

A photograph of a city skyline at sunset, with the sun low on the horizon behind several skyscrapers. The sky is a mix of orange, yellow, and grey. The buildings are silhouetted against the bright light of the setting sun.

Sustainability Assurance 2017 Report to Management

The GPT Group

30th April 2018

Commercial in confidence

“Beyond acknowledging the material sustainability risks they face, we want companies to articulate the steps they are taking to address them and to set targets to improve” – *Australian Council of Superannuation Investors (July 2017)*

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Dear Steve,

I am writing to provide EY's report of findings following our recent assurance engagement with The GPT Group ('GPT') in relation to selected sustainability metrics. We have carried out our procedures according to services agreement dated 2nd January 2017 and are pleased to present our observations in this Report to Management.

Whilst we were able to issue an unqualified opinion, throughout our assurances procedures we made a number of observations of the data collation process for environmental and social data as presented in the online sustainability reporting suite. We have highlighted these observations within this report. We have also included some guidance on how to address these observations for future reporting periods.

I would also like to extend our appreciation to the various business areas across the GPT that have contributed to the reporting process in 2017 and have made themselves available during our assurance procedures. We look forward to the opportunity to discuss any findings presented within this letter or any other aspects arising from our assurance procedures this year. We are also very keen to get your feedback on our performance, and where we ourselves can improve. It is fundamentally important that we learn from this year's engagement to deliver continued improvements in our services.

If you wish to discuss the findings of our work further, please feel free to contact me on 0448 588 041, or Shae de Waal on 0422 210 154.

Yours sincerely,



Terence Jeyaretnam
Partner

Executive Summary



Executive Summary

We have outlined our key findings in relation to the 2017 sustainability assurance process to assist GPT in making continuous improvements. Our findings are limited to the processes for capturing, collating and calculating greenhouse gas emissions and energy data, community data and absenteeism data. We note that the findings from this engagement will also assist in the preparation of GPT's NGER reporting in FY18.

Consistent reporting improvement

In the course of our assurance procedures, we have observed that GPT has a robust reporting process enabling accurate and complete data to be collated as part of the annual sustainability reporting process. In particular:

- ▶ Attention to completeness of data – in 2017, GPT undertook a detailed review of metered level data reported under all assets within the reporting boundary. This review process identified a small number of tenant deductions that were contributing to reported values for energy and scope 2 emissions. EY will work with GPT to review this process in the NGER assurance engagement.
- ▶ Overall data quality – GPT has demonstrated a consistent focus on data integrity and has invested significant time and resources in creating a control environment that supports effective annual reporting.
- ▶ Evidence supporting data integrity – The property industry is often characterised by complex ownership arrangements which further complicate annual reporting processes. GPT has worked with co-property developers in order to ensure the reporting quality across their portfolio is maintained. EY noted that GPT endeavours to maintain the quality of data collected at their non-managed sites to a standard in line with their managed assets by maintaining an open line of communication with asset managers and co-developers.

Areas for improvement

While GPT has a robust data management and reporting process in place, we noted several recommendations which will further serve to strengthen these processes. The following were noted as higher priority matters for GPT's review:

- ▶ Volunteering data collation – The data collation process for volunteering requires a number of manual procedures that are highly subject to variability. These processes have continually led to material assurance variances that have required report restatements.
- ▶ Reporting boundaries – GPT reports for a number of assets and the portfolio size varies throughout the year based on the reporting boundary applied by GPT. This reporting boundary reflects the nature of the industry, however, greater controls are required as this area of reporting has inherently greater exposure to risk of misstatement.
- ▶ Community spend calculations – Community spend is collated and calculated through a manual processes. There are minimal reviews of this process and separation of duties is limited. As a result, minor errors were noted this year, which contributed to a material misstatement of the total spend reported. These errors could be identified earlier following a formal internal review process.

Further detail on these findings, in addition to other moderate and low risk findings, are provided in the Detailed Findings and Recommendations section of this report.

Assurance Scope and Approach



Assurance Scope and Approach

Scope

We were engaged to carry out limited assurance over GPT's Selected Sustainability Performance Data for the year ended 31 December 2017.

