

DIRECTORS' COMMENTARY

1 STRUCTURE AND LISTING

Rockcastle is a Category One Global Business Licence Company registered in Mauritius. The Company has primary listings on both the Stock Exchange of Mauritius Ltd ("SEM") and the JSE Limited ("JSE"). It is internally asset managed and invests in dominant retail centres in Central and Eastern Europe as well as in listed real estate securities globally.

Shareholders were provided with the option to receive their June 2016 interim dividend in shares rather than cash. Over 77% of shareholders elected to take the scrip dividend resulting in the issue of 14 024 700 new shares.

2 CHANGE IN FINANCIAL YEAR-END

Rockcastle changed its financial year-end from 30 June to 31 December to better align the Company with the market in which it operates. The change in year-end will not affect the distribution cycle which will continue to be bi-annually in June and December. Shareholders are referred to the announcement released on 21 December 2015 for further information.

3 FINAL DISTRIBUTION AND OPTION TO RECEIVE SCRIP DIVIDEND

The Board of Directors declares a distribution of 5.189 USD cents per share for the period 1 July 2016 to 31 December 2016, which, combined with 4.782 USD cents per share for the period 1 January 2016 to 30 June 2016 and 4.631 USD cents per share for the period 1 July 2015 to 31 December 2015 results in an aggregate distribution of 14.602 USD cents per share for the 18 month period ended 31 December 2016. This final distribution represents an increase of 12.1% compared to the six month period ending 31 December 2015 and is within guidance. Shareholders can elect to receive distribution either in cash or as an issue of fully-paid shares based on a ratio between distribution declared and the reference price. The reference price will be calculated using a maximum 7% discount to the five-day volume-weighted average traded price, less the distribution of 5.189 USD cents per share, of Rockcastle shares on the Johannesburg Stock Exchange (JSE), no later than 31 March 2017.

A circular containing full details of the election being offered to shareholders, accompanied by announcements on the Stock Exchange News Service (SENS) of the JSE and the Stock Exchange of Mauritius (SEM), will be issued in due course.

4 DIRECT PROPERTY

Central and Eastern Europe

During the financial period the Company concluded USD 1.08 billion of direct property acquisitions in Poland and the Czech Republic. The portfolio of retail centres represents 52% of investment assets (based on gross listed security exposure). Total capital invested in Central and Eastern Europe now amounts to USD 1.29 billion and is expected to increase further in the 2017 financial year.

Rockcastle opened its first two new developments in Poland, Galeria Tomaszow and Galeria Wolomin, within budget and on schedule during October 2016. The two shopping centres represent an increase of 44 000m² GLA in the retail portfolio. Both centres are trading well and following strong tenant demand, the development of a retail park adjacent to Galeria Wolomin has been approved by the board and is currently in construction. Tenants include JYSK, Media Expert, Abra Meble, Komfort, Maxi Bazar and Opoczno. A new free-standing Leroy Merlin outlet, currently being developed on an adjacent site not owned by Rockcastle, will further strengthen the node and is scheduled to be opened in 2017.

Bonarka City Centre, the dominant regional mall in Krakow, was acquired during September 2016. Krakow is the second largest city in Poland. Despite a modest decline in footfall due to extensive road reconstruction around its access routes, the mall recorded an impressive 8.85% increase in turnover. The centre was passively managed by a private equity owner and management believes that there is considerable potential to increase income from this investment.

During December 2016 the Company concluded its acquisition of Galeria Warminska in Olaszyn, Poland. This 42 711m² GLA regional mall offering 150 stores is the leading retail destination in the region. The mall is performing well with footfall and sales growing by 21.5% and 15% respectively.

The Focus Mall centres in Zielona Góra and Piotrków Trybunalski were acquired in November 2016. Focus Mall Zielona Góra is overtrading and strong tenant demand supports a substantial extension to this mall. As a result, additional rights have been applied for to extend the centre by 15 000m² and construction is planned for the first half of 2018.

With the conclusion of these new developments and acquisitions the Group's retail portfolio has an approximate gross lettable area of 450 000m² and comprises 10 shopping centres in Poland and one in the Czech Republic.

During the period the Company's investment in its retail asset management and development resources has positioned it strongly for future growth. Redevelopments of over EUR 100 million are planned for the upcoming financial year. These include Solaris in Opole and Platan in Zabrze that are being extended to accommodate or enlarge under-sized major multinational tenants.

