Operating and Financial Review

The Group's financial performance for the year ended 30 June 2018 is summarised in the following section. In order to fully understand the results, the Annual Report and full Financial Statements included in this Financial Report should be read in conjunction with this section.

Five year performance

	FY18	FY17	FY16	FY15	FY14
Funds from Operations (FFO) ($m)	**653.3**	617.7	610.8	544.5	446.6
Adjusted FFO (AFFO) ($m)	**485.5**	439.7	413.9	369.8	310.7
Net profit after tax ($m)	**1,728.9**	1,264.2	1,259.8	618.7	406.6
FFO per security (cents)	**64.2**	63.8	63.1	59.5	41.7[1]
AFFO per security (cents)	**47.7**	45.4	42.7	40.4	37.9[1]
Distribution per security (cents)	**47.8**	45.47	43.51	41.04	37.56[1]
Return on Equity (%)	**19.8**	18.2	19.3	11.5	6.7
Return on Contributed Equity (%)	**7.6**	7.6	n/a	n/a	n/a
One-Year Total Security holder return (%)	**7.5**	10.1	30.3	15.8	9.9
Net tangible asset backing per security ($)	**9.64**	8.45	7.53	6.68	6.36[1]
Gearing (look-through) (%)	**24.1**	26.7[2]	30.7	28.5	33.7
Duration of debt (years)	**7.0**	5.6	5.5	5.7	5.2
Customer satisfaction score (out of 10)	**8.3**	8.0	8.0	7.9	7.7
Females in Senior Management roles (%)	**35**	33	29	26	26
Listed office portfolio average NABERS Energy rating (stars)	**4.9**	4.8	4.8	4.7	4.6

Review of Operations

Dexus has adopted Funds from Operations (FFO) as its underlying earnings measure which has been defined in accordance with the guidelines established by the Property Council of Australia for its reporting with effect from 1 July 2014.

In accordance with Australian Accounting Standards, net profit includes a number of non-cash adjustments including fair value movements in asset and liability values. FFO is a financial measure of real estate operating performance and is determined by adjusting net profit after finance costs and taxes for certain items which are non-cash, unrealised or capital in nature.

The Directors consider FFO to be a measure that reflects the underlying performance of the Group.

The following table reconciles between profit attributable to stapled security holders, FFO and distributions paid to stapled security holders.

	30 June 2018 ($m)	30 June 2017 ($m)
Net profit for the year attributable to stapled security holders	**1,728.9**	1,264.2
Net fair value gain of investment properties	**(1,201.8)**	(704.7)
Impairment of inventories	**0.6**	–
Net fair value (gain)/loss of derivatives and interest bearing liabilities	**(8.3)**	3.6
Net (gain)/loss on sale of investment properties	**0.9**	(70.7)
Incentive amortisation and rent straight-line[3]	**101.4**	100.1
Coupon income, rental guarantees received and other	**17.7**	12.7
Amortisation of intangible assets	**5.5**	4.5
Transaction costs	**1.1**	–
Non-FFO tax expense	**7.3**	8.0
Funds from Operations (FFO)[4]	**653.3**	617.7
Retained FFO[5]	**166.9**	166.0
Distributions	**486.4**	451.7
FFO per security (cents)	**64.2**	63.8
Distribution per security (cents)	**47.8**	45.47
Net tangible asset backing per security ($)	**9.64**	8.45

1. In November 2014, Dexus completed a one-for-six security consolidation and this number has been adjusted to reflect this.
2. FY17 pro forma gearing is adjusted for post balance date acquisitions. Actual gearing was 22.1%.
3. Including cash, rent free and fit out incentives amortisation.
4. Including Dexus's share of equity accounted investments.
5. Based on Dexus's distribution policy to payout in line with free cash flow. The distribution payout ratio equated to 74.4% of FFO in FY18 and 73.1% of FFO in FY17.