Subject Matter

The Subject Matter for our assurance engagement included Selected Sustainability Performance Data, limited to those aspects listed below, for the year ended 31 December 2017:

- ▶ Energy consumption and energy production in base building and tenancies (gigajoules)
- ▶ Scope 1 greenhouse gas (GHG) emissions in tonnes of carbon dioxide equivalent (tCO₂-e)
- ▶ Scope 2 greenhouse gas (GHG) emissions in tonnes of carbon dioxide equivalent (tCO₂-e)
- ▶ Water consumption (kilolitres)
- ▶ Waste inputs: total waste generated (tonnes); waste diversion from landfill (%)
- ▶ Waste outcomes: outcome by grade (A grade, B grade, C grade) (tonnes), A Grade, B Grade, C Grade
- ▶ Absenteeism (total days)
- ▶ Volunteering (total days full time permanent, and % of total full time equivalent days)
- ▶ Community investment (\$AUD)

The Subject Matter did not include:

Data sets, statements, information, systems or approaches other than the Selected Performance Data and related disclosures; and neither Management's forward-looking statements nor any comparisons made against historical data.

Criteria applied by GPT

In preparing the Selected Sustainability Performance Data, GPT applied the following criteria:

- ▶ GPT's self-determined criteria as established in its Sustainability Report; GPT's Community Engagement Protocol; and GPT's environmental data basis of preparation
- ▶ The Global Reporting Initiative G4 Reporting Guidelines.

Approach

Stage 1: Assurance Planning

Determine Scope: EY held an opening meeting to confirm objectives, scope, subject matter, level of assurance, schedule, roles and responsibility, format and timing of reporting and delivery.

Assess Subject Matter and Criteria: EY confirmed the scope agreed and the criteria against which the reported information was prepared.

Stage 2: Assurance Strategy and Risk Assessment

§ Understand the process: EY performed an overall 'reporting' system walk-through for selected performance data. This process included gaining a detailed understanding of the data collection, aggregation, and collation of each reporting area.

§ Assess risks and identify controls: EY mapped measurement and data flows, associated risks and controls for GPT's sustainability performance data.

§ Develop assurance strategy: Based on this information, EY developed an assurance strategy to address the higher risk areas of the data collation and reporting process.

§ Guidance for GPT: EY communicated with GPT regularly throughout the planning and execution process to provide guidance on our assurance approach, including examples of data and information required from the business.

Assurance Scope and Approach

Stage 3: Testing Sustainability Performance Information

Our testing procedures consisted of both detailed analytics and substantive testing to support the development of a conclusion in relation to the performance data reported by GPT.

The key stages of the assurance execution stage included:

- § Performing Analytical Procedures – conducted analytical tests of selected data to identify variations. Confirmed significant movements with management and, where necessary performed additional tests of detail.
- § Performing Tests of Detail – Completed detailed substantive tests of reported data to source information (including invoices, volunteering sign in sheets, etc.)
- § Reassess Risks – Based on findings from our testing, reassessed whether key risks were addressed or if additional testing was required.
- § Interview personnel – Interviewed key personnel responsible for preparation of data included in the Report.
- § Review Final Report: performed a final review of GPT's Report and confirmed data reported was in line with assured sustainability performance data.
- § Gain Management Representation – EY made inquiries of management and requested their representation on aspects where additional audit evidence is required over and beyond paper-based testing.

Stage 4: Conclusion and Reporting

Based on the outcome of the testing performed, EY performed the following;




- § Developed a summary of assurance differences that highlighted the relevance, importance and materiality of our findings. Where issues were deemed 'material' these were raised with GPT immediately. However, where lesser issues were noted the variances were complied to determine if, in aggregate, they constituted a material variance
- § Performed a final review of Sustainability Reporting to confirm the qualitative basis for inclusion.
- § Developed a draft and subsequent final assurance statement, and compiled our findings from throughout the engagement in a report for management that outlines aspects of positive performance, and areas where improvements could be made.

Detailed Findings and Recommendations






Priority of Recommendations

In the table of recommendations below, we have identified areas where we consider internal controls and processes should be modified or improved. Recommendations have been provided in order to improve the data quality and processes, and to improve the audit process more broadly. We have classified the observations in order of relative importance as follows:



Priority	Explanation
 High Risk	<p>▶ Requires immediate action of GPT's management to ensure the accuracy and completeness of data currently being collected for GPT's sustainability reporting.</p>
 Moderate Risk	<p>▶ An observation of substantial importance to the Sustainability Performance Data reporting process that it requires the necessary attention of GPT management and an agreed program for resolution. Action required in order to implement process improvements for the 2018 reporting year.</p>
 Low Risk	<p>▶ An observation which does not necessarily warrant immediate attention but which should have an agreed action for resolution.</p>

In the following pages we have outlined our observations and recommendations from this year's assurance engagement. Separately we have outlined an update on those observations and recommendations made last year, including an indication of whether the recommendations still stand.



