they would not have occurred in the absence of the incentive created by carbon credit revenues, and to avoid double counting. |
| Permanence | Offset units should aim to meet permanence requirements per a recognised national/international standard. |
| Measurable | Offset units should aim to be robustly quantified, based on conservative approaches, completeness and scientific methods. |
| Sustainable development | Offset projects should aim to ensure mitigation activities conform with widely established industry best practices on social and environmental safeguards while delivering positive sustainable development impacts. |
| Vintage | Time between the use of an offset to the time when that offset was created should aim to be in line with an industry standard (i.e., preferably less than five years). |
| Type | Different types of offsets, including nature-based and based on technological carbon removals, including through carbon reduction and removal, may be considered as part of AGL's portfolio of offsets for use towards achieving AGL's Scope 1 and 2 emissions reduction targets. |
| Co-benefits | Projects offering additional co-benefits may be considered as part of AGL's portfolio of offsets. |

⁴ AGL's interim Scope 1 and 2 emissions reduction targets as outlined in its 2022 CTAP are a 17% reduction in greenhouse gas emissions by FY24 against an FY19 baseline; and a 52% reduction by FY35 following the closure of Bayswater Power Station by 2033 against an FY19 baseline.

⁵ Principles informed by The Integrity Council's Voluntary Carbon Market core carbon principles - <https://icvcm.org/core-carbon-principles/>

4. Transparent disclosure on use of offsets

AGL will disclose annually the quantity of offsets used (if any) to reduce its Scope 1 and 2 net emissions profile and meet its emissions reduction targets. This will include information on the quantity, project details, certification standard and vintage.

5. AGL's use of offsets for other purposes

AGL may also use carbon offsets for other purposes, including for AGL's customer offerings. AGL currently surrenders carbon offsets in relation to its suite of Climate Active-certified products. Information on projects from which AGL currently sources offsets for AGL's Climate Active-certified offerings are published in AGL's Product Disclosure Statements.

6. Updates to this policy

AGL will regularly review this policy in alignment with AGL's CTAP publication timeline, and in the event of any significant changes to AGL's strategy.