

# Mega Minerals ESG Policy and Scope 3 Emissions Reporting Guidelines

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## 1. Introduction

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This document provides comprehensive guidelines outlining Mega Minerals' internal Environmental, Social, and Governance (ESG) policies with particular emphasis on Scope 1, 2, and 3 greenhouse gas (GHG) emissions reporting. It aims to serve as a detailed reference for internal teams, external stakeholders, and retrieval-augmented generation (RAG) systems to accurately understand and implement reporting standards, contractual clauses, and compliance obligations concerning GHG emissions disclosures.

Key aspects covered include thresholds that trigger scope-specific reporting, methodologies for calculating Scope 3 emissions, decarbonization commitments, and contractual considerations regarding carbon taxes and price re-openers.

## 2. Company Overview and Context

Mega Minerals is a leading iron ore producer with a diverse customer base including Dragon Steel, Nippon Metals, and EuroSteel. The company's contractual framework encompasses long-term offtake agreements that specify pricing formulas, volume commitments, delivery windows, and environmental clause provisions. These contracts are integral to understanding the regulatory and commercial environment underpinning ESG reporting, especially regarding Scope 3 emissions.

In response to global climate policies and evolving carbon pricing schemes such as the European Union Carbon Border Adjustment Mechanism (CBAM), Mega Minerals has developed internal policies that align operational practices with international standards for emissions disclosure and decarbonization pathways.

## 3. Long-term Iron Ore Offtake Agreements

These agreements formalize the commercial relationship between Mega Minerals and its customers, detailing contractual obligations covering quality standards, volume commitments, pricing mechanisms, and environmental clauses. Below are key clauses typically included:

Clause Number	Description	Keywords
3.1	Pricing Formula: Indexed to Market Price + Freight & FX Adjustments	price formula, index reference, freight adjustment, FX terms
3.2	Volume Commitment & Laycan Window	volume, laycan
3.3	Quality Specifications (Fe, moisture, SiO2, Al2O3, P)	quality, Fe, Moisture, SiO2, P

3.4	Demurrage and Delivery Terms	<b>demurrage, delivery</b>
3.5	Environmental Clauses: Carbon Tax Pass-through & Price Re-opener	<b>carbon tax, price re-opener</b>

### Sample Clause: Price Formula

$$\text{Price} = \text{Base Index Price} + \text{Freight Adjustment} + \text{FX Adjustment} + \text{Carbon Tax}$$
(if applicable)

This formula is typically outlined in Clause 3.1, referencing specific indices such as Platts Iron Ore Index (seasonally adjusted), freight costs from major shipping corridors, and currency exchange rates.

## 4. ESG Policies and Scope Emissions

Mega Minerals maintains a comprehensive ESG Policy Document that guides reporting and operational standards. The policy explicitly states the company's commitments regarding Scope 1 (direct emissions), Scope 2 (electricity indirect emissions), and Scope 3 (value chain emissions).

### Scope 3 Emissions Thresholds

- Emissions exceeding 25,000 tonnes CO2-eq per annum trigger mandatory external reporting.
- Additional disclosures are required for projects or activities with potential for high indirect emissions, such as transportation, processing, and end-use of products.

The policy establishes internal standards for credible reporting, including data accuracy, boundary setting, and verification processes.

## 5. Methodologies for Scope 3 Emissions Calculation

## Data Sources

Mega Minerals utilizes a combination of supplier data, transportation records, and industry-standard emission factors. Primary data includes:

- Transport distances and modes from logistics providers
- Jet fuel consumption for shipping
- Production process emissions Factors
- Customer end-use emission estimates

## Calculation Framework

The company adopts the GHG Protocol's Corporate Standard for Scope 3 assessments, focusing on the categories most relevant to iron ore supply chain:

1. Purchased Goods and Services
2. Transportation & Distribution
3. End-of-Life Treatment of Sold Products

## Example Calculation: Transportation Emissions

```
Distance: 1,000 km
Transport Mode: Bulk shipping by vessel
Emission Factor: 0.015 tonnes CO2 per tonne-km
Cargo: 50,000 tonnes
Emissions = Distance x Emission Factor x Cargo Volume
= 1,000 km x 0.015 tonnes/tonne-km x 50,000 tonnes
= 750 tonnes CO2
```

Aggregated across all transport modes and supply chain steps, total Scope 3 emissions are estimated quarterly to meet reporting thresholds.