Detailed Findings and Recommendations

Item	Observation	Recommendation	Priority
1. Reporting boundary - Waste	During the assurance processes applied for waste testing, EY noted the inclusion of two sites that were not within GPT's reporting boundary within the period. This was a result of divestments in the previous period. EY noted the current reporting tool was not set up to identify any divestments by GPT automatically and the review process is manual.	EY notes there is an internal data review for all environmental data points. The inclusion of these sites did not indicate a pervasive error or a systematic process error. However, further asset inclusion misstatements could be prevented by establishing a control review function that compares all reported assets to the master asset register to confirm assets included are within the reporting boundary for the year.	
2. Reporting boundary - Community	A manual review against GPT's asset register is completed as part of the data collation process for Community investment. During in the assurance process this year, EY identified the inclusion of one asset that was divested within the reporting period. This resulted in a minor overstatement of community investment for the reporting period.	To avoid any confusion between the assets within the reporting boundary, GPT should apply a review process to identify the inclusion of any assets that have been divested within the reporting period. EY noted the reporting boundary applied for community investment differs to that of the environmental reporting boundary. Therefore, these reviews should be performed separately.	
3. Community spend - calculations	The data collation process for community investment involved a number of manual calculations across a range of different data sources. In the testing process this year, EY noted instances where formulas had not been updated from the previous year. This resulted in a material variance between actuals and the total reported figure.	The community spend reporting process currently does not include a second line review. Data is collated and calculated by one team member and directly reported to EY. The inclusion of an internal data review process could identify a number of minor errors that contribute to this material misstatement. In addition the data is sourced from different systems across the organisation, a more streamlined approach would reduce the likelihood of material misstatement.	

Detailed Findings and Recommendations

Item	Observation	Recommendation	Priority
4. Volunteering – data completeness	The provision of volunteering days is reliant on the completion and return of sign in sheets across GPT's operations. All attendees are required to sign an attendance sheet to confirm their volunteering attendance. In the testing process this year, a number of volunteer days were planned but not attended. As the attendance sheet was not returned, attendance was assumed. It was later identified that not all employees attended and the total reported figure was materially misstated.	In order to implement greater control and transparency over the volunteer reporting, EY suggests aligning the volunteering reporting process with the payroll process. EY noted during process walkthroughs that there were comprehensive controls in place for absenteeism reporting. The same controls can be applied to volunteering days to ensure actual attendance is tracked. The controls include mandatory management sign off for absent days and leave certificates prior to approval.	
5. Community spend – Categorisation	The collation of community investment data relies on raw data extracts from GPT's accounting software. These extracts are not identified as community investment and are allocated to a marketing account throughout the year. The reallocation is done through a manual review. This year it was identified that a type of community spend was misallocated and resulted in an overstatement of spend for the year. The figure was amended, but similar issues have been noted in prior assurance periods. There is also a likelihood that some spend is excluded due to the ambiguity of the data collation process.	It is recommended that community investment is allocated a separate reporting code in the accounting system. This will prevent misallocation of marketing or community spend thereby improving reporting completeness and accuracy. In implementing this process GPT will need to work with asset managers recording community spend in the year to ensure they are aware of the appropriate classification in accordance with the Community Engagement Protocol.	

