ING

ASX Announcement

REAL ESTATE INVESTMENT MANAGEMENT

Date

24 February 2011

Fund

ING Office Fund

IOF December 2010 Half Year Financial Results

ING Office Fund (ASX: IOF) today announced its results for the half year to 31 December 2010. The Fund reported operating income of $71.7 million, a reduction of 10% over the previous corresponding period (pcp). The reduction is largely attributable to asset sales and properties undergoing redevelopment.

Mr Tino Tanfara Chief Executive Officer, ING Office Fund, commented: "The Fund's operating income is in line with Management's expectations for the period. Over the past six months we have focused on improving portfolio vacancy via effective asset management, delivering on our redevelopments and reducing offshore and suburban exposure in line with our stated Australian CBD strategy."

Key financial metrics for the half year to 31 December 2010 include:

- Statutory profit of $117.6 million, driven by positive property revaluations;
- Operating income of $71.7 million;
- Operating income per unit 2.6 cents;
- Distributions per unit 1.95 cents;
- Look through debt to total assets of 19.8%; and
- NTA per unit of $0.74.

Investment portfolio overview

Management's proactive approach to asset management resulted in continued solid performance of IOF's property portfolio.

Key portfolio metrics for the year include:

- Portfolio occupancy of 93% (Australia 94[1]%; United States 91%; and Europe 91%);
- Tenant retention of 42% (Australia 63%; and United States 22%); and
- Like-for-like net total portfolio property income was flat (Australia +2.5%; United States +4.3%; and Europe -12.5%).

[1] Including floors completed at 10-20 Bond St. Excluding floors completed at 10-20 Bond St Australian occupancy is 98% and total portfolio occupancy is 95%

Asset Management

IOF's portfolio had little lease expiry over the period. As a result of retaining existing tenants and re-letting vacated space, management leased 15,000 square metres including 4,500 square metres in the Bond St redevelopment property.

Australian economic growth remains healthy and business hiring intentions remain above average levels. Recent market data is pointing to sustained new absorption, a reduction in sublease availability and improved vacancy rates, which all bode well for future effective rental growth.

Rents on the new leases negotiated were 6% above previous passing rents. On a comparable basis, the Australian portfolio's net property income increased 2.5% compared with the pcp.

This resulted in IOF achieving:

- A 63% retention rate on the Australian portfolio,
- A low annual risk lease expiry profile of below 12% until FY 2014, with the Fund in active discussions on major lease expiries; and
- A WALE for the Australian portfolio of 5.0 years.

In the United States, the near term economic outlook has improved resulting in positive employment growth continuing across major eastern seaboard markets and improved values, particularly in New York and Washington DC.

IOF's US portfolio recorded positive net property income growth of 4.3% on a comparable basis, driven by market rental growth at the Homer Building.

Occupancy increased 10% to 91% mainly driven by the sale of Park Tower, positive leasing at Waltham Woods (announced in August 2010) and further improvement in the occupancy at 900 3rd Avenue, New York.

The European portfolio has been negatively influenced by the return from the Fund's 13.5% interest in the Dutch Office Fund (DOF). As highlighted in FY 2010, income from DOF has declined during the period and is expected to provide an annualised return of 5.0% to 5.5% for FY 2011 as a result of higher vacancy and higher operational costs.

Redevelopments

The 10-20 Bond St redevelopment is on time for full completion by 2Q 2011 and on budget ($30 million construction cost with approximately $7.5 million of budgeted capital expenditure remaining for IOF 50% share).

During the period 27,000 square metres or 72% of the building was completed. In total 4,500 square metres has been leased at budgeted rents, and the Fund has agreed terms over a further 3,500 square metres resulting in 33% total pre-commitment.

Mr Tanfara said: “The Bond St redevelopment has run very smoothly and will provide high quality, fully refurbished office accommodation in the heart of the Sydney CBD at competitive pricing compared with new developments”

Divestments

During the six months to December 2010 the Fund finalised the divestment of two assets in line with its Australian CBD strategy. Park Tower, Washington DC, was sold for US$50.7 million in October 2010, a 29% premium to book value and 1230 Nepean Hwy, Cheltenham, Australia was sold at book value of $21.5 million in December 2010.

In February 2011 management signed a heads of agreement to sell its 50% interest in Waltham Woods, Boston at a premium to the December 2010 book value of US$42.2m.

Additionally, Management continues to pursue opportunities to dispose of its investment in DOF. However demand for wholesale investments in the European market place is currently limited. As a result management does not expect to be in a position to execute this divestment strategy in the short term; the strategy will, however, continue to be actively reviewed and pursued.