## 6. Reporting Thresholds and Triggers

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Reporting obligations are triggered based on the following criteria:

- Annual Scope 3 emissions exceeding 25,000 tonnes CO2-eq

- Significant contractual amendments affecting emissions intensity or thresholds
- Implementation of new transportation routes or supplier changes affecting emission profiles

Threshold exceedance prompts further disclosures, internal audits, and external verification in accordance with internationally recognized standards.

## 7. Decarbonization Pathways and Internal Standards

Mega Minerals commits to achieving a 30% reduction in Scope 1 and 2 emissions by 2030, aligned with the Science-Based Targets initiative (SBTi). Key initiatives include:

- Transitioning to renewable energy sources for mining operations
- Implementing electrification of crushing and processing equipment
- Investing in carbon offset projects for residual emissions

Decarbonization pathway standards are documented in internal ESG frameworks, with milestones and measurement protocols aligned with international best practices.

## 8. Internal Memos on Carbon Pricing Schemes

Recent internal communications highlight the impact of schemes like the EU CBAM and national carbon taxes on operational costs and contractual clauses. Example:

### Memo: EU CBAM Impact Analysis – March 2024

The table below summarizes the approximate carbon costs per tonne for different transport modes:

Transport Mode	Estimated Carbon Cost (€) per tonne
Bulk Vessel	15
Rail	12

Truck	20
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This data informs the inclusion of pass-through clauses in supply contracts and strategic planning of logistics routing to minimize costs.

The memos also cover possible future schemes, such as border adjustments, requiring preemptive adjustments to pricing models.

## 9. Contractual Clauses and Interpretations

### Sample Contract Clauses Related to Emissions

#### Clause 9.1: Carbon Tax Pass-Through

The Seller shall notify the Buyer of any applicable carbon taxes on

#### Clause 9.2: Price Re-opener for Emissions-Related Costs

In the event that new environmental legislation or carbon pricing is

### Legal Interpretation:

Such clauses are intended to ensure contractual flexibility and clear allocation of environmental costs, reducing disputes during emissions regulation changes.

## 10. Sample Contract Clauses and Examples

### Sample Clause 3.1: Pricing Formula

$$\text{Price} = \{\text{Base Index Price}\} + \{\text{Freight Adjustment}\} + \{\text{FX Adjustment}\}$$

### Example Scenario:

A 50,000-tonne shipment arranged with the following parameters:

- Base Index: Platts 62% Iron Ore Index, USD 120 / tonne
- Freight Adjustment: USD 10 / tonne (based on current freight rates)
- FX Adjustment: 1 USD = 0.85 EUR
- Carbon Tax Pass-through: EUR 2 / tonne (from internal memo)

$$\begin{aligned} \text{Final Price per tonne} &= (\text{USD } 120 + \text{USD } 10) / 0.85 + \text{EUR } 2 \\ &= (\text{USD } 130) / 0.85 + \text{EUR } 2 \approx \text{EUR } 152.94 + \text{EUR } 2 = \text{EUR } 154.94 \end{aligned}$$

This facilitates transparent and flexible pricing aligned with market and regulatory conditions.

## 11. Legal Guidance on Reporting Obligations

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Legal interpretations emphasize that Scope 3 emissions reporting obligations depend on the contractual scope, applicable thresholds, and specific clauses clarifying reporting boundaries. The key considerations include:

- Defining boundary scope as per GHG Protocol standards
- Identifying activities and supply chain segments that trigger mandatory disclosures
- Ensuring contractual clauses explicitly reference reporting thresholds and obligations

Failure to accurately report Scope 3 emissions can lead to regulatory penalties and reputational risks. Therefore, ongoing legal review and adherence to jurisdictional regulations are critical components of Mega Minerals' compliance framework.