

26 Authorised and issued 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 Capita Group Plc, 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 Group 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.

	2007 Million	2006 Million	2007 £m	2006 £m
Treasury shares				
Ordinary shares of 2 1/15p (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 Group 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 Group has an unexpired authority to repurchase up to 10% of its issued share capital.

27 Share based payment plans

The Group 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.

Notes to the consolidated financial statements

27 Share based payment plans (continued)

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 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 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.

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.