Strong competition exists in the dominant regional mall market with European competitors with low costs of capital and long-term investment mandates being active in the region. This strong competition will result in a continued reduction in capitalisation rates for prime assets in the region.

A number of portfolios of secondary assets are being offered by public tender. Rockcastle is not pursuing these opportunities but instead targets specific assets on an off-market basis. Unwavering discipline towards property fundamentals will ensure that the portfolio is well positioned for long-term growth.

The Company's strategy of selling listed investments and re-investing the proceeds in direct properties and developments will continue during 2017. It is anticipated that direct property will make up approximately 90% of Rockcastle's assets by December 2017. Several large strategic acquisitions are currently under negotiation or evaluation.

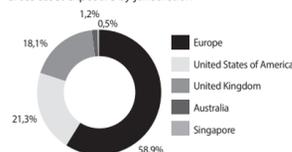
5 LISTED SECURITY PORTFOLIO

The past year has seen significant volatility because of geopolitical, macro-economic and regulatory changes in the US, UK and Europe. Rockcastle's NAV per share increased from USD 1.56 at December 2015 to USD 1.65 at December 2016. There was a modest decrease in the NAV from USD 1.70 at June 2016.

The geographic spread and composition of the portfolio have changed with the UK and Europe now representing a larger share than the US and the retail sector now making up 75% of the total listed security exposure.

Direct property and listed security portfolio composition

Gross asset exposure by jurisdiction



6 CAPITAL STRUCTURE AND HEDGING

In addition to fully-funded positions, Rockcastle utilises equity derivatives to obtain exposure to listed real estate companies. During the period, revised prime brokerage agreements were signed with improved terms. Rockcastle's listed security investments disclosed in its statement of financial position represent only fully-funded positions.

The equity derivative collateral of USD 244.5 million included in current assets provided the Group with exposure to investments of USD 1 266 million. The income from derivatives and listed securities of USD 90.3 million includes interest of USD 20.87 million on the implied gross interest-bearing borrowings of USD 551.1 million. Positions disclosed under listed security investments of USD 383.9 million include physical positions held at 31 December 2016 as well as derivative positions that are 100% collateralised in cash.

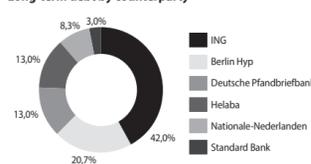
Interest rate swaps are used to hedge the interest rate risk relating to listed security investments. The principal counter parties in all derivative transactions are Morgan Stanley and BoA Merrill Lynch. The group does not hedge the currency relating to its capital positions but 95% of the distributable income to June 2017 was hedged. No further hedges relating to distributable income were entered into beyond this point due to the proposed merger with New Europe Property Investments PLC ("NEPI") that has the Euro as its reporting currency. Rockcastle's loan-to-value ratio was 37.7% as at December 2016 (This ratio includes the implied gearing on the equity swap positions as detailed above).

Rockcastle successfully extended its debt maturity profile and signed more than USD 405 million of secured facilities at attractive rates. Rockcastle has now established solid partnerships with most of the major banks active in the region which is evidenced by the diverse counterparty exposure and favourable debt facility terms. The Company's weighted average cost of long-term debt is now 1.75% and is fully hedged. The company is well advanced in negotiations to secure an additional EUR 108 million in secured funding at a blended all-in rate below 1.8%. These proceeds will be drawn down in the first quarter of 2017 and used to further advance the direct property strategy.

The debt maturity profile on long-term borrowings is listed below:

Debt maturity profile (financial year)	Equivalent amount USD'000
Dec 2017	-
Dec 2018	13 100
Dec 2019	-
Dec 2020	235 332
Dec 2021	171 063
Dec 2022 and beyond	5 735
	425 230

Long-term debt by counterparty



7 SUMMARY OF FINANCIAL PERFORMANCE

	Dec 2016	Jun 2016	Dec 2015	Jun 2015
Dividend/distribution per share (USD cents)	5.189	4.782	4.631	4.42
Shares in issue	945 502 019	930 994 319	912 540 104	847 862 018
Net asset value per share (USD)	1.65	1.70	1.56	1.46
Loan to value ratio*	37.7%	33.9%	41.6%	46.9%

* The loan to value ratio is calculated by dividing gross interest-bearing borrowings – cash by investment property and related intangibles (excluding goodwill) + listed securities + loans. The calculation furthermore includes the equity derivative positions on a gross basis.

8 OUTLOOK

The Board expects growth in dividends per share for the 2017 financial year to be approximately 21%. This guidance is based on the assumptions that a stable macro-economic environment prevails and no major corporate failures occur.

