

Why conduct a Rights Issue?

In February 2009 we announced a Rights Issue to raise fresh capital to support the Company. Here we examine the reasons for the issue and assess its results.

In short, the Rights Issue has:

- Strengthened our balance sheet
- Helped protect against downside risk
- Positioned us to be able to respond quickly to opportunities

The Rights Issue offered shareholders the right to acquire five shares for every eight shares that they held, for an issue price of 270p.

As the issue price was below the market price of the ordinary shares, a bonus share element of 11% was inherent in the Rights Issue. In order to allow comparability to prior years, the EPS and NAV per share figures for the year ended 31 March 2008 have been restated as if these bonus shares had always existed.

Why we needed to raise fresh capital

The current economic and financial environment has resulted in an unprecedented downward repricing of commercial property assets in the UK. We have taken decisive action in response. Since April 2007 we have sold more than £3.4bn of assets, including the disposal of Trillium, and we have repositioned our development programme. However, the pace of decline has exceeded the pace at which assets could be sold to counteract the impact of falling values on the Group's balance sheet position. This represented an ongoing risk to the Company's ability to operate flexibly in today's market, and its ability to take advantage of any opportunities that may arise during current and future market conditions. In response, we announced the Rights Issue in February 2009 and shareholders approved the measure at a General Meeting on 9 March 2009.

The key benefits of the additional capital

The additional capital has improved our ability to preserve and create shareholder value through the downturn and into the next cycle. It helps protect us against the downside and gives us flexibility ahead of the next upturn. In particular, the capital raised has strengthened the Group's balance sheet and enabled us to minimise the impact of the risk of prolonged falls in property values. It has reduced refinancing risks for debt facilities maturing in our 2010/11 financial year, putting us in a much stronger position to refinance as and when we need to. And it has ensured that we are able to respond quickly to the turning point in the cycle, particularly in relation to the acquisition of assets and the start of development opportunities.

The positive effect on debt

As our gearing increases our financial and operational flexibility is reduced, particularly our freedom to make acquisitions and disposals – and progress development – at the right time. This can impact our ability to protect and create shareholder value. By raising additional capital through the Rights Issue we have been able to reduce gearing and so maintain flexibility. This freedom to take action is invaluable as we navigate our way through the current downturn and market volatility, and prepare to act on new opportunities.

Size of Rights Issue

We calculated the total figure with great care. We wanted to minimise our call on shareholders' funds during such difficult economic conditions. On the other hand, we had to ensure we gained the right level of capital to ensure we could meet our commitments fully, over a reasonable period of time, and through an unpredictable business environment. Management took action to strengthen the Company's finances before the Rights Issue, including the execution of asset sales, such as the disposal of Trillium. We continue to prioritise these measures.

How the Rights Issue affects the numbers

You will see two particularly significant changes. First, our balance sheet reflects the fact that we are holding a substantial amount of cash. This includes both the capital raised by the Rights Issue and the credit facilities we drew down during the year. Second, the Rights Issue has required us to restate previous years' figures, and you will see that this has affected both earnings per share (EPS) and net asset value (NAV) per share. You will find further explanation of these effects on page 23 of the Financial review.

Successful issue underlines investor confidence

The five shares for every eight owned Rights Issue attracted 94.81% acceptances for the £755.7m placing, with 290.8m shares issued at 270p a share. The fundraising was fully underwritten. Given very difficult market conditions, economic uncertainty and the announcement of Rights Issues by a number of other companies in the Real Estate sector, this represents a strong indicator of investors' confidence in Land Securities.