Management continues to progress a number of initiatives for the phased withdrawal of its overseas investments in a timely and disciplined manner.

Revaluations

Revaluation at December 2010 resulted in an increase of 1.7% against estimated 31 December 2010 portfolio book value[2].

In total, eight of the Fund’s 25 assets were externally valued at December 2010. As a result almost 100% of the portfolio by value has been externally valued within the last 12 months.

Mr Tanfara commented: “Whilst the Australian portfolio has shown mixed performance in terms of market rental outlook and the strength of underlying demand recovery across the markets, there remain clear signs that values have stabilised.

“Pleasingly, we have seen significant increases in the value of our US assets which highlight the investment desirability and underlying fundamentals of the key markets in which the majority of our investments are located. For example IOF’s 80% interest in the Homer Building, Washington DC has increased by 17% from US$192.4m to US$225.6m as a result of firming investment yields and underlying rental growth expectations.”

Management previously commented that expected negative market conditions in The Netherlands would likely continue throughout this financial year. In line with this view the value of the Fund’s investment in DOF decreased 0.5% to €249.7m.

[2] based on constant FX rates

Capital Management

The Fund reduced its drawn look-through debt from $587 million to $478 million over the six months to 31 December 2010 as a result of the divestment of Park Tower and Cheltenham during the period and from movements in exchange rates. As a result, look through gearing has reduced from 23.2% to 19.8%.

The Fund secured a Loan to Value waiver until March 2012 on its 900 3rd Avenue, New York facility, with no incremental pricing and the Fund is currently reviewing the ownership of its Homer, Washington DC asset in line with that asset's debt expiry in January 2012.

ING REIMA Chief Financial Officer, Danny Agnoletto said: "IOF has continued to consolidate its balance sheet position over the period and is preparing to secure a credit rating to provide greater options ahead of the expiry of the Australian syndicate in June 2012. We expect that as a result of refinancing the syndicate facility, IOF will incur materially higher margins in line with market, which will impact future earnings."

Strategic Review Update

Within the context of the previously announced strategic evaluation, ING finalised the review of the strategic options and implementation has commenced. As a result ING will undertake a phased withdrawal from its Australian real estate investment management activities in a timely and controlled manner. ING will continue to provide support to the Australian real estate investment management business (REIMA).

ING, together with Independent Directors of the board of ING Management Limited (IML) as the responsible entity for IOF, have evaluated various options with a focus on unlocking the best value for unitholders.

Mr Denis Hickey, CEO ING REIMA commented: "To maximise the value and outcome for unit holders there have been a number of complex issues that have had to be considered as part of this process. With the majority of the issues now resolved, we have been able to focus on implementing the strategy for securing the best ownership structure for the Fund."

Summary

During the year ahead Management will continue to focus on executing the strategy to reposition the portfolio to the Australian CBD market, actively pursue the early negotiation of upcoming portfolio lease expiries, continue to improve portfolio occupancy and assess and pursue strategies to close the current NTA gap.

The Fund confirms its earnings and distribution guidance for the year to 30 June 2011 is:

- Operating income per unit of 5.2 cents; and
- Distributions per unit of 3.9 cents.

Operating income per unit for FY 2012 is expected to be inline with FY 2011, subject to prevailing market conditions.

REAL ESTATE INVESTMENT MANAGEMENT

Further information can be found in the Fund's Half Year Results presentation and webcast at www.ingrealestate.com.au

For further information, please contact

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About ING Office Fund

ING Office Fund (ASX code: IOF) is an externally managed ASX listed real estate investment trust and is included in the S&P/ASX100 index. The Fund is a leading owner and manager of investment grade office buildings and receives rental income from a tenant register comprised predominately of Government and blue chip tenants. IOF has total assets under management of $2.7 billion with investments located in core business markets throughout Australia, US and Europe.

About ING Real Estate Investment Management

ING Office Fund is one of five listed real estate investment trusts that are managed by ING Real Estate Investment Management Australia on behalf of 60,000 investors.

Globally, ING Real Estate Investment Management focuses on the investment management of quality real estate in all major global markets with a total portfolio of more than A$86 billion. ING Real Estate Investment Management is one of the leading investment management companies and serves a broad client base from five continents, Europe, North America and South America, Asia and Australia.

ING Real Estate Investment Management is part of ING Group, a global financial institution of Dutch origin offering banking, investments, life insurance and retirement services to over 85 million private, corporate and institutional clients in more than 40 countries.