This forecast has not been audited or reviewed by Rockcastle's auditors and are the responsibility of the Board.

9 MERGER OF NEPI AND ROCKCASTLE

During the fourth quarter of 2016, NEPI and Rockcastle, issued joint cautionary announcements regarding a potential transaction. On 14 December 2016, a framework agreement was announced (Framework Agreement), pursuant to which their respective businesses would be merged into an entity newly incorporated in the Isle of Man, NEPI Rockcastle plc (NewCo). This is expected to be implemented with an effective share swap ratio of 4.5 Rockcastle shares for one NEPI share (the Swap Ratio).

In accordance with the Framework Agreement, NEPI and Rockcastle will transfer all assets and liabilities, including their subsidiaries, effectively transferring their entire businesses to NewCo. In exchange, NewCo will issue ordinary shares (NewCo Shares) to NEPI and Rockcastle, in line with the Swap Ratio.

NewCo is expected to benefit from enhanced liquidity, and be the largest listed real estate company in Central and Eastern Europe (CEE). NewCo Shares are expected to be listed on the Main Board of the JSE and Euronext Amsterdam, as well as other stock exchanges NEPI and Rockcastle agree upon. The transaction will integrate two complementary management teams, unlocking strategic synergies and creating additional value for shareholders.

Considering the envisaged merger, including anticipated improvements in portfolio size and diversification, Standard & Poor's Global Ratings (S&P) revised NEPI's outlook from 'Stable' to 'Positive', and reaffirmed the long-term 'BBB' corporate credit rating. Moody's Investors Service (Moody's) retained NEPI's Baa3 Stable, but considers the merger credit positive.

These transactions will be implemented following the fulfilment, or waiver, of several conditions precedent, including approval by Boards of Directors and shareholders, as well as all relevant authorities, on or before 30 June 2017.

A circular detailing this transaction, accompanied by announcements on the relevant stock exchanges, is expected to be issued by 30 April 2017.

By order of the Board

Intercontinental Trust Limited

Company Secretary

Mauritius

15 February 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Audited as at 31 Dec 2016 USD'000	Audited as at 30 Jun 2015 USD'000
ASSETS		
Non-current assets	1 739 084	2 295 139
Investment property	1 258 786	58 708
Straight-lining of rental revenue adjustment	199	415
Investment property under development	5 611	7 436
Intangible assets	7 341	-
Goodwill	17 433	-
Listed security investments	383 994	2 161 724
Property, plant and equipment	499	-
Investment in and loans to joint ventures	37 000	41 727
Rockcastle management incentive loans	26 968	25 129
Deferred tax assets	1 253	-
Current assets	340 218	31 366
Investment income receivable	2 810	7 589
Cash and cash equivalents	24 090	3 035
Trade and other receivables	50 376	561
Equity derivative collateral	244 524	-
Financial assets at fair value through profit or loss	18 004	14 849
Income tax receivable	414	-
Loans to development partners	-	5 332
Total assets	2 079 302	2 326 505
EQUITY AND LIABILITIES		
Total equity attributable to equity holders	1 556 106	1 241 128
Stated capital	1 383 676	1 180 670
Retained income	371 467	183 601
Non-distributable reserves	(168 723)	(123 947)
Currency translation reserve	(30 314)	804
Non-controlling interest	532	-
Total equity	1 556 638	1 241 128
Total liabilities	522 664	1 085 377
Non-current liabilities	450 552	16 614
Interest-bearing borrowings	425 230	16 614
Deferred tax liabilities	25 322	-
Current liabilities	72 112	1 068 763
Trade and other payables	63 872	2 991
Interest-bearing borrowings	1 538	1 063 777
Financial liabilities at fair value through profit or loss	6 633	1 975
Income tax payable	69	20
Total equity and liabilities	2 079 302	2 326 505
Total number of shares in issue	945 502 019	847 862 018
Net asset value per share (USD)	1.65	1.46

