

# Notes to the Financial Statements

## 30. Reconciliation of changes in equity

Group	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Attributable to equity holders £m
At 1 January 2007	158.6	4.9	25.0	(1.5)	20.6	1,212.3	1,419.9
Net change in available-for-sale instruments	-	-	-	(60.4)	-	-	(60.4)
Net change in cash flow hedges	-	-	-	-	(81.0)	-	(81.0)
Actuarial gains on post-retirement benefit obligations	-	-	-	-	-	37.9	37.9
Net (losses)/gains not recognised in the Income Statement	-	-	-	(60.4)	(81.0)	37.9	(103.5)
Profit for the financial year	-	-	-	-	-	93.2	93.2
Total recognised (expense)/income	-	-	-	(60.4)	(81.0)	131.1	(10.3)
Dividends	-	-	-	-	-	(126.5)	(126.5)
Use of own shares on exercise of employee options and for other employee share plans	-	-	-	-	-	5.2	5.2
Fair value of share options taken to share option reserve	-	-	-	-	-	4.6	4.6
Deficit on share option exercises	-	-	-	-	-	(4.8)	(4.8)
Purchase of own shares held to satisfy employee share plans	-	-	-	-	-	(18.7)	(18.7)
Purchase and cancellation of own shares	(4.2)	-	4.2	-	-	(58.6)	(58.6)
At 31 December 2007	154.4	4.9	29.2	(61.9)	(60.4)	1,144.6	1,210.8

  

Group	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Attributable to equity holders £m
At 1 January 2006	158.6	4.9	25.0	6.2	15.8	1,129.8	1,340.3
Net change in available-for-sale instruments	-	-	-	(7.7)	-	-	(7.7)
Net change in cash flow hedges	-	-	-	-	4.8	-	4.8
Actuarial gains on post-retirement benefit obligations	-	-	-	-	-	14.1	14.1
Net (losses)/gains not recognised in the Income Statement	-	-	-	(7.7)	4.8	14.1	11.2
Profit for the financial year	-	-	-	-	-	177.7	177.7
Total recognised (expense)/income	-	-	-	(7.7)	4.8	191.8	188.9
Dividends	-	-	-	-	-	(119.2)	(119.2)
Use of own shares on exercise of employee options and for other employee share plans	-	-	-	-	-	7.8	7.8
Fair value of share options taken to share option reserve	-	-	-	-	-	4.6	4.6
Deficit on share option exercises	-	-	-	-	-	(2.5)	(2.5)
At 31 December 2006	158.6	4.9	25.0	(1.5)	20.6	1,212.3	1,419.9

  

Company	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Attributable to equity holders £m
At 1 January 2007	158.6	4.9	25.0	(1.4)	20.6	981.4	1,189.1
Net change in available-for-sale instruments	-	-	-	(60.5)	-	-	(60.5)
Net change in cash flow hedges	-	-	-