

A Yield Driven Real Estate Fund

October-December 2013

Dear Investors

IL&FS – Milestone family wishes you a happy and prosperous new year. We are pleased to present the Fund Update for the period ending December 31st 2013 for the IL&FS Milestone Fund I (Fund).

During this quarter, the Indian stock market soared to a record high matching the levels last seen in early 2008. Amidst early volatility, Indian Rupee sharply gained against the U.S. dollar, finally stabilizing at early 60 levels. The sentiments improved further with the results of the elections favoring the main opposition Bharatiya Janata Party (BJP). The 2014 general elections are crucial for India from an economic viewpoint and going by the pre-poll surveys and sentiments, the results are expected to be favourable for the overall economic situation. At the Mid-Quarter Monetary Policy Review held in December, the RBI decided to keep key rates unchanged.

India has seen an increase in the investments of real estate sector, predominantly in the commercial realty space, in the first three quarters of the calendar year 2013. This increase can be mainly attributed to the investments made from private equity firms keeping in mind with the possibility of Indian REITs taking off. Indian core commercial assets are yielding comparatively high rentals among emerging markets which has led to large global as well as domestic investment firms being attracted to invest in the large office space segment. A total of 38.4 million sq ft of office space is expected to become operational in the near future. In Q2 2013, 32 office projects encompassing 10.0 million sq ft of office space commenced operation, taking India's total operational stock to 359.0 million sq ft. Twelve IT projects, Eight SEZs and Twelve Non-IT projects become operational with a moderate occupancy rate.

Net absorption rate of commercial office space in India was 7.8 million sq ft in the second quarter of 2013 as compared to 5.2 million sq ft in the previous quarter. With Mumbai emerging as a leading contributor to the country's net absorption in Q2 2013, Bangalore also saw a stronger office demand, where as Pune and Kolkata witnessed a revival of demand.

Commercial office space vacancy rates across the country rose by 10 bps q-o-q to 18.2% in Q2 2013. Vacancy rates in Mumbai and NCR-Delhi remained above 22% in the quarter, while those in Bangalore and Hyderabad continue to witness low rates respectively, due to a lack of supply over the past few quarters. Vacancy rates are expected to remain modest across all markets in the near future due to the expected influx of supply

IL&FS Milestone Fund-I is fully committed and invested across 6 investments (of which 2 exited) in the commercial, retail, warehousing and the IT Park space across India. During this quarter, the fund has divested its commercial asset in Pune (Cerebrum B2) at an investment IRR of 14.5% (pre-tax).

The Fund is in advanced stages of documentation in 2 transactions (i.e. IBM - Kolkata and Bhiwandi Warehouse properties). The Fund team has also stepped up its efforts to exit other remaining properties in this portfolio.

We thank you for your continued support.



Afaque Ahmed
Partner – Real Estate Investments

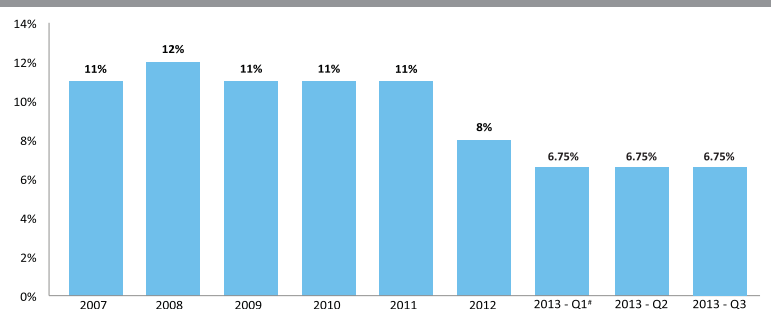
Fund Summary

Fund Status as on December 31, 2013

Total Corpus	Rs. 516 Crores*
Final Closing Date	March 31st 2008
Term	4 years + 1 year + 1 year
No. of Investments	6
Committed Amount	Rs. 486.75 Crores
Capital Divested	Rs. 158.74 Crores (30.76%)
Income Generated (Pre-tax)	Rs. 258.83 Crores
Total Exit Amount	Rs. 417.57 Crores (81%)

*Includes the corpus of co-investment vehicles amounting to Rs. 35 cr.

Yield Distributed *



* Pre-Tax Annualised Yield distributed

Current year yield on quarterly payout basis

Investment Summary as on December 31, 2013

Project	Location	Investment Date	Investment Commitment (Rs. In Cr)	Asset Class	Key Tenants
Millennium Tower - 1	Kolkata	Mar-08	57.00	IT Park	IBM
Grand Central Mall	Rajkot	Nov-07	47.00	Retail	Westside, Cinemax, Levis, Benetton, Giny-n-Jony
ACORN Warehouse	Bhiwandi (Mumbai Metropolitan Region)	Jan-08	130.00	Integrated Logistic Park	TESCO, Flipkart, Uniworld Logistics, Damco
The Cerebrum B2#	Pune	Mar-08	128.00	IT/ITeS	Standard Chartered Bank, Redknee India, Vodafone, Fiserv, Reliance Communications
ACORN Warehouse	Dharuhera (National Capital Region)	Jun-08	78.75	Integrated Logistic Park	TCI India, Uniworld Logistics, OEC Record, HTSI, Amtec Auto
Raheja Titanium#	Mumbai	Dec-08	46.00	Commercial	Baroda Pioneer, BT Global
Total			486.75		

Exited transactions.