Detailed Findings and Recommendations

Item	Observation	Recommendation	Priority
6. Absenteeism – data reviews	The absenteeism rate is calculated using data extracts from the payroll reporting system. The rate is calculated outside of the reporting system specifically for this reporting process. During the testing process it was identified that there was a minor variance in the calculation due to rounding errors.	Short term: Implement an additional review of the absenteeism data calculation. Long term: Develop a report within the payroll software that automates the absenteeism rate calculation.	
7. Emissions – factor updates (Envizi)	During the assurance process, EY identified one instance where the emissions factors had not been correctly updated. This process is co-ordinated externally and therefore does not form part of GPT's internal review process. The variance was significant as the account effected was an offsets account and material impacted the quantity of emissions reduced.	As this process is outsourced to Envizi, EY has not identified any specific recommendations for GPT. GPT has communicated this finding with Envizi and it is not believed to be a pervasive error.	N/A
8. Energy – accruals review	As part of EY's analytical procedures, it was identified that two sites had unrealistic December consumption estimates based on the estimate function in Envizi. The estimates were materially lower than expected during that time of year. As a result GPT amended the figures to report prior period actuals.	As part of the internal review process GPT could include a review of December accruals compared to the previous year actuals and identify whether any amounts are considered not reflective of actual reported consumption. This control would be performed twice per year, once at the June year end and again at the December year end.	

Focused on your Future



Focused on your Future

1. What will a Modern Slavery Act in Australia mean?

In 2017, the Australian government opened an inquiry into whether it should introduce legislation in line with the *UK Modern Slavery Act 2015*. Media reports, such as those recently revealing labour abuses in restaurant and retail franchise groups and fresh food production have highlighted the relevance of such legislation in Australia.

The term 'modern slavery' refers to multiple forms of forced or compulsory labour and human trafficking compelled through the use of force, fraud, or coercion.

The proposed legislation, released in a Public Consultation Paper on 16 August, would require large businesses (over AU\$100 million annual revenue) to report annually on their efforts to address modern slavery in their operations and supply chains. The disclosures would include a description of the entity's operation and supply chain, modern slavery risks present, policies, processes and due diligence in place to address those risks, and their effectiveness. Statements would be required to be signed off by a company director or equivalent.

The Australian Government has flagged its intent to introduce the legislation in the first half of 2018, potentially requiring reporting on FY19. Australian companies should be monitoring the progress of this legislation and plan to respond, firstly by taking action to reduce risks of human rights abuses in their operations and supply chains and secondly by establishing robust reporting and assurance processes to support any public disclosures.

No punitive penalties are currently proposed, however compliance would be monitored and companies that do not comply 'may be subject to public criticism'. Content of the disclosures will also likely be scrutinised and benchmarked by NGOs, investors and the media. Companies and Directors may ultimately be exposed to litigation if issues later come to light that the company should have been able to identify through due diligence.

Best practice guidance in preventing and managing human rights risks is established by the *UN Guiding Principles on Business and Human Rights*, which applies the 'Protect, Respect and Remedy' framework. Under this, businesses are expected to provide a public commitment to respecting human rights, conduct due diligence of human rights risks, establish a management approach, and establish a process for remedying abuses identified.

How to prepare for the Modern Slavery Act:

Map your business and value chain and assess for risks of human rights abuses, including second tier and lower.

Investigate any high risks identified, including seeking information from suppliers and business units on management approach.

Implement a compliance assessment framework of all suppliers and business partners (e.g. Code of Conduct, desktop evaluation, and auditing).

Update policies to communicate commitment to human rights internally and externally.

Update internal procedures to prevent or minimise risk or provide access to remedy.

Establish a grievance mechanism or anonymous reporting hotline.

Train staff on risks and management response.

Establish internal governance and compliance tracking.

Report on management approach and performance.

Considerations for GPT: Understand existence and adequacy of current policies and procedures to detect and mitigate forced labour risks in the supply chain.

- ▶ Understand the extent to which any relevant policies are understood and applied by key process owners.
- ▶ Map areas of greatest risk, including categories, geographies, and suppliers.
- ▶ Benchmark against peers, industry standard (UNGPs, ISO 20400) and best practice (*EY's State of Sustainable Supply Chains report*, *CHR Benchmark*).
- ▶ Establish and implement supplier compliance frameworks – strengthening supplier screening, ongoing evaluation, auditing and follow-up.
- ▶ Embed modern slavery prevention approach as part of a broader responsible sourcing / sustainable procurement framework.
- ▶ Supplier capability building – providing training and guidance to suppliers.
- ▶ Disclose performance and measure outcomes.

Focused on your Future

2. Implications of the Task Force on Climate-related Financial Disclosures Report



On 30 June 2017, the industry-led Task Force on Climate-related Financial Disclosures ('TCFD') set up by the Financial Stability Board released its [Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures](#).

