

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 II (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.

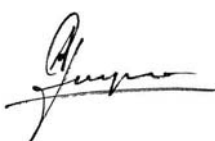
Net absorption rate of commercial office space in India was 7.8 million sq ft in the second quarter of 2013 as compared to 5.2 million sq ft in the previous quarter. With Mumbai emerging as a leading contributor to the country's net absorption in Q2 2013, Bangalore also saw a stronger office demand, 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 II is fully committed and invested across 6 investments in the commercial and the IT Park space across India.

The Fund is actively pursuing the exit process for a number of its investments which includes 247Park in Mumbai.

We thank you for your continued support.



Afaque Ahmed
Partner – Real Estate Investments

IL&FS-Milestone Fund - II

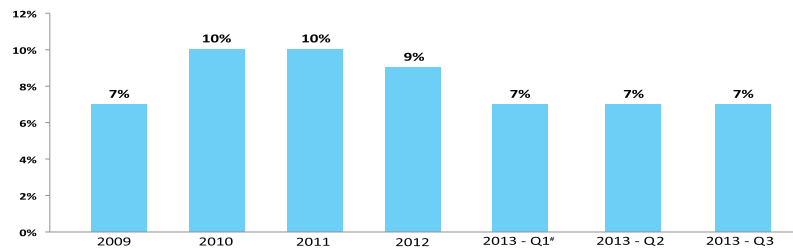
Fund Summary

Fund Status as on December 31, 2013

| | |
|----------------------------|--|
| Total Corpus | Rs. 570 Crores* |
| Final Closing Date | II & IIA - 31st March 2010 IIB - 30th November 2010 |
| Term | 4 years + 1 year + 1 year |
| No. of Investments | 6 |
| Committed Amount | Rs. 508.30 Crores |
| Income Generated (Pre-tax) | Rs. 178.97 Crores |
| Income Distributed | Rs. 178.97 Crores (31.40%) |

* Includes the corpus of co-investment vehicles.

Yield Distributed*



* Pre-Tax Annualised Yield distributed
Current year yield on quarterly payout basis

Investment Summary as on December 31, 2013

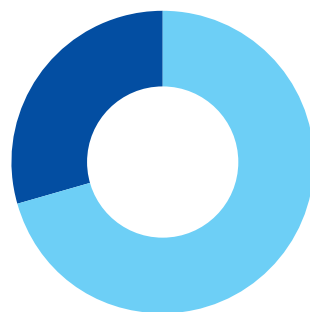
| Project | Location | Initial Investment Date | Investment Commitment (Rs. In Cr) | Asset Class | Key Tenants |
|-------------------------|--------------------------------------|-------------------------|-----------------------------------|-------------|--|
| Universal Business Park | Andheri (E), Mumbai | Apr-10 | 23.80 | Commercial | Vacant |
| E-City Park - II | Electronic City (Phase I), | Apr-10 | 60.30 | IT/ITeS | CGI |
| 247Park | Vikhroli (W), Mumbai | Jul-10 | 142.00 | Commercial | Future Group, HCC, Siemens, TCSE |
| Patel Corporate Park | Jogeshwari (W), Mumbai | Mar-11 | 97.00 | Commercial | Pfizer |
| E-City Park - II | Electronic City (Phase I), Bengaluru | Mar-12 | 69.20 | IT/ITeS | Terex, RedPrairie, Defiance, Golive Media, Mayfair, British Engines, Sigma |
| Down Town Center | Erandwane, Pune | April-13 | 116.00 | IT/ITeS | Cummins Group |
| Total | | | 508.30 | | |

City-Wise Distribution (In Rs.)



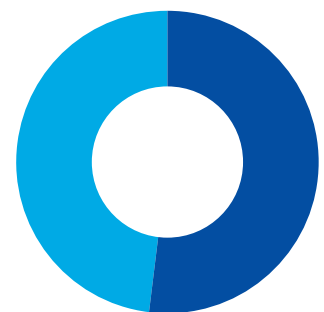
■ Mumbai Metropolitan Region - 51.70%
■ Bengaluru - 25.50%
■ Pune - 22.80%

Sector Wise Distribution (In sq ft)



■ Commercial - 70.70%
■ IT/ITes - 29.30%

Sector Wise Distribution (In Rs.)



■ Commercial - 52%
■ IT/ITes - 48%

IL&FS-Milestone Fund - II – Project Snapshots



Project : Universal Business Park
Location: Andheri (E), Mumbai

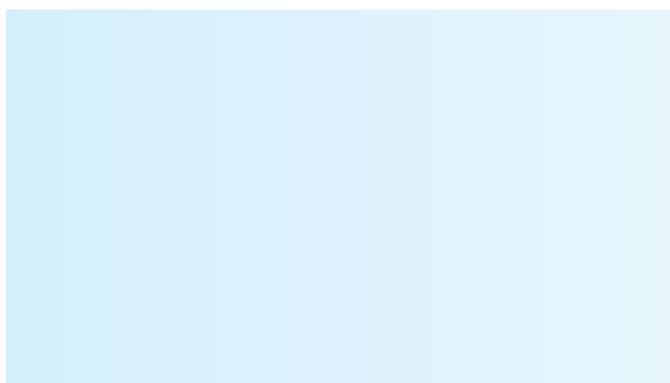
| | |
|----------------------------|--------------------------|
| Asset Class | Commercial |
| Investment Commitment | Rs. 23.80 Crores* |
| Date of Initial Investment | April-2010 |
| Total Leasable Area | 19,953 sq ft (5th floor) |
| Key Tenant(s) | Vacant |

* Includes co-investment of Rs. 4 cr.

