

Notes to the accounts

for the year ended 31 December 2007

1 Accounting policies

(a) Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. The accounts comply with the following new Financial Reporting Standards and Urgent Issues Task Force abstracts issued by the UK Accounting Standards Board. Adoption of these standards did not have any effect on the financial position of the Company although they did give rise to additional disclosures.

Amendment to FRS 26 (IAS39): Financial Instruments: Measurement: Recognition and Derecognition

This amendment has the aim of keeping the text of the UK Standard in line with that of the International Standard IAS 39 and is effective for accounting periods beginning on or after 1 January 2007.

Amendment to FRS 17: Retirement Benefits

The Company has elected to early adopt this amendment which has the effect of replacing the existing disclosure requirements of FRS 17 with those of International Standard IAS 19 'Employee Benefits' and is effective for accounting periods beginning on or after 6 April 2007.

FRS 29 (IFRS 7): Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the company's financial instruments and the nature and extent of risks arising from those financial instruments. As FRS 29 is a disclosure standard, there is no impact of that change in accounting policy on the Company's financial position. The Company has taken advantage of the exemption allowed by paragraph 2D (b) of FRS 29 not to make these disclosures in its own entity's financial statements as the consolidated financial statements include the required disclosures for the Group.

A separate profit and loss account dealing with the results of the parent undertaking only has not been presented as provided by section 230 of the Companies Act 1985.

(b) Tangible fixed assets

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost on a straight-line basis over the expected useful lives of the assets concerned, as follows:

Computer equipment	3 – 10 years
Furniture, fixtures and equipment	4 – 5 years
Leasehold improvements	over the period of the lease

(c) Investments

Fixed asset investments are shown at cost, less provisions for impairment.

Investments held as current assets are stated at the lower of cost and net realisable value.

The carrying value of fixed asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

(d) Pension schemes

The Company maintains a number of contracted-out defined contribution schemes and contributions are charged to the profit and loss account in the year in which they are due. These schemes are funded and the payment of contributions is made to separately administered trust funds. The assets of these schemes are held separately from the Company. The Company remits monthly pension contributions to Capita Business Services Limited, a subsidiary undertaking of the Company, which pays the Group liability centrally. Any unpaid contributions at the year end have been accrued in the accounts of that company.

(e) Leasing commitments

Assets obtained under finance leases are capitalised in the balance sheet and depreciated over the shorter of the lease term and their useful economic lives.

The finance charges under finance leases and hire purchase contracts are allocated to accounting periods over the period of the lease and represent a constant proportion of the balance of capital repayments outstanding. Rentals due under operating leases are charged on a straight-line basis over the lease term.

(f) Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, taxation, with the following exceptions:

- provision is made for taxation on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to taxation only where the replacement assets are sold
- provision is made for deferred taxation that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable
- deferred taxation assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is measured on an undiscounted basis at the taxation rates that are expected to apply in the periods in which timing differences reverse, based on taxation rates and laws enacted or substantively enacted at the balance sheet date.

1 Accounting policies (continued)

(g) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments.

(h) National Insurance on share option gains

National Insurance on outstanding share options at the year end has been grossed up and shown as a provision and a receivable on the balance sheet.

(i) Financial instruments: disclosure and presentation

A separate note dealing with the disclosures of FRS 29 has not been presented as provided by paragraph 2D (b) of FRS 29. The consolidated financial statements include the required disclosures of IFRS 7 for the Group.

(j) Derivative financial instruments

The Company uses derivative financial instruments such as interest rate swaps and foreign currency contracts to hedge risks associated with interest and exchange rate fluctuations. Such derivative financial instruments are stated at fair value. The fair values of interest rate swaps and foreign currency contracts are determined by reference to market rates for similar instruments.

For the purpose of hedge accounting, hedges are classified as either: fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability or a forecast transaction.

In relation to fair value hedges (e.g. fixed to floating interest rate swaps held as fair value hedges against fixed interest rate borrowings) which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the profit and loss account. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the profit and loss account.

In relation to cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the profit and loss account. Amounts taken to equity are transferred to the profit and loss account when the hedged transaction affects the profit and loss account, such as when the hedged financial income or financial expense is recognised or when a forecast transaction occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the profit and loss account. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the profit and loss account.

(k) Share based payments

The Company operates a number of executive and employee share schemes.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity.

Subsidiary undertakings of the Company reimburse the Company through the inter company account for charges attributable to their employees participating in the Company's share schemes.