The Report sets out the TCFD's climate-related financial risk disclosure recommendations for use by companies in providing information to investors, lenders, insurers, and other stakeholders. These disclosures include the financial impact that climate risks have, or could have, on their organizations.

Whilst the adoption of the recommended disclosures is voluntary, over 100 companies with a combined market capitalisation of around US\$3.5tn, together with financial institutions with assets under management of about \$25tn, have already publicly committed to support the recommendations. In Australia, this includes BHP, ANZ and NAB.

Core elements of the TCFD Recommendations:



Considerations for GPT:

Companies may be impacted by the TCFD Recommendations via investor demands, increasing shareholder resolutions and even potential regulatory change or legal action. As a result, it is important for CFO's, together with Directors and management, to understand the risks and potential repercussions to their company should the recommendations *not* be adopted, adopted but applied inappropriately, or if their company has publicly welcomed the recommendations but not acted on them.

Investor demands

Asset owners, such as pension funds, sit to win or lose by the decisions they make in respect of the companies they invest in, and how these companies in turn manage the physical and transition risks - and opportunities - arising from climate change.

As we have already seen investors, and the asset managers who represent them, are taking this seriously. Take for example, Blackrock's statement "...we intend to engage companies most exposed to climate risk to understand their views on the recommendations from the TCFD and to encourage such companies to consider reporting against those recommendations in due course."

Increasing shareholder resolutions

Since the draft TCFD Report was issued in December 2016, there has been an uptick in shareholder resolutions, calling on businesses to perform climate risks analyses and disclose the financial impacts of a two degree climate scenario on their operations.

ExxonMobil for example, passed a shareholder resolution in 2017 with 62% yes vote, requesting the company to reporting on the portfolio risks under a two degree aligned scenario - the key recommendation on the TCFD Report. This was in opposition to the Board's recommendation to vote against the resolution.

Potential legal and regulatory change

France has already introduced a legal requirement which mandates listed companies and financial institutions to make certain climate related disclosures including financial disclosures via 'Article 173, the French Energy Transition Law'. In Australia, the Australian Prudential Regulation Authority - who in a public speech, in February 2017, stated that they see this as a material financial risk to the economy and that it may in future become a parameter of their system-wide stress testing processes.

Companies such as ExxonMobil and Commonwealth Bank of Australia are facing legal challenges due to misleading or inadequate climate change disclosures.

Focused on your Future

2. Implications of the Taskforce of Climate-related Financial Disclosures Report – Cont.

Considerations for GPT:

GPT's annual Sustainability Report provides an opportunity to address elements of TCFD recommendations. For example, Swiss Re's 2016 Financial Report provides a table outlining the core elements of climate-related financial disclosures of the Financial Stability Board. Each element of the TCFD is linked to different sections of the 2016 Financial Report addressing these recommendations, which demonstrates transparency. This is a leading example providing clear analysis of Swiss Re's commitment to disclosing information on the impacts of climate risk across the investment chain.

We note that many of GPT's peers are in the process of developing Science-Based targets to manage their carbon footprint based on climate science. A number of GPT's peers are also setting ambitious, longer-term climate related targets. For example, Australian Ethical has established a target of being net-zero emissions intensive by 2050 across its entire portfolio, which has been established in alignment with recommendations from the Australian Climate Change Authority. This follows a pathway consistent with keeping global warming below 2 degrees Celsius. In line with this commitment, Australian Ethical is committed to disclosing the emissions intensity of its portfolios, starting with the intensity of equities portfolio and moving to other asset classes in the future.