Operating and Financial Review
continued

Operating result

Performance of the Group

Dexus's net profit after tax was $1,728.9 million, an increase of $464.7 million from the prior year (FY17: $1,264.2 million). The key drivers of this movement included:

- Net revaluation gains of investment properties of $1,201.8 million, representing a 10.5% uplift across the portfolio, were $497.1 million higher than the prior year (FY17: $704.7 million)
- FFO, which increased by $35.6 million resulting in FFO per security of 64.2 cents, an increase of 0.6%
- Partially offset by lower gains from the sale of investment properties compared to FY17

Valuation gains achieved across Dexus's property portfolio primarily drove the $1.19 increase in net tangible assets (NTA) per security to $9.64 over the year. The valuation uplift was driven primarily by the Sydney office portfolio where capitalisation rates have compressed further, and the buoyant leasing market has delivered higher market rents.

The following table provides a summary of the key components of FFO and Adjusted Funds from Operations (AFFO) based on the information provided in the Group Performance and Property Portfolio assets sections included in this Financial Report.

	30 June 2018 $m	30 June 2017 $m
Office Property FFO	**603.8**	567.4
Industrial Property FFO	**132.7**	114.8
Total Property FFO	**736.5**	682.2
Management operations[1]	**52.5**	46.3
Group corporate	**(27.4)**	(23.7)
Net finance costs	**(134.4)**	(121.8)
Other (including tax)	**(10.5)**	(12.5)
Underlying FFO	**616.7**	570.5
Trading profits (net of tax)	**36.6**	47.2
Total FFO	**653.3**	617.7
Maintenance capex, lease incentives and leasing costs paid	**(167.8)**	(178.0)
Total AFFO[2]	**485.5**	439.7

The key drivers of the $35.6 million increase in FFO include:

- Office Property FFO of $603.8 million increased from FY17 as a result of like-for-like income growth of 4.5%, acquisitions including MLC Centre in Sydney (Dexus's 25% interest) and 100 Harris Street in Pyrmont, offset by asset sales including 11 Waymouth Street in Adelaide (Dexus's 50% interest) and Southgate Complex in Melbourne (remaining 50% tranche settled in May 2018)
- Industrial Property FFO increased by $17.9 million to $132.7 million due to like-for-like growth of 3.0% following a record year of leasing in FY17 which significantly improved portfolio occupancy as well as income from acquisitions and completed developments

This was partially offset by:

- Finance costs net of interest revenue increased by $12.6 million driven by acquisitions, partially offset by the equity raising completed in June 2017 and proceeds from asset sales used to repay debt
- The realisation of $36.6 million of trading profits (net of tax) representing a decrease of $10.6 million on the prior year

The underlying business, excluding trading profits, delivered FFO per security of 60.6 cents, and grew by 2.9% on the prior year.

Distributions

Distributions per security for the 12 months ended 30 June 2018 were 47.8 cents per security, up 5.1% on the prior year (FY17: 45.47 cents), with the distribution payout remaining in line with free cash flow, in accordance with Dexus's distribution policy. The distribution for the six months ended 30 June 2018 of 24.1 cents per security will be paid to Dexus Security holders on Thursday 30 August 2018.

Return on contributed equity and return on equity

Dexus achieved a Return on Contributed Equity[3] (ROCE) for FY18 of 7.6% driven largely by AFFO.

Dexus delivered a Return on Equity[4] (ROE) of 19.8% in FY18, driven by property revaluations and distributions, resulting in a six year average ROE of 14.5%.

1. Management operations' income includes development management fees.
2. AFFO is in line with the Property Council of Australia definition.
3. ROCE is calculated as AFFO plus the net tangible asset impact from completed developments divided by the average contributed equity during the period.
4. ROE is calculated as the growth in net tangible assets per security plus the distribution paid/payable per security divided by the opening net tangible assets per security.

Management Expense Ratio

	30 June 2018 $m	30 June 2017 $m
Group corporate costs	**27.4**	23.7
Asset management costs	**16.0**	15.6
Total corporate and asset management costs	**43.4**	39.3
Closing funds under management (balance sheet only)	**13,338**	11,463[1]
Group management expense ratio (MER)	**33bps**	34bps

Group corporate costs increased to $27.4 million as a result of investment in platform initiatives while asset management costs increased to $16.0 million as a result of investment in platform initiatives and completion of developments. Dexus's MER[2] reduced to 33 basis points largely driven by investment property revaluation gains of $1.2 billion.