Notes to the accounts

2 Deferred taxation

	2007 £m	2006 £m
The deferred taxation included in the balance sheet is as follows:		
Accelerated capital allowances included in provisions and liabilities for charges	–	(1.4)
Accelerated capital allowances	(1.8)	
Share based payments	3.6	
Cash flow hedges	(1.6)	
Included in debtors note 8	0.2	

3 Profit attributable to members of the parent undertaking

The profit after taxation dealt with in the accounts of the parent undertaking was £550.3m (2006: £197.1m).

4 Dividends

	2007 £m	2006 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2006 paid: 6.3p per share (2005: 4.9p per share)	39.2	31.1
Interim for 2007 paid: 4.0p per share (2006: 2.7p per share)	24.7	16.6
Special dividend for 2007 paid: 25.0p per share (2006: nil p per share)	154.7	–
	218.6	47.7
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2007: 8.0p per share (2006: 6.3p per share)	48.7	38.9

5 Tangible fixed assets

	Computer equipment £m	Furniture, fixtures and equipment £m	Short term leasehold improvements £m	Total £m
Cost				
1 January 2007	22.9	0.6	2.1	25.6
Additions	3.4	0.2	0.5	4.1
31 December 2007	26.3	0.8	2.6	29.7
Depreciation				
1 January 2007	6.3	0.4	1.4	8.1
Charge for year	2.0	0.1	0.2	2.3
31 December 2007	8.3	0.5	1.6	10.4
Net book value at:				
1 January 2007	16.6	0.2	0.7	17.5
31 December 2007	18.0	0.3	1.0	19.3

6 Financial assets

	2007 £m	2006 £m
Current		
Cash flow hedges	0.9	–
	0.9	–
	2007 £m	2006 £m
Non-current		
Cash flow hedges	4.7	–
	4.7	–

7 Investments**(a) Fixed asset investments**

	Shares in subsidiary undertakings £m
Cost	
1 January 2007	293.7
Additions	78.4
31 December 2007	372.1

During the year the Company completed intragroup transfers as follows: It acquired Capita IRG Trustees Limited from Capita Registrars Limited (formerly Capita IRG Plc) and Capita Financial Nominees Limited (formerly ACD Services Limited) from Capita Financial Group Limited. These transfers took place at net book value and were settled by cash for an aggregate consideration of £3.3m.

During the year the Company incorporated Capita Registrars (Isle of Man) Limited. In addition the company increased its investment in Capita Life & Pensions Regulated Services Limited by making a capital contribution of £24m.

The Company made the following acquisitions during the year for a combined consideration of £51.1m: Evolvi Rail Systems Limited (formerly Harry Weeks Travel & Leisure Group Limited), Capita Financial Administrators (Gibraltar) Limited (formerly Global Fund Administration Limited), Capita Hartshead Solutions Limited (formerly Higham Dunnet Shaw Plc) and Capita Hartshead (Actuaries & Pension Consultants) Limited (formerly Aspen (Actuaries & Pension Consultants) Limited)).

Principal investments	Country of registration and operation	Proportion of nominal value of issued shares held by the company	Description of shares held
Capita Holdings Limited	England	100%	Ordinary £1 shares
Capita Business Services Limited*	England	100%	Ordinary 1p shares
Capita Trust Company Limited	England	100%	Ordinary £1 shares
Capita Commercial Services Limited*	England	100%	Ordinary £1 shares
BDML Connect Limited*	England	100%	Ordinary £1 shares
Capita Registrars Limited* (formerly Capita IRG Plc)	England	100%	Ordinary £1 shares
Capita Resourcing Limited*	England	100%	Ordinary £1 shares
Capita Symonds Limited*	England	100%	Ordinary £1 shares
Capita Life & Pensions Limited	England	100%	Ordinary £1 shares
Capita Life & Pensions Regulated Services Limited	England	100%	Ordinary £1 shares
Evolvi Rail Systems Limited (formerly Harry Weeks Travel & Leisure Group Limited)	England	100%	Ordinary £1 shares
Service Birmingham Limited*	England	100%	Ordinary £1 shares

*Indirectly held

The activities of The Capita Group Plc undertakings are given on page 114.

