

ING Office Fund

2010 Annual Report - CEO Letter

30 September 2010

Dear Unitholder,

The Australian economy has weathered the global financial crisis remarkably well primarily due to our strong financial system, robust regulatory framework, coupled with growing demand for our commodities from our primary trading partners. A domestic recovery appears to be underway and we are beginning to see this flow through to property markets. As a consequence, the challenging operating conditions of the past 12-18 months are beginning to moderate and there is evidence that capital values have stabilised and tenant demand is improving.

Despite the challenging operating environment, IOF has delivered a very sound operational result for the year. Our pro-active approach to asset management and strong focus on operational performance have resulted in significant leasing success across the whole portfolio.

The Fund reported a statutory net profit for the year to 30 June 2010 of \$42.5 million (including fair value movements) compared with a loss of \$764.2 million for the prior year. Importantly, operating income (excluding fair value movements and other non cash adjustments) was \$151.2 million compared with \$146.9 million for the previous year.

Key portfolio achievements during the year include:

- Over 52,000sqm leased in Australia with occupancy increased to 98%;
- Over 300,000sqft leased in the US with occupancy increased to 84%;
- European occupancy steady at 92%; and
- Like for like net property income growth of 1% (Australia +2.7%, Europe +5.9%, US -8.7%).

Over the year, 98% of the Fund's portfolio was externally valued. Encouragingly, valuations have stabilised and in some instances we are seeing a slight improvement, with the net tangible assets (NTA) per unit of the Fund remaining steady in the second half of the year at \$0.74.

The Fund has recently realigned its strategic focus to concentrate solely on Australia and will conduct a phased withdrawal from its investments in offshore markets over time. The decision to concentrate on core Australian CBD office markets is based on two key drivers. Firstly, the strategy focuses our investment into markets where IOF has strong internal capability to actively drive performance; and secondly, we believe that over the longer term the

Australian office investments will provide better total returns with lower risk.

In order to enhance value and maximise unitholder returns from our offshore investments, we will only divest these assets after taking into account investment and capital market conditions, additional value-add opportunities and expected future returns.

We have already commenced the implementation of this strategy as demonstrated by the recently announced sale of Park Tower, Northern Virginia at a 30% premium to book value. The realignment of the portfolio is expected to be phased and occur over a number of years.

The Fund's key priorities for the next 12 months are to:

- Continue to drive operational performance across the existing portfolio;
- Increase Australian CBD asset weighting as opportunities arise;
- Undertake a phased withdrawal from offshore markets when acceptable values can be achieved; and
- Complete the refurbishment and leasing of 10-20 Bond Street, Sydney.

The Fund has a strong balance sheet with look-through gearing of 23.2% and surplus liquidity to take advantage of appropriate opportunities over the year ahead.

We expect to deliver stable distributions of 3.9 cents per unit for the year ending 30 June 2011, subject to prevailing market conditions.

Further information about the Fund can be found in IOF's Annual Report which is available to download from www.ingrealestate.com.au

The Directors and the Fund's management team would like to thank unitholders for their support during these challenging times and we look forward to your continued support in the future.

Yours sincerely,



Tino Tanfara
Chief Executive Officer
ING Office Fund