Property transactions

Dexus completed $2.0 billion of transactions for the group including the settlement of the acquisitions of the MLC Centre, Sydney (Dexus's 25% interest), 100 Harris Street, Pyrmont and 90 Mills Road, Braeside in addition to the divestment of 11 Waymouth Street, Adelaide (Dexus's 50% interest) and Dexus's remaining 50% interest in Southgate, Melbourne. Other transactions included the Dexus Office Partnership's acquisition of 56 Berry Street, North Sydney and 140 George Street, Parramatta in addition to the sale of 46 Colin Street, West Perth.

Post 30 June 2018, Dexus acquired 568 Wickham Street, Brisbane QLD and also entered into agreements to acquire industrial development landbanks at 11-167 Palm Springs, Ravenhall, VIC (in which Dexus and DWPF each acquired a 50% interest), 425-479 Freeman Road, Richlands, QLD and 54 Ferndell Street, South Granville, NSW.

Dexus performance

The following sections review the FY18 performance of the Group's key financial drivers: Property Portfolio, Funds Management and Trading.

i) Property portfolio

Dexus remains focused on maximising the performance of its property portfolio through leasing and asset management activities, with the property portfolio contributing to 89%[3] of FFO in FY18.

Dexus increased the size of its direct portfolio to $13.3 billion from $12.2 billion[4] at FY17. This movement was driven by revaluation gains of $1.2 billion and acquisitions of $31.0 million[5], which was partially offset by $449.0 million of divestments.

Office portfolio

Portfolio value:	$11.0 billion
Total area:	1,495,238 square metres
Area leased during the year:	242,957 square metres[6]

Key metrics	30 June 2018	30 June 2017
Occupancy by income	**96.0%**	97.2%
Occupancy by area	**95.7%**	97.0%
WALE by income	**4.6 years**	4.8 years
Average incentives[6]	**13.9%**	14.5%
Retention rate	**54%**	46%
Total return – 1 year	**16.9%**	14.1%

1. Actual closing funds under management at 30 June 2017.
2. Management Expense Ratio.
3. FFO contribution is calculated before finance costs, group corporate costs and tax.
4. Funds under management at 30 June 2017 adjusted for transactions settled up to 16 August 2017.
5. Transactions include properties which settled during FY18 and exclude the acquisitions of MLC Centre, in Sydney 100 Harris Street in Pyrmont and 90-110 Mills Road in Braeside which were included in the FY17 pro forma direct portfolio amount.
6. Including Heads of Agreement and excluding development leasing.

Operating and Financial Review
continued

Dexus performance continued

Office portfolio continued

During the year, Dexus leased 242,957 square metres[1] of office space across 293 transactions as well as 52,589 square metres of office development space across 15 transactions, locking in future income streams.

It has been an excellent year for the portfolio in which Dexus has seen significant valuation gains driven by strong leasing outcomes. Leasing has been supported by the buoyant markets of Sydney and Melbourne and assisted by the improving markets of Perth and Brisbane. The property valuation reduced at 100 Harris Street in Pyrmont, driven by acquisition costs being written off, increases in outgoings and additional capex to fund fitouts on vacant space. Dexus has maintained its focus on reducing incentives and driving rents for popular properties, which is being captured in our returns and valuations.

The office portfolio delivered 4.5% like-for-like income growth and a 16.9% total return for the year which was driven by increased market rents and leasing. Sydney office properties experienced strong effective rental growth.

Occupancy reduced marginally to 96.0% at 30 June 2018 (FY17: 97.2%) driven by the known departure of CBA at Sydney Olympic Park, which was also reflected in the 54% tenant retention metric, providing the opportunity for Dexus to improve this position during FY19.

Tenant activity and market dynamics have remained positive across Dexus's core office markets with strong levels of enquiry in Perth converting to significant leasing at 240 St Georges Terrace and Kings Square as tenants seek to upgrade to better quality buildings and centralise into the CBD.

