

Notes to the accounts

for the year ended 31 December 2009

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 (ASB). Adoption of these standards did not have any effect on the financial position of the Company although in some instances they did give rise to additional disclosures.

Improvements to Financial Reporting Standards (2008)

In May 2008 the International Accounting Standards Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. These amendments were adopted by the ASB and issued in December 2008. The adoption of these amendments, which are effective from 1 January 2009, did not have any impact on the financial position or performance of the Company.

Amendments to FRS 8: Related Party Disclosures

This standard was amended to reflect international accounting developments and UK legal changes introduced by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The definition of a related party has been amended and an exemption is only allowed for transactions entered into between two or more members of a group, provided that any subsidiary undertaking that is a party to the transaction is wholly owned by such a member.

Amendments to FRS 29: Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments

The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the opening and closing balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. This has had no effect on the financial statements of the Company as the Company takes 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.

Amendments to UITF Abstract 42 (IFRIC 9): Reassessment of Embedded Derivatives and FRS 26 (IAS 39): Financial Instruments: Recognition and Measurement – Embedded Derivatives

These amendments have been issued to ensure that the UK standards are kept in line with the equivalent IFRSs and IFRICs. The adoption of these amendments, which are effective from 1 January 2009, did not have any impact on the financial position or performance of the Company.

UITF Abstract 46 (IFRIC 16): Hedges of a Net Investment in a Foreign Operation

This has the effect of implementing the International Accounting Standards Board's IFRIC 16 into UK GAAP. It provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Company has no hedges of net investments in foreign operations and consequently the adoption of this interpretation did not have any impact on the financial position or performance of the Company.

A separate profit and loss account dealing with the results of the parent undertaking only has not been presented as provided by Section 408 of the Companies Act 2006.

(b) Tangible fixed assets

Depreciation is provided on all tangible fixed assets 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.

1 Accounting policies (continued)

(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.

(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 remeasuring 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 intercompany account for charges attributable to their employees participating in the Company's share schemes.

Notes to the accounts

2 Deferred taxation

	2009 £m	2008 £m
The deferred taxation included in the balance sheet is as follows:		
Accelerated capital allowances	(2.0)	(1.9)
Share based payments	3.9	3.4
Cash flow hedges	(3.0)	(7.2)
Callable swaps	8.7	8.9
Provisions	0.1	0.6
Included in debtors note 8	7.7	3.8

3 Profit attributable to members of the parent undertaking

The profit after taxation dealt with in the accounts of the parent undertaking was £167.7m (2008: loss of £41.5m).

4 Dividends

	2009 £m	2008 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2008 paid: 9.6p per share (2007: 8.0p per share)	58.8	48.8
Interim for 2009 paid: 5.6p per share (2008: 4.8p per share)	34.4	29.2
	93.2	78.0
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2009: 11.2p per share (2008: 9.6p per share)	69.1	58.6

5 Tangible fixed assets

	Computer equipment £m	Furniture, fixtures and equipment £m	Short term leasehold improvements £m	Total £m
Cost				
1 January 2009	27.5	0.8	3.2	31.5
Additions	6.4	0.1	0.1	6.6
Disposals	(1.4)	(0.1)	(0.1)	(1.6)
31 December 2009	32.5	0.8	3.2	36.5
Depreciation				
1 January 2009	10.2	0.6	1.9	12.7
Charge for year	3.1	0.1	0.3	3.5
Disposals	(1.0)	(0.1)	(0.1)	(1.2)
31 December 2009	12.3	0.6	2.1	15.0
Net book value at:				
1 January 2009	17.3	0.2	1.3	18.8
31 December 2009	20.2	0.2	1.1	21.5

6 Financial assets

	2009 £m	2008 £m
Current		
Cash flow hedges	2.0	4.1
	2.0	4.1
	2009 £m	2008 £m
Non-current		
Cash flow hedges	8.9	21.6
	8.9	21.6

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

	Shares in subsidiary undertakings £m
Cost	
1 January 2009	473.8
Additions	35.8
Transfers to subsidiary undertakings	(25.6)
31 December 2009	484.0

During the year the Company completed an intragroup transfer as follows: it disposed of Capita Hartshead Limited to Capita Life & Pensions Regulated Services Limited and settled the transaction via intercompany for a consideration of £7.9m. It also disposed of Capita Hartshead Solutions Limited to Capita Hartshead Limited and settled the transaction via intercompany for a consideration of £17.7m.