(b) Trade investments

	£m
At 1 January 2007 and 31 December 2007	0.1

Notes to the accounts

8 Debtors

	2007 £m	2006 £m
Debtors due within 1 year		
Amounts owed by subsidiary undertakings	812.9	536.0
Taxation recoverable	58.2	46.5
Other taxes and social security	0.4	0.8
Other debtors	0.6	1.7
Prepayments and accrued income	1.7	1.7
	873.8	586.7

Debtors due beyond 1 year

	2007 £m	2006 £m
Prepayments and accrued income	0.5	1.0
Deferred taxation	0.2	–
Interest rate swap	0.1	–
	0.8	1.0

9 Creditors

	2007 £m	2006 £m
Amounts falling due within 1 year		
Bank overdraft	82.5	57.4
Trade creditors	0.6	2.0
Other creditors	0.3	0.2
Unsecured loan notes	–	22.2
Accruals and deferred income	14.5	10.8
	97.9	92.6

Amounts falling due after more than 1 year

	2007 £m	2006 £m
Bonds	357.5	372.0
Currency swap	20.8	6.4
Other creditors	0.2	0.2
	378.5	378.6

The bank overdraft and the bonds are unsecured.

10 Provisions for liabilities and charges

	£m
Deferred taxation	
At 1 January 2007	1.4
New provisions in the year	(1.6)
At 31 December 2007 – included in debtors note 8	(0.2)

11 Share capital

	2007 million	2006 million	2007 £m	2006 £m
Authorised				
Ordinary shares of 2 1/15p (2006: ordinary shares of 2p each)	967.7	1,000.0	20.0	20.0
Allotted, called up and fully paid				
Ordinary shares of 2 1/15p each (pre 14 September 2007: ordinary shares of 2p each)				
At 1 January – ordinary shares of 2p each	617.6	671.0	12.3	13.4
Shares repurchased – ordinary shares of 2p each	(6.6)	(52.9)	(0.1)	(1.1)
Issued on exercise of share options – ordinary shares of 2p each	7.9	16.4	0.2	0.4
Reduction in issued shares on consolidation – see below	(20.0)	–	–	–
Issued on exercise of share options – ordinary shares of 2 1/15p each	10.1	–	0.2	–
Treasury shares cancelled – ordinary shares of 2 1/15p each (2006: 2p each)	–	(16.9)	–	(0.4)
At 31 December ordinary shares of 2 1/15p (2006: ordinary shares of 2p each)	609.0	617.6	12.6	12.3

In September 2007, the Company, by ordinary resolution, approved a share consolidation whereby shareholders on the register on 14 September 2007 exchanged 31 existing ordinary shares of 2p for 30 new ordinary shares of 2 1/15p each. The effect of the share consolidation was to reduce the authorised share capital of the Company to 967,741,920 ordinary shares of 2 1/15p each and to reduce the number of shares in issue by 20m.

During the year the Company repurchased 6.6m ordinary 2p shares with an aggregate nominal value of £0.1m at a total cost of £43.6m for which it paid cash at an average cost per share of £6.66. These shares were cancelled.

During the year 7.9m ordinary 2p shares with an aggregate nominal value of £0.2m were issued under share option schemes for a total consideration of £29.5m.

In addition, 10.1m ordinary 2 1/15p shares with an aggregate nominal value of £0.2m were issued under share option schemes for a total consideration of £37.7m.

Treasury shares

	2007 million	2006 million	2007 £m	2006 £m
Ordinary shares of 2 1/15p each (2006: 2p each)				
At 1 January	–	16.9	–	0.4
Shares cancelled – ordinary shares of 2p each	–	(16.9)	–	(0.4)
Shares repurchased – 41,163 ordinary 2 1/15p shares	–	–	–	–
At 31 December – ordinary shares of 2 1/15p each (2006: 2p each)	–	–	–	–

During the year the Company repurchased 41,163 ordinary 2 1/15p shares with an aggregate nominal value of £851 to be held in treasury for which it paid cash. The weighted average cost of each share was £6.61 and the total consideration for these shares was £272,219.

The Company has an unexpired authority to repurchase up to 10% of its issued share capital.

12 Reserves

Company	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Treasury shares £m	Profit and loss account £m
At 1 January 2007	308.1	1.7	44.6	–	59.7
Shares issued	66.8	–	–	–	–
Share transaction costs	–	–	–	–	(0.5)
Share repurchase and cancellation	–	0.1	–	–	(43.6)
Treasury shares purchased	–	–	–	–	(0.3)
Share based payment	–	–	–	–	14.4
Equity dividends paid	–	–	–	–	(218.6)
Retained profit for the year	–	–	–	–	550.3
At 31 December 2007	374.9	1.8	44.6	–	361.4

Between October 2005 and March 2007, the Company sought to repurchase 61.8m of its own shares for an aggregate consideration of £289.0m. Although the Company had sufficient reserves to make these purchases at each transaction date, interim accounts (as defined in the Companies Act 1985) showing the requisite level of distributable profits had inadvertently not been filed with the Registrar of Companies, as required by the Companies Act 1985. As a result of this technical infringement, the repurchase and cancellation of 36.8m shares, equating to £175.4m was invalid. This situation was rectified during the year with no net impact on share capital, capital redemption reserve and retained earnings.