Industrial portfolio

Portfolio value:	$2.2 billion
Total area:	1,322,557 square metres
Area leased during the year:	192,116 square metres[1]

Key metrics	**30 June 2018**	30 June 2017
Occupancy by income	**98.3%**	96.5%
Occupancy by area	**98.8%**	96.6%
WALE by income	**4.8 years**	5.1 years
Average incentives	**12.6%**	14.5%
Retention rate	**48%**	74%
Total return – 1 year	**13.6%**	12.6%

During the year, Dexus leased 192,116 square metres[1] of industrial space across 91 transactions, with the portfolio continuing to benefit from an uptick in logistics and e-commerce demand. As a result of this activity, portfolio occupancy further improved to 98.3%[1] (FY17: 96.5%) and like-for-like income growth was 3.0% (FY17: 3.6%).

Portfolio weighted average lease expiry (WALE) reduced slightly to 4.8 years. Average incentives reduced to 12.6% (FY17: 14.5%) as a result of leasing in the competitive Melbourne market.

Industrial portfolio retention reduced to 48% from 74% at 30 June 2017 as a number of leases were retired to reposition assets. The industrial portfolio performance has improved over the past two years with occupancy increasing from 90.4% in FY16 to 98.3% in FY18.

Dexus's industrial portfolio delivered a one-year unlevered total return of 13.6% (FY17: 12.6%).

Customer

Dexus continued to drive great customer experience outcomes during the year as evidenced by the strong overall Net Promoter Score of +32 and customer satisfaction score of 8.3 out of 10 in the latest customer survey. These scores have improved, and survey participation has increased on the back of the strength of Dexus's customer relationships and despite the disruption that can be caused when assets are under development.

FY19 Focus (Office and Industrial)

In FY19 Dexus will target $155-165 million of capital expenditure (including rent free incentives); target like-for-like income growth of 4-5% for the office portfolio and 2.5-3.5% for the industrial portfolio; maintain occupancy above 95%; undertake selective forward leasing to manage expiry risk; and capture upside in the Sydney market.

1. Including Heads of Agreement.

Development

Dexus utilises its development expertise to deliver best-in-class office buildings, city retail amenity and prime industrial facilities. Development provides Dexus with access to stock and leads to improved portfolio quality and diversification, attracts revenues through development management fees and delivers on capital partner strategies.

Dexus has a significant opportunity to drive future value through its $4.2 billion group development pipeline, which is diversified across uses and locations and is the most efficient way to access quality product at this point in the cycle. Dexus is also short listed or in an exclusive position on circa $2 billion of future potential concept development projects.

Two office projects at 180 Flinders Street in the Melbourne CBD and 12 Creek Street – The Annex in Brisbane were activated, and in July 2018 development works commenced at 240 St Georges Terrace in Perth. Works also progressed at 100 Mount Street, North Sydney, where NBN Co. was secured as a new customer across 20,364 square metres. In aggregate, 50% of the space is already committed[1] at these four key office developments with completions scheduled over the next four years.

The extensive ground floor works at 240 St Georges Terrace include the creation of a new street entry, a new north facing outdoor terrace on level 16 for functions, new end-of-trip facilities and gymnasium, and an improved retail offering. On-floor upgrades will commence from October 2018 prior to Woodside's lease expiry, with 57% of the impending Woodside vacancy now solved.

Post 30 June 2018, Dexus replenished the industrial development pipeline by entering into agreements to acquire three industrial development sites, one of which will be acquired jointly with DWPF. These developments have a combined end value of circa $700 million and will be built out over the next five to seven years. They provide the opportunity to leverage Dexus's extensive market knowledge, development and leasing capabilities and track record in each of these markets.

Dexus allocates up to 15% of funds under management (FUM) across its listed portfolio to development and trading/value-add activities. Currently circa 7.4% of FUM is allocated to these activities providing earnings accretion and enhancing total return.