During the year the Company subscribed to 2.8 million £1 ordinary shares at a premium of £25.2m in Capita Fiduciary Group Limited, a subsidiary undertaking. During the year additional fees of £0.9m were paid in respect of previous acquisitions.

The Company made the following acquisitions during the year for respective considerations of £5.9m (£6.6m) and £1m: Capita Fiduciary UK Holdings Limited and Capita Financial Administrators (Guernsey) 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 Insurance Services Limited*	England	100%	Ordinary £1 shares
BDML Connect Limited*	England	100%	Ordinary £1 shares
Capita Registrars Limited*	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	England	100%	Ordinary £1 shares
Service Birmingham Limited*	England	100%	Ordinary £1 shares
ComputerLand UK Limited	England	100%	Ordinary £0.02 shares
IBS OPENSsystems (UK) Limited	England	100%	Ordinary £1 shares
Synetrix Limited*	England	100%	Ordinary 10p shares
Capita IT Services Limited (formerly Carillion IT Services Limited)*	England	100%	Ordinary 1p shares

*Indirectly held.

The activities of The Capita Group Plc undertakings are given on page 138.

(b) Trade investments

	£m
At 1 January 2009 and 31 December 2009	0.1

Notes to the accounts

8 Debtors

	2009 £m	2008 £m
Debtors due within 1 year		
Amounts owed by subsidiary undertakings	323.7	377.6
Taxation recoverable	46.8	52.2
Other taxes and social security	0.3	–
Other debtors	0.7	1.7
Currency swap	–	0.4
Interest rate swap	–	0.7
Prepayments and accrued income	1.4	3.2
	372.9	435.8

	2009 £m	2008 £m
Debtors due beyond 1 year		
Prepayments and accrued income	2.1	1.8
Deferred taxation	7.7	3.8
Currency swap	103.0	203.1
Interest rate swap	3.3	4.1
	116.1	212.8

9 Creditors

	2009 £m	2008 £m
Amounts falling due within 1 year		
Trade creditors	2.3	2.9
Other creditors	0.1	0.2
Bonds	–	101.3
Callable swaps	–	1.0
Cash flow hedges	0.1	–
Accruals and deferred income	21.3	20.3
	23.8	125.7

	2009 £m	2008 £m
Amounts falling due after more than 1 year		
Bonds	325.5	373.4
Interest rate swap	0.6	–
Callable swaps	30.9	30.9
Cash flow hedges	0.1	–
	357.1	404.3

The bank overdraft and the bonds are unsecured.

10 Deferred taxation

	£m
At 1 January 2009	(3.8)
New provisions in the year	(3.9)
At 31 December 2009 – included in debtors note 8	(7.7)

11 Share capital

	2009 Million	2008 Million	2009 £m	2008 £m
Authorised				
Ordinary shares of 2 1/15p each	967.7	967.7	20.0	20.0
Allotted, called up and fully paid				
Ordinary shares of 2 1/15p each				
At 1 January	621.2	609.0	12.8	12.6
Issued on exercise of share options	3.4	12.2	0.1	0.2
At 31 December	624.6	621.2	12.9	12.8

During the year 3.4m (2008: 12.2m) ordinary 2 1/15p shares with an aggregate nominal value of £0.1m (2008: £0.2m) were issued under share option schemes for a total consideration of £15.1m (2008: £35.7m).