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated capital USD'000	Retained income USD'000	Non-controlling interest USD'000	Non-distributable reserves USD'000	Currency translation reserve USD'000	Total USD'000
Balance at 30 June 2014	871 154	131 714	-	(19 684)	-	983 184
Issue of shares	277 242	-	-	-	-	277 242
Dividends declared	32 274	(62 508)	-	-	-	(30 234)
Exchange differences on translation of foreign operations	-	-	-	-	804	804
Profit for the year	-	10 132	-	-	-	10 132
Transfer to non-distributable reserves	-	104 263	-	(104 263)	-	-
Balance at 30 June 2015	1 180 670	183 601	-	(123 947)	804	1 241 128
Shares issued and cum distribution portion on issue during the period	92 641	3 378	-	-	-	96 019
Dividends declared	110 365	(126 080)	-	-	-	(15 715)
Exchange differences on translation of foreign operations	-	-	(121)	-	(32 775)	(32 896)
Reclassification of exchange differences on joint ventures on sale of investments	-	(1 657)	-	-	1 657	-
Profit for the period	-	267 449	642	-	-	268 091
Equity contributed by minorities	-	-	11	-	-	11
Transfer to non-distributable reserves	-	44 776	-	(44 776)	-	-
Balance at 31 December 2016	1 383 676	371 467	532	(168 723)	(30 314)	1 556 638

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Audited for the 18 months ended 31 Dec 2016 USD'000	Audited for the 12 months ended 30 Jun 2015 USD'000
Net rental and related revenue	36 942	1 992
Recoveries and contractual rental revenue	49 417	2 240
Straight-lining of rental revenue adjustment	199	415
Rental revenue	49 616	2 655
Property operating expenses	(12 674)	(663)
Income from derivatives and listed securities	90 254	77 931
Income from joint ventures	8 263	5 892
Gain on acquisition of subsidiary	1 731	-
Fair value gain on investment property, listed security investments and derivatives	134 200	14 637
Adjustment resulting from straight-lining of rental revenue	(199)	(415)
Fair value gain on investment property	43 228	-
Fair value loss of financial instruments at fair value through profit or loss	(19 407)	(6 090)
Fair value gain on listed security investments	110 578	21 142
Foreign exchange gain/loss	12 169	(77 935)
Operating expenses	(5 974)	(2 994)
Profit before net finance costs	277 585	19 523
Net finance costs	(2 656)	(9 371)
Finance income	3 359	2 363
Interest income	3 359	2 363
Finance costs	(6 015)	(11 734)
Interest on borrowings	(7 871)	(11 913)
Capitalised interest	1 856	179
Profit before income tax expense	274 929	10 152
Income tax expense	(6 838)	(20)
Profit for the period	268 091	10 132
OTHER COMPREHENSIVE INCOME NET OF TAX		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations – equity holders of the Company	(32 775)	804
Exchange differences on translation of foreign operations – non-controlling interest	(121)	-
Exchange differences on joint ventures on sale of investments	1 657	-
Total comprehensive income for the period	236 852	10 936
Profit for the period attributable to:		
Equity holders of the Company	267 449	10 132
Non-controlling interest	642	-
Total comprehensive income for the period attributable to:	268 091	10 132
Equity holders of the Company	236 331	10 936
Non-controlling interest	521	-
Total comprehensive income for the period attributable to:	236 852	10 936
Weighted average number of shares in issue	916 429 393	772 800 853
Basic earnings per share (USD cents)	29.18	1.31
Headline earnings per share (USD cents)	23.77	0.69
Basic profit per share and headline profit per share are based on the weighted average of 916 429 393 shares in issue for the period ended 31 December 2016 (year ended 30 June 2015: 772 800 853 shares).		

RECONCILIATION OF PROFIT FOR THE PERIOD TO HEADLINE EARNINGS

	Audited for the 18 months ended 31 Dec 2016 USD'000	Audited for the 12 months ended 30 Jun 2015 USD'000
Basic earnings – profit for the period attributable to equity holders	267 449	10 132
Adjusted for:		
- fair value gain on investment property of joint ventures	(5 360)	(4 814)
- adjustment on sale of interest in joint ventures	706	-
- fair value gain on investment property	(43 228)	-
- gain on acquisition of subsidiary	(1 731)	-
Headline earnings	217 836	5 318
Headline earnings per share (USD cents)	23.77	0.69

Rockcastle has no dilutionary instruments in issue.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Audited for the 18 months ended 31 Dec 2016 USD'000	Audited for the 12 months ended 30 Jun 2015 USD'000
Cash inflow from operating activities	127 142	53 759
Cash outflow from investing activities	(347 131)	(751 235)
Cash inflow from financing activities	241 044	700 025
Increase in cash and cash equivalents	21 055	2 549
Cash and cash equivalents at beginning of period	3 035	486
Cash and cash equivalents at end of period	24 090	3 035
Current accounts	24 090	3 035

NOTES