FY19 Focus

In FY19 Dexus will complete the development of 100 Mount Street, North Sydney; advance and de-risk leasing of key projects in the development pipeline; and activate new opportunities.

ii) Funds management

Dexus's Funds Management business represents over half of the Group's $27.2 billion FUM and its $2.0 billion development pipeline will drive organic growth across the platform. Third party funds under management increased to $13.9 billion, up 9.4% from 30 June 2017, driven by acquisitions, developments and revaluations, partially offset by divestments.

The activities undertaken by the Funds Management business include managing office, industrial, retail and healthcare investments on behalf of third party partners and funds. These activities result in Dexus earning fees for its funds management, property management, leasing and development management services.

All funds delivered strong performance, with DWPF achieving top quartile performance and a one-year total return of 13.8%, outperforming its benchmark over one, three, five, seven and ten years. The Dexus Office Partnership delivered a one-year unlevered total property return of 16.0% and an annualised unlevered total property return of 14.9% since inception.

Growth over the next 12-18 months is supported by the $647 million committed development pipeline. Planning is also now underway that will see the launch of new unlisted funds or partnerships over the same time period.

Dexus completed the first round equity raising for its unlisted Healthcare Wholesale Property Fund which was seeded with approximately $370 million of properties and an additional pipeline of high quality opportunities with an estimated on completion value of $460 million.

The Healthcare Wholesale Property Fund diversifies and expands Dexus's Funds Management business in a scalable sector that is attractive to investors, due to the low volatility of returns. Demand for healthcare is also non-discretionary, which insulates the sector from economic cycles.

FY19 Focus

In FY19, Dexus will continue to drive strong performance across all of its unlisted funds and partnerships, while progressing the launch of new unlisted funds or partnerships.

1. Including Heads of Agreement signed post 30 June 2018.

Operating and Financial Review
continued

Dexus performance continued

iii) Trading

Trading is a capability that involves the identification of opportunities, repositioning to enhance value, and realising value through divestment.

Trading properties are either acquired with the direct purpose of repositioning or development, or they are identified in Dexus's existing portfolio as having value-add potential and subsequently transferred into the trading trust to be repositioned, and then sold.

Since 2010, Dexus has been undertaking trading activities and recognising trading profits in its FFO. Over the past seven years, Dexus has sold and settled on 12 trading properties which have realised an aggregate $267 million of trading profits pre-tax at an average unlevered project IRR of 30%.

Trading profits of $36.6 million net of tax were achieved in FY18 following the sale of 105 Phillip Street and 140 George Street, both located in Parramatta.

The exchange of contracts to sell 32 Flinders Street, Melbourne, has de-risked FY19 trading profits. Future projects were progressed with 201 Elizabeth Street, Sydney added to the pipeline, and planning approval received for Stage 1 of 12 Frederick Street, St Leonards (North Shore Health Hub).

A total of six projects diversified across sectors and trading strategies have been earmarked to deliver trading profits of $260-280 million pre-tax in future years. Other opportunities include stage 2 of 12 Frederick Street in St Leonards, Lakes South in Botany and Gladesville, NSW.

FY19 Focus

In FY19, Dexus will target trading profits of $35-40 million, net of tax, and advance future opportunities.

iv) Financial position (look-through)

	30 June 2018 $m	30 June 2017 $m
Office investment properties	**11,038**	9,511
Industrial investment properties	**2,245**	1,952
Healthcare investment properties	**54**	–
Other[1]	**572**	490
Total assets	**13,909**	11,953
Borrowings	**(3,445)**	(2,783)
Other liabilities	**(658)**	(582)
Net tangible assets	**9,806**	8,588
Total number of securities on issue	**1,017,196,877**	1,016,967,300
NTA ($)	**9.64**	8.45

Total look-through assets increased by $1,956 million primarily due to $770.4 million of acquisitions, development capital expenditure and $1,201.8 million of property valuation increases, partially offset by $478.9 million of divestments.

Total look-through borrowings increased by $662 million due to funding required for the acquisitions and development capital expenditure mentioned above, offset by asset sales during the year.

1. Excludes the deferred tax liability on management rights in line with accounting changes as disclosed in the FY17 financial statements.