Treasury shares

	2009 Million	2008 Million	2009 £m	2008 £m
Ordinary shares of 2 1/15p each				
At 1 January	-	-	-	-
Shares repurchased	-	10.4	-	0.2
Shares transferred to Capita Employee benefit trust	-	(10.4)	-	(0.2)
At 31 December	-	-	-	-

In 2008, the Company purchased 10.4m ordinary 2 1/15p shares with an aggregate nominal value of £0.2m at a total cost of £68.4m for which it paid cash at an average cost per share of £6.58. There were additional expenses of acquiring the shares of £0.4m in that year. These shares were transferred from treasury to the Capita Employee Benefit Trust.

Employee Benefit Trust shares

	2009 Million	2008 Million	2009 £m	2008 £m
Ordinary shares of 2 1/15p each				
At 1 January	10.4	-	0.2	-
Shares transferred from treasury	-	10.4	-	0.2
Shares allotted in the year	(2.5)	-	-	-
At 31 December	7.9	10.4	0.2	0.2

The Company will use shares held in the Employee Benefit Trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long term incentive plans. During the year the EBT allotted 2.5m ordinary 2 1/15p shares with an aggregate nominal value of £0.05m to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £9.8m.

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	Employee benefit trust shares £m	Profit and loss account £m
At 1 January 2009	410.4	1.8	44.6	(0.2)	182.5
Shares issued	24.8	-	-	-	-
Share based payment	-	-	-	-	9.8
Equity dividends paid	-	-	-	-	(93.2)
Retained profit for the year	-	-	-	-	167.7
At 31 December 2009	435.2	1.8	44.6	(0.2)	266.8

13 Reconciliation of movements in shareholders' funds

	2009 £m	2008 £m
Profit/(loss) for the year	167.7	(41.5)
Dividends	(93.2)	(78.0)
	74.5	(119.5)
Share based payment	9.8	9.2
Shares issued	24.9	35.7
Share transaction costs	-	(0.4)
Shares purchased	-	(68.4)
Net movement in shareholders' funds	109.2	(143.4)
Opening shareholders' funds	651.9	795.3
Closing shareholders' funds	761.1	651.9

Notes to the accounts

14 Commitments and contingent liabilities

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

	2009		2008	
	Property £m	Other £m	Property £m	Other £m
Operating leases which expire:				
In 2 to 5 years inclusive	0.5	–	0.5	0.6
Over 5 years from the balance sheet date	0.8	–	0.8	–
	1.3	–	1.3	0.6

(b) The Company has guaranteed overdraft and loan facilities of Group undertakings amounting to £245.0m (2008: £245.0m).

15 Borrowings

	2009 £m	2008 £m
Bank overdraft payable on demand	–	–
Bonds	277.6	377.7
	277.6	377.7
Repayments fall due as follows:		
Within 1 year:		
Bonds	–	100.3
Bank overdraft payable on demand	–	–
	–	100.3
After more than 1 year:		
In more than 1 year but not more than 2 years	–	–
In more than 2 years but not more than 5 years	112.5	112.7
In more than 5 years	165.1	164.7
	277.6	277.4
Total borrowings and finance leases	277.6	377.7

The Company has issued guaranteed unsecured bonds as follows:

Bond	Interest rate %	Denomination	Value £m	Maturity
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			75.0	

US\$m

Issued 2002

Series C	6.47	US\$**	36.0	20 June 2012
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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 371.0

**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 26 commencing on page 111.

All series are unsecured.

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 (2008: £1.3m).

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 3 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 3 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 Incentive Plan (2008 LTIP)

The 2008 LTIP was approved and adopted at the AGM on 6 May 2008. The vesting of awards made during 2009 will depend on share price growth and EPS growth targets measured over a 3 year period. An award will not vest if the Capita's average share price at the date of vesting is below the average share price at the date of grant. This scheme is open to all senior employees and shares will vest according to performance criteria. The number of shares which will vest is dependent upon the Company's EPS growth exceeding RPI growth by 4% and on banding within the scheme.