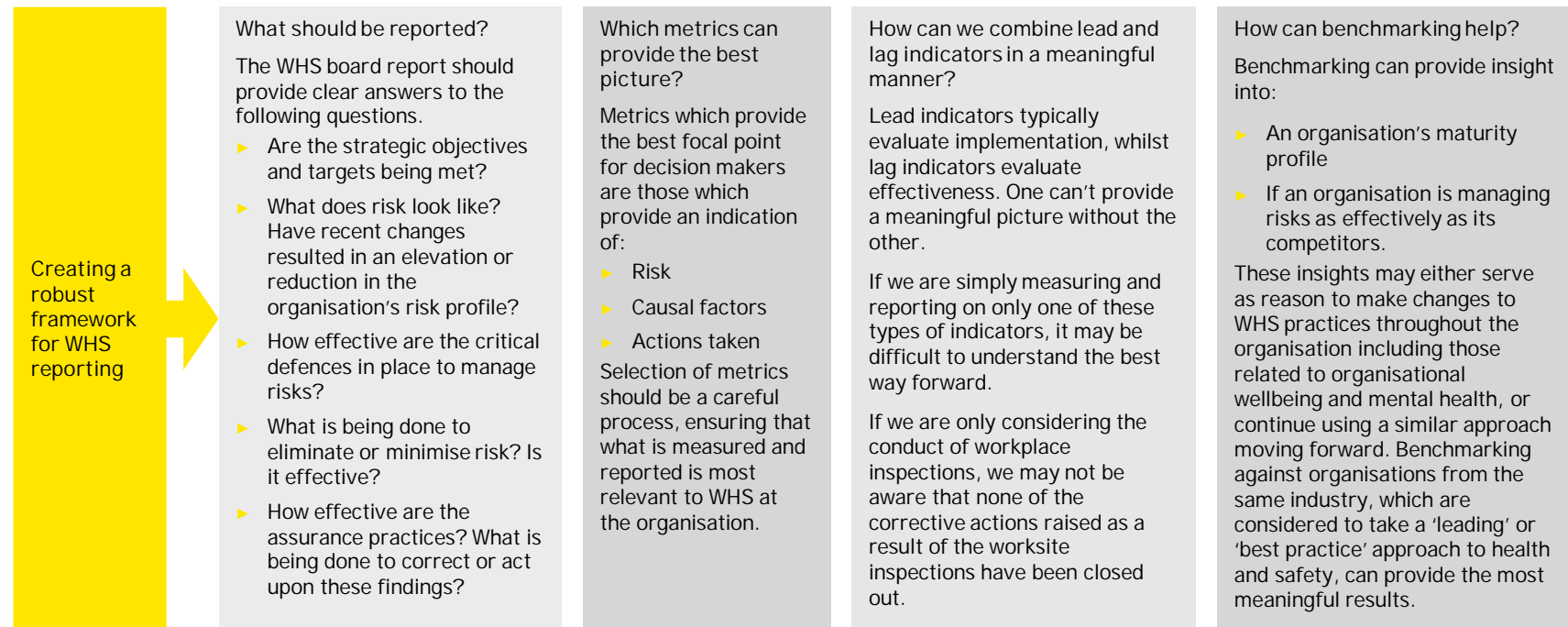
Governance	Strategy	Risk management	Metrics and targets
A) Board oversight: → Corporate responsibility governance, p. 122	A) Climate-related risks and opportunities: → Understanding the risk, pp. 125–126 → Strengthening risk resilience pp. 128–129	A) Processes for identifying and assessing climate-related risks: → Understanding the risk pp. 125–126	A) Metrics to assess climate-related risks and opportunities: → Understanding the risk, pp. 125–126 → Our commitments, p. 130
B) Management's role: → Corporate responsibility governance, p. 122	B) Impact of climate-related risks and opportunities: → The impact of climate change p. 124 → Understanding the risk pp. 125–126 → Strengthening risk resilience, pp. 128–129	B) Process for managing climate-related risks: → Understanding the risk, pp. 125–126	B) Scope 1, 2 and 3 GHG emissions: → Tackling our carbon footprint, p. 127
	C) Potential impact of different scenarios: → not available yet	C) Integration into overall risk management: → Understanding the risk, pp. 125–126	C) Targets: → Tackling our carbon footprint, p. 127 → Our commitments, p. 130

Source: Swiss Re's 2016 Financial Report, <http://reports.swissre.com/2016/>

Focused on your Future

3. Developing insightful and informed safety disclosures that support decision-making

Making insightful and informed decisions about health and safety practices of workers stems from obtaining accurate, current, and meaningful information about an organisation's health and safety position, performance, and assurance practices. To have that information at an officer's fingertips, a robust framework for Workplace Health & Safety (WHS) Board reporting is key.



Considerations for GPT:

By using metrics which are relevant, combine both lead and lag indicators, and are compared to leading organisations from the same industry, GPT can establish a meaningful WHS reporting framework which provides insight into both the implementation and effectiveness of WHS processes.

This, in turn, will enable informed decisions to be made which continuously improve the way health and safety is managed.

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