Capital Management

Cost of debt:	4.2%
Duration of debt:	7.0 years
Gearing (look through)[1]:	24.1%[1]
S&P/Moody's credit rating:	A-/A3

Dexus continued to maintain a strong and conservative balance sheet. Gearing[1] reduced to 24.1% from 26.7%, remaining below the 30-40% target range, as a result of the receipt of proceeds from sold properties and property revaluation gains offset by development costs and property acquisitions.

Since announcing plans in February 2018 to initiate an on-market securities buy-back of up to 5% of Dexus securities on issue, Dexus has acquired and cancelled 207,665 securities. Dexus will continue to utilise the buy-back where there is an opportunity to enhance investor returns.

Total debt duration extended to 7.0 years as a result of Dexus's largest ever debt raising via the US Private Placement market valued at $653 million. Dexus's strong balance sheet provides the capacity to fund projects in its current and future development pipeline.

Dexus has minimal short-term refinancing requirements and remains within all of its debt covenant limits and target ranges.

FY19 Focus

In FY19, Dexus will focus on preserving its debt duration and will continue to seek further debt diversification options.

Outlook

The majority (80-90%) of Dexus's earnings are derived from rental income from its direct property portfolio, with the remainder derived from the Funds Management and Trading businesses. Key lead indicators and factors affecting the outlook of each of these areas of the business are outlined below.

Within Australia, economic growth is rebalancing between the states with Queensland and WA forecast to catch up to Victoria and NSW over the next couple of years. While buoyed by infrastructure investment, Victoria and NSW may face some additional headwinds in FY19 and FY20 as weakening housing construction drags on employment growth.

The low and steady cost of capital continues to support investment demand for real estate. The maintenance of reasonably wide spreads between real estate yields and government bond yields has supported investment activity to date in a maturing pricing cycle. Over time, pricing will be sensitive to a normalisation of interest rate yields, however such rises still seem some way off.

i) Property portfolio

Office

The performance of office markets is influenced by the strength of the broader economy and business confidence, the supply and demand characteristics of particular CBD markets and the leasing characteristics of individual properties.

Office markets continue to perform well. Modest levels of supply in Sydney and Melbourne helped push vacancy rates lower to circa 4.5% and we expect further falls with vacancy expected to fall below 3.5% in Sydney in FY19. Perth continued its recovery while the overall Brisbane market showed mild improvement.

The outlook for office demand is positive in the short term due to solid employment growth and positive business confidence. The outlook is for mild upward pressure on rents in the short term in Sydney and Melbourne, with growth declining on a two to three-year timeframe as new supply materialises.

A key theme for office markets is growth in small office users as service firms shift to more collaborative, outsourced modes of working and the IT sector continues its mini-boom built on mobile applications, big data, fintech and social media.

1. Adjusted for cash and debt in equity accounted investments.

Operating and Financial Review
continued

i) Property portfolio continued
Industrial
The industrial sector is in a growth phase with demand running ahead of supply. Demand is expected to remain solid in the year ahead given population growth and infrastructure investment are supporting economic activity. Sydney, Melbourne, and to a lesser extent Brisbane, are well placed to benefit.

E-commerce is emerging as a significant driver of demand as online sales expand at double digit growth rates, and online retailers and fulfilment providers seek to increase scale.

The outlook for rents is likely to remain positive, particularly in land constrained areas in Sydney and Melbourne. Conditions in Brisbane are projected to continue to improve in the short-term as the economy rebounds, while Perth appears to have bottomed.

ii) Funds management
Dexus's Funds Management business's current exposure is 51% to office properties, 11% to industrial properties, 37% to retail properties and 1% to healthcare properties. Its office and industrial property performance will be influenced by the key lead indicators described previously.

For retail, sales performance continued to strengthen for supermarkets and food retailing while the department stores and apparel categories have been disrupted by the changing retail dynamics including an increasing shift to online sales and increased competition from international retailers at a time when consumer preferences are shifting in Australia, as cost and convenience of online delivery improves. There may be some relief ahead as employment growth flows through to wages and retail spending growth benefits from continued low interest rates. However, a softening housing market is likely to prevent spending growth from increasing too much. The outlook for retail rents is subdued in the short to medium term, reflecting high occupancy costs and poor retail margins.