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 2 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 3 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.

Long Term Investment Plan (LTIP)

Awards under the LTIP were structured either as Restricted Share Awards or Indexed Performance Share Appreciation Rights (IPSARs). The last Restricted Share Awards and awards of IPSARs vested in full in May 2001 and 2003 respectively. The performance requirements were met in full on those dates and the IPSARs are exercisable at £1.69. No further awards were made under the LTIP and only 1 award of IPSARs was made.

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 3 year vesting period from the date of grant. The contractual life of each option granted is 7 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 (2008: nil; 2007: nil; 2006: nil; 2005 10% and 20% prior to 2006). The options become exercisable for a 6 month period following completion of a 3 or 5 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 2009 was £9.8m (2008: £9.2m), 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 £4.0m (2008: £2.9m).

Notes to the accounts

18 Share based payment (continued)

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, LTISAS and IPSARS), which are shown separately.

Share options (1997 Executive Share Option Scheme and Capita Sharesave Scheme)

	2009 Million	2009 WAEP	2008 Million	2008 WAEP
Outstanding as at 1 January	14.1	£5.05	20.6	£4.54
Granted during the year	2.0	£6.77	1.6	£7.04
Exercised	(5.5)	£4.11	(6.7)	£3.88
Forfeited	(0.7)	£6.28	(1.3)	£5.65
Expired during the year	(0.1)	£4.53	(0.1)	£4.57
Outstanding as at 31 December ¹	9.8	£6.18	14.1	£5.05
Exercisable at 31 December	2.3	£3.60	3.3	£3.29

¹Included within this balance are options over 0.1m (2008: 0.8m) 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 £7.16 (2008: £6.76).

2008 LTIP

	2009 Million	2009 WAEP	2008 Million	2008 WAEP
Outstanding at 1 January	1.8	–	1.9	–
Awarded during the year	2.0	–	–	–
Forfeited	(0.2)	–	(0.1)	–
Outstanding as at 31 December	3.6	–	1.8	–
Exercisable at 31 December	–	–	–	–

LTISAS

	2009 Million	2009 WAEP	2008 Million	2008 WAEP
Outstanding as at 1 January	1.1	£4.74	3.5	£4.32
Exercised	–	£4.74	(2.4)	£4.12
Outstanding as at 31 December	1.1	£4.74	1.1	£4.74
Exercisable at 31 December	1.1	£4.74	1.1	£4.74

The weighted average price of options exercised in 2008 was: £7.16.

Under the LTISAS scheme 2 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.

18 Share based payment (continued)**IPSARS**

	2009 Million	2009 WAEP	2008 Million	2008 WAEP
Outstanding as at 1 January	–	–	2.4	£1.69
Exercised	–	–	(2.4)	£1.69
Outstanding as at 31 December	–	–	–	–
Exercisable at 31 December	–	–	–	–

The last of these options were exercised at a weighted average price of £6.81 in 2008.

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus plan, discussed above, was £1.5m (2008: £1.7m). The Matching Shares allocation in respect of the 2008 awards under this plan charged in 2009 was £0.5m (2008: £0.6m).

The weighted average fair value of options granted during the year was £2.62 (2008: £2.69). The range of exercise prices for all options outstanding at the end of the year was £2.50 to £7.33 (2008: £1.88 to £7.33).

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 2009 and 31 December 2008.

	2009	2008
Dividend yield (%)	2.11	1.88
Expected share price volatility (%)	26.53	22.38
Risk free interest rate (%)	2.25	4.62
Expected life of option (years)	3.12	3.10
Weighted average share price of options granted during the year	£3.20	£2.74

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. In addition, within the 2008 LTIP is an average share price floor under which the share award will not vest. This floor is based on the Company's average share price at the date of vesting. No other features of options grant were incorporated into the measurement of fair value.