Exit Details

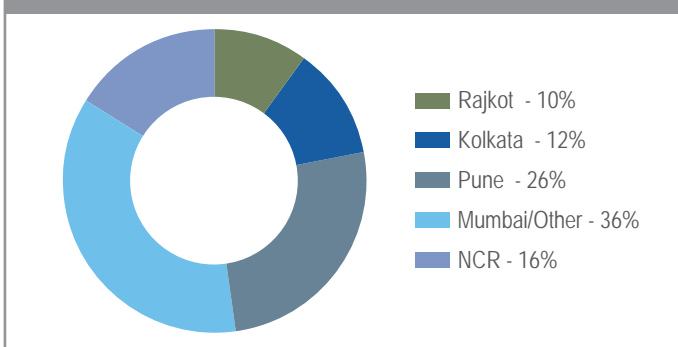
Property Name	Location	Asset Class	Investment Multiple**
Raheja Titanium	Mumbai	Commercial	1.3x
The Cerebrum B2*	Pune	IT/ITeS	1.5x

* IL&FS Milestone Fund I has made full exit from the investment and as per the agreed terms, partial debentures amount of Rs. 8.14 crores have been withheld and will be paid on successful completion of conditions as per the sale agreement. On receipt of the balance proceeds of Rs 8.14 crores, the same shall be distributed to the investors

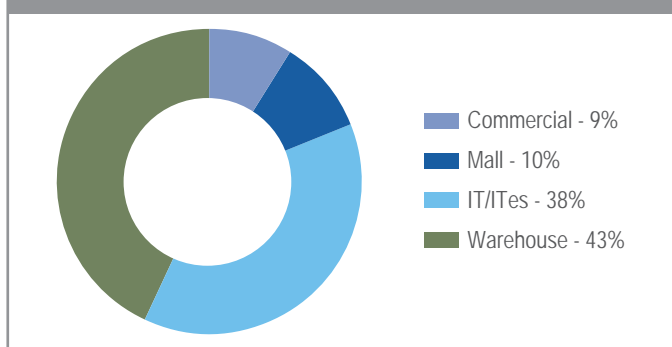
** Pre-tax post expenses including rental income

Fund Allocation

City-Wise Distribution (In Rs.)



Sector Wise Distribution (In Rs.)



IL&FS-Milestone Fund - I – Project Snapshots



Project : Millennium Tower - 1
Location : Kolkata, West Bengal

Asset Class	IT Park
Investment Commitment	Rs. 57 Crores
Date of Initial Investment	March-2008
Total Leasable Area	94,624 sq ft
Key Tenants	IBM

Transaction Overview and Investment Rationale

Millennium Park is a Grade-A commercial space located in Salt Lake, Kolkata one of the fastest growing software technology hubs in India. The property is entirely occupied by IBM India, a reputed multinational technology firm.

The Fund has already signed a Term-sheet and in final stages of documentation with the prospective buyer.



Project : Grand Central Mall
Location : Rajkot, Gujarat

Asset Class	Retail
Investment Commitment	Rs. 47 Crores
Date of Initial Investment	November-2007
Total Leasable Area	165,085 sq ft
Key Tenant(s)	Westside, Cinemax, Levis, Benetton, Giny-n-Jony

Transaction Overview and Investment Rationale

Grand Central Mall is one of the largest malls of Saurashtra and Kutch with over 150,000 sq ft of retail space. The project is located on Nana Mawa Road in Rajkot and is well highlighted on the road side. Anchor tenants include Cinemax, one of the largest theatre chains in India and Westside, one of India's largest and fastest growing departmental store chains. Other tenants include United Colors of Benetton, Bata, Biba etc..

The Fund is evaluating the exit of the asset and has done several site visit with prospective buyers. The challenge is to protect the value amidst a slow micro market with very little appetite for retail assets.



Project : ACORN Warehouse
Location : Bhiwandi, Mumbai Metropolitan Region

Asset Class	Integrated Logistic Park
Investment Commitment	Rs. 130 Crores
Date of Initial Investment	January-2008
Total Leasable Area	990,000 sq ft
Key Tenant(s)	TESCO, Flipkart, Uniworld Logistics & a few 3 PL companies

Transaction Overview and Investment Rationale

The Fund invested in a warehousing facility in Bhiwandi, on the outskirts of Mumbai. Bhiwandi has been a front runner among all potential destinations due to its close proximity to Mumbai, India's commercial and financial hub.

The Fund has entered into MOU with a buyer and due diligence process is at advanced stage. The exit from this transaction is expected to get completed by Q1 CY 2014.

IL&FS-Milestone Fund - I – Project Snapshots



Project : ACORN Warehouse
Location : Dharuhera, National Capital Region

Asset Class	Integrated Logistic Park
Investment Commitment	Rs. 78.75 Crores
Date of Initial Investment	June-2008
Total Leasable Area	550,000 sq ft
Key Tenant(s)	TCI India, Uniworld Logistics, OEC Record, Amtech Auto Transystem Logistics

Transaction Overview and Investment Rationale

The Fund invested in a warehousing facility in Dharuhera in the National Capital Region. Couple of tenant lock-ins are coming to an end, and we are in discussions for renewal / extension of lease. There is downward pressure on rentals in the micro-market. Rentals are now averaging Rs. 14.9 per sq ft per month on the leased area.

The Fund has been actively marketing this asset to a number of prospective buyers. Given the continuous slowdown in the logistics park/warehousing space, the challenge is to protect the value of fund's investment as the rental outlook has worsened since the Global Financial Crisis.

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