Retail sales growth across Dexus's Funds Management portfolio was strongest at Regional centres which have recently undergone redevelopment, leveraging the opportunity to enhance the centres' offer to grow foot traffic and sales.

For healthcare, demand for healthcare services and consequently properties will continue to benefit from ageing demographics, longer life expectancy and population growth.

Dexus will continue to satisfy the investment objectives of its Funds Management clients and funds through growing existing funds via acquisitions and progressing the $2.0 billion Funds Management development pipeline, while maximising the performance.

iii) Trading
Dexus's Trading business is an ongoing revenue stream, with the recognition of trading profits included in FFO. Dexus continues to identify potential trading opportunities within its existing portfolio and seeks new trading opportunities for the future trading pipeline. Dexus has de-risked FY19 trading profits of $35-40 million, net of tax, and is progressing its remaining pipeline projects.

FY19 Guidance
Dexus's guidance[1] for the 12 months ending 30 June 2019 is circa 5% growth in distribution per security.

1. Barring unforeseen circumstances, guidance is supported by the following assumptions: Impacts of announced divestments and acquisitions; FFO per security growth of circa 3% and underlying FFO per security growth of circa 3% underpinned by Dexus office portfolio like-for-like growth of 4-5%, Dexus industrial portfolio like-for-like income growth of 2.5-3.5%, management operations FFO and cost of debt in line with FY18; trading profits of $35-40 million net of tax; maintenance capex, cash incentives, leasing costs and rent free incentives of $155-165 million; and excluding any further transactions.

Risks and megatrends

There are various risks and megatrends that could impact Dexus's strategy and outlook, and the nature and potential impact of these can change over time. Further information relating to Dexus's risk management framework is detailed in the Corporate Governance Statement available at www.dexus.com

Dexus actively reviews and manages the risks and megatrends facing its business over the short, medium and long-term, overseen by the Board Risk Committee. The key risks and megatrends and how Dexus manages and monitors them are outlined in the tables below.

Key risk	Description	How Dexus is equipped to manage and monitor risks
Performance	Ability to meet market guidance, deliver superior risk adjusted performance relative to industry benchmarks and complete developments in line with expectations.	Processes are in place to regularly review progress against Dexus's strategy, with risk tolerances which are identified and managed. Detailed due diligence is undertaken for all acquisitions and external experts are appointed to assist in the design and costing process for developments.
Capital markets	Positioning the capital structure of the business to withstand unexpected changes in equity and debt markets.	Prudent management of capital, including regular sensitivity analysis and periodic independent reviews of hedging policy, assists in protecting Dexus's balance sheet from unexpected changes in capital markets. Further information relating to financial risk management is detailed in note 12 of the Financial Statements.
Key client	Retention of existing wholesale third party client or capital partner.	Dexus's funds management model includes strong governance principles and processes designed to build and strengthen relationships with existing and new clients. A periodic client survey helps in identifying key issues for action by the funds management team.
Compliance & regulatory	Compliance with regulatory requirements including continuous disclosure, ASX Listing Rules, REIT status and Dexus policies and procedures.	Dexus has systems and processes in place that address adherence to compliance policies and regulatory requirements. Independent industry experts are appointed to undertake reviews where appropriate.
Cyber/data & governance risk	Management and maintenance of data security.	Regular training, testing and disaster recovery activities, along with the employment of data security software, assists in reducing the risk of a breach of data security.
Security & emergency management	Ensuring the safety of employees, customers and the public at Dexus sites.	Procedures are in place to minimise threats to safety including the adoption of plans relating to crisis management, business continuity and emergency management. Responsiveness is regularly tested through scenario planning exercises.
Talent & capability	Retention of key talent within Dexus.	To assist in the retention of key talent, succession plans for key employees are adopted and regularly reviewed. In addition, external mapping is undertaken for key roles. Training and development of key personnel assists with employee career progression within Dexus.
Corporate culture	Maintaining a respectful, open and transparent culture which supports diversity of opinion and values including acting honestly, ethically and with integrity.	Having a diverse and inclusive culture is a focus of the Dexus Board and the Group Management Committee. This is supported by regular employee surveys and other reports that provide data on engagement levels and organisational culture. There is continual monitoring of lead and lag indicators to assist in identifying areas that may require additional focus.
Climate change & environment	Mitigation against the impact of climate change.	The impact of climate change is reduced through careful portfolio construction combined with assessment of climate change risks and associated adaptation planning. For new developments, long-term environmental performance benchmarks are adopted in the design and construction phase. For existing properties, Dexus manages greenhouse gas (GHG) emission performance against a science-based GHG emissions target.
Building and workplace health & safety	Identify and remediate health and safety issues relating to the fabric of our buildings including facades. Prevention of death or serious injury at a Dexus owned or controlled site due to unsafe work practices.	Dexus adopts the following measures to ensure building and workplace health and safety is maintained in and around its buildings: - Engagement of external consultants for facade audits - Ongoing monitoring and testing of existing sites - Adoption of comprehensive work health and safety programs and compliance by site contractors and employees - Independent certification against OHSAS 18001 Occupational Health and Safety Management Systems - Independent reviews by industry experts