Transaction Overview and Investment Rationale

Universal Corporate Park is a Grade-A commercial space located in Mumbai in Andheri (E), a predominantly commercial area with diamond exporting units, IT/ITeS companies (in SEEPZ), TV/film studios and many small/medium enterprises. The international airport is also located in this area. The fund has invested in the 5th floor of the property. Like most of other office locations in Mumbai, this particular micro market is witnessing significant slow-down in leasing. With rising vacancy levels, there is serious downward pressure on the rentals.

Currently the premises is vacant and the team is actively working towards leasing the entire space.



Project : E-City Park - II
Location: Electronic City (Phase I), Bengaluru

| | |
|----------------------------|------------------|
| Asset Class | IT/ITeS |
| Investment Commitment | Rs. 60.30 Crores |
| Date of Initial Investment | April-2010 |
| Total Leasable Area | 189,161 sq ft |
| Key Tenant(s) | CGI |

Project : E-City Park - II
Location: Electronic City (Phase I), Bengaluru

| | |
|----------------------------|---|
| Asset Class | IT/ITeS |
| Investment Commitment | Rs. 69.20 Crores |
| Date of Initial Investment | March-2012 |
| Total Leasable Area | 158,000 sq ft |
| Key Tenant(s) | Terex, RedPrairie, Defiance, British Engines, Mayfair Sigma, Air Push India Pvt. Ltd. |

Transaction Overview and Investment Rationale

E-City Park-II is located in Electronic City (Phase I), a major IT corridor which houses campuses of IT conglomerates such as Infosys and Wipro. The location provides international quality infrastructure comprising roads, security, power and water supply. The Fund had initially invested in 4 floors of the building amounting to 189,161 sq ft in April 2010. All 4 floors are leased out to CGI, one of the largest IT and business process services company in the world.

The Fund has made an additional investment in E-City Park-II for 5th to 8th floor. With this acquisition, the entire building is owned by the Fund. The property is leased to the extent of 90% and leasing leads are being evaluated for the balanced vacant area.

IL&FS-Milestone Fund - II – Project Snapshots



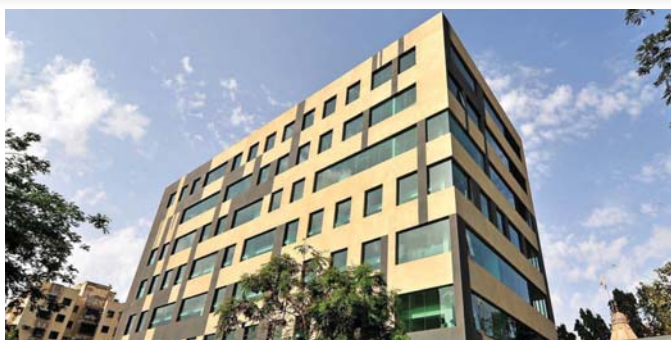
Project : 247Park
Location : Vikhroli (W), Mumbai

| | |
|----------------------------|---|
| Asset Class | Commercial |
| Investment Commitment | Rs. 142 Crores |
| Date of Initial Investment | July-2010 |
| Total Leasable Area | 1,117,732 sq ft |
| Key Tenant(s) | Future Group, Siemens, HCC, TCSE, DHL, Lemiur, Atos |

*Fund owns 36.88% stake in the SPV.

Transaction Overview and Investment Rationale

247Park was developed by HCC Real Estate, a subsidiary of Hindustan Construction Company, one of India's leading construction and infrastructure companies. The building is one of the best in terms of efficiency, design, facilities and amenities in the suburban micro-markets of Mumbai. The project is located on L.B.S. Marg, situated in Vikhroli (W) which was once a manufacturing hub, but has now turned into a base for IT/ITeS companies due to availability of large floor space. The property is leased out to prominent tenants like Future Group, Siemens, HCC, DHL etc. The Fund is trying to lease out the vacant space of 92,000 sq ft and negotiating with several prospective occupiers.



Project : Patel Corporate Park
Location : Jogeshwari (W), Mumbai

| | |
|----------------------------|------------------|
| Asset Class | Commercial |
| Investment Commitment | Rs. 97.00 Crores |
| Date of Initial Investment | March-2011 |
| Total Leasable Area | 66,000 sq ft |
| Key Tenant(s) | Pfizer |

Transaction Overview and Investment Rationale

Patel Corporate Park is a premium commercial space located on Patel Estate Road in Jogeshwari (W), Mumbai. Commercial office spaces have grown rapidly in this region led by the services sector. The entire building is leased out to Pfizer, one of the largest research based pharmaceutical companies in the world. This building is unique as it offers its tenants clear floor plates and clear frontage. The Fund is evaluating the exit from the asset and has done several site visits with prospective buyers. However, it is yet to receive any attractive value from the buyers.



Project : Down Town Center (DTC)
Location : Erandwane, Pune

| | |
|----------------------------|-------------------|
| Asset Class | IT/ITeS |
| Investment Commitment | Rs. 116.00 Crores |
| Date of Initial Investment | April-2013 |
| Total Leasable Area | 151,000 sq ft |
| Key Tenant(s) | Cummins Group |

Transaction Overview and Investment Rationale

DTC is part of a 360,000 sq ft mixed use development located in heart of Pune city. The office space of 151,000 sq. ft. is leased to a premium tenant being Cummins Group. The entire 6th, 7th & 8th floors alongwith covered car parking spaces of 141 nos. (free) & 60 nos. (chargeable) is part of the property owned.

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