Notes to the accounts

13 Reconciliation of movements in shareholders' funds

	2007 £m	2006 £m
Profit for the year	550.3	197.1
Dividends	(218.6)	(47.7)
	331.7	149.4
Share based payment	14.4	8.5
Shares issued	67.2	50.4
Share transaction costs	(0.5)	(1.2)
Shares purchased	(43.9)	(244.9)
Net movement in shareholders' funds	368.9	(37.8)
Opening shareholders' funds	426.4	464.2
Closing shareholders' funds	795.3	426.4

14 Commitments and contingent liabilities

(a) Annual commitments under operating leases were as follows:

	2007		2006	
	Property £m	Other £m	Property £m	Other £m
Operating leases which expire:				
In 2 to 5 years inclusive	–	0.5	–	0.4
Over 5 years from the balance sheet date	1.6	–	1.6	–
	1.6	0.5	1.6	0.4

(b) The Company has guaranteed overdraft and loan facilities of Group undertakings amounting to £260.0m (2006: £205.0m).

15 Borrowings

	2007 £m	2006 £m
Bank overdraft payable on demand	82.5	57.4
Loan notes	–	22.2
Bonds	378.2	378.4
	460.7	458.0
Repayments fall due as follows:		
Within 1 year:		
Bank overdraft	82.5	57.4
Loan notes	–	22.2
	82.5	79.6
After more than 1 year:		
In more than 1 year but not more than 2 years	100.2	–
In more than 2 years but not more than 5 years	24.7	100.2
In more than 5 years	253.3	278.2
	378.2	378.4
Total borrowings and finance leases	460.7	458.0

Loan notes were issued in previous years pursuant to the satisfaction of consideration due in relation to the acquisition of a subsidiary undertakings. Loan notes issued during the year amounted to £5.9m (2006: £nil).

15 Borrowings (continued)

The Company has issued guaranteed unsecured bonds as follows:

Bond	Interest rate %	Denomination	Value £m	Maturity
Issued 2002				
Series B	6.44	GBP*	55.0	20 June 2009
Issued 2005				
Series A	0.525 above 6m LIBOR	GBP	50.0	28 September 2013
Series B	0.525 above 6m LIBOR	GBP	25.0	28 September 2015
Total of sterling denominated bonds			130.0	
			US\$m	
Issued 2002				
Series A	6.10	US\$**	66.0	20 June 2009
Series C	6.47	US\$**	36.0	20 June 2012
Issued 2006				
Series A	5.74	US\$**	60.0	28 June 2013
Series B	5.88	US\$**	130.0	28 June 2016
Series A	5.66	US\$**	11.0	13 September 2013
Series B	5.81	US\$**	74.0	13 September 2016
Series C	5.77	US\$**	60.0	13 September 2016
Total of US\$ denominated bonds			437.0 (GBP 248.2m)	

All series are unsecured.

*The Company has entered into an interest rate swap to convert the interest cost based on 6 month LIBOR.

**The Company has entered into currency swaps for the US\$ issues to achieve a floating rate of interest based on 6 month LIBOR. Further disclosure on the Company's use of hedges is included in note 25 commencing on page 89.

16 Related party transactions

There were no related party transactions that require disclosure in the year.

17 Pension costs

The Company operates a defined contribution scheme.

The pension charge for the defined contribution scheme for the year was £1.2m (2006: £0.7m).

Notes to the accounts

18 Share based payment

The Company operates several share based payment plans as follows:

Deferred Annual Bonus Plan

This scheme is applicable to Executive Directors and Divisional Executive Directors. Under this scheme awards are made annually consisting of Deferred Shares, which are linked to the payout under the Annual Bonus Scheme (details of which are contained in the Directors' remuneration report) and Matching Shares. The value of Deferred Shares is determined by the payout under the Annual Bonus Scheme: half of the annual bonus is paid in cash and the remainder is compulsorily deferred on a gross basis into Deferred Shares. The Deferred Shares are held for a period of three years from the date of award during which they are not forfeitable, except in the case of dismissal for gross misconduct.

A conditional award of Matching Shares is made at the same time as the award of Deferred Shares. Participants will be eligible to receive up to 1.5 Matching Shares for every Deferred Share. Matching Shares will vest after the three year holding period to the extent to which performance conditions have been met. 33.3% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 6% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 16% per annum. The performance condition attached to the awards may be amended by the Group Remuneration Committee, a sub-committee of the Group Board, from time to time, subject to the new condition being no less demanding than the original condition.