Operating and Financial Review
continued

Megatrends	Description	How Dexus is equipped to manage and monitor megatrends
Globalisation	The integration of capital, goods and services across national borders is driving increased connectivity between countries and cities, blending global cultures and business practices. As a result, businesses are seeking more flexibility in their working environments.	Dexus is responding to the growing demand from customers who seek workspaces that are flexible, collaborative and engaging through the launch of various initiatives including: - Dexus Place - Expanded suite offerings - Dexus simple and easy lease - Smart buildings connected to leading technologies
Shifting demographics and societal expectations	The ageing of the population, drift of people to coastal urban areas and increasing diversity in the workforce is impacting the way people work.	Dexus keeps abreast of the latest workspace trends and is responding to increasing preferences for 'plug and play' or 'work anywhere' environments. Dexus's smart building blueprint provides technology solutions that promote both connectivity across different spaces and flexibility in workplace locations. *Wellplace* caters for the growing wellbeing trend in the workplace, providing a suite of health and wellbeing services and amenities. For Dexus's own workforce, the adoption of a flexible working policy allows our employees to work anywhere, anytime, supporting personal wellbeing and productivity.
Technological change	Technology and connectivity is driving mobility and collaboration in workplaces. Artificial Intelligence, automation and robotics is replacing repetitive tasks, together with a new focus on the value of big data and analytics.	Technological advancement brings opportunities to further support our customers in their growth and productivity goals, and Dexus is implementing innovative technologies in new developments to deliver a better customer experience and optimise workforce productivity. To support our employees, we are investing in systems and processes that will define how we operate as a business and create a foundation for operational excellence. This includes a new enterprise platform designed to enhance the efficiency of our day to day operations and reduce the operational demands on our people, enabling them to spend more time and focus on our customers.
Urban density	The growth of cities is increasing urban density in Australia's major cities creating challenges for social equity, the environment, transport systems and city planning.	Dexus's property portfolio is concentrated in the key CBDs of cities around Australia where our customers want and need to be, a circumstance that sees Dexus's value and the future of our cities closely interrelated. Dexus is creating vibrant hubs with spaces that offer a sense of community and high amenity which are well-connected through technology and transport. We are conscious of the impact of our operations on the environment and we are embracing new technologies and new energy sources to provide energy efficient workspaces.
Sustainability	As the world becomes more polluted and urbanised, demand for energy, food and water will rise, putting pressure on supply of resources and the wellbeing of people.	Over the past decade, we have been focused on energy efficiency as well as reducing the group's greenhouse gas emissions and environmental footprint. As Australia continues its search for secure, affordable, and environmentally conscious energy, Dexus has made progress on the transition to a low carbon future. Our *New energy, New opportunities* strategy sets a pathway for Dexus to achieve net zero emissions by 2030 through improving energy efficiency and increasing renewables.