Long Term Indexed Share Appreciation Scheme (LTISAS)

The LTISAS was only open to the Executive Directors and the Divisional Executive Directors. Under the scheme, participants were provided with two equal tranches of 600,000 options. The criteria were the same for each of these grants and therefore both tranches had performance periods that ended on 31 December 2006. The exercise price of the option was restated, in line with the FTSE All Share Index from the date of grant to 25 November 2007. The restated exercise prices were £3.48 for the 2002 award and £4.74 for the 2004 award. This feature ensured that participants only gained if the share price out-performed the index. Options became exercisable, over the performance period, subject to the growth in the Company's EPS exceeding certain targets as follows:

As growth in the Company's EPS over the three year period to 31 December 2006 exceeded RPI growth by 17.6%, 100% of the options vested (representing 1,200,000 shares per participant) and became exercisable on 25 November 2007.

The last award under the LTISAS was made in November 2004 and vested in full on 31 December 2006 and no further awards will be made under this plan.

1997 Executive Share Option Scheme

This scheme is open to senior employees other than Executive Directors and Divisional Executive Directors. The exercise price of the options is equal to the market price of the shares on the date of grant. Options granted under this scheme become exercisable if the growth in the Company's EPS exceeds the growth in RPI by 8% over the three year vesting period from the date of grant. The contractual life of each option granted is seven years. There are no cash settlement alternatives.

Capita Sharesave Scheme

This is an employee Save As You Earn scheme open to all Capita employees. Under this scheme, employees are granted share options at a discount to the market price at the date of grant. The discount is currently nil (2006: nil; 2005: 10% and 20% prior to 2005). The options become exercisable for a six month period following completion of a three or five year savings period. There are no performance conditions attached to these options.

The Group expense recognised for share based payments in respect of employee services received during the year to 31 December 2007 was £8.6m (2006: £8.5m), all of which arises from equity-settled share based payment transactions. The total Company expense, after recharging subsidiary undertakings, charged to the profit and loss account in respect of FRS 20 'Share based payment' was £2.8m (2006: £2.6m).

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year (excluding Deferred Annual Bonus Plan and LTISAS).

	2007 Number	2007 WAEP	2006 Number	2006 WAEP
Outstanding as at 1 January	28,907,177	£3.65	42,679,159	£3.29
Granted during the year	5,478,529	£6.89	5,240,564	£4.72
Exercised	(10,776,015)	£3.54	(16,214,092)	£3.12
Forfeited	(2,792,080)	£3.91	(2,458,650)	£2.78
Expired during the year	(162,278)	£4.07	(339,804)	£3.38
Outstanding as at 31 December ¹	20,655,333	£4.54	28,907,177	£3.65
Exercisable at 31 December	4,829,267	£3.45	11,859,421	£3.95

¹Included within this balance are options over 6,418,161 (2006: 11,012,567) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

18 Share based payment (continued)

The options have been exercised on a regular basis throughout the year and the weighted average share price during the year was £7.03 (2006: £4.97).

As noted above under the LTISAS scheme two tranches of 600,000 share options have been issued to each participant in the scheme. Both were deemed to have been granted in November 2002. The first tranche, totalling 5,400,000 share options, was awarded and issued in November 2002 when the share price was £2.16. The second tranche, also totalling 5,400,000 share options, was awarded in November 2002 and issued in November 2004 when the share price was £3.51. Both tranches of share options became exercisable on 25 November 2007, with a weighted average exercise price of £4.11. During the year, 7,200,000 share options under this scheme were exercised at a weighted average exercise price of £4.01, thus the total number of options outstanding under this scheme was 3,493,333 at 31 December 2007 (2006: 10,693,333). The weighted average exercise price of these exercisable share options at 31 December 2007 was £4.32.

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus plan, discussed above, was £1.5m (2006: £1.5m). The matching shares allocation in respect of the 2006 awards under this plan charged in 2007 was £0.6m.

The weighted average fair value of options granted during the year was £1.11 (2006: £1.00). The range of exercise prices for all options outstanding at the end of the year was £1.88 to £7.33 (2006: £0.71 to £5.35).

The fair value of equity-settled share options granted is estimated as at the date of grant using a multiple simulation option pricing valuation model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2007 and 31 December 2006.

	2007	2006
Dividend yield (%)	1.5	1.5
Expected share price volatility (%)	19.00	24.76
Risk free interest rate (%)	4.97	4.5
Expected life of option (years)	3.62	4.43
Weighted average share price of options granted during the year	£6.89	£4.72

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options grant were incorporated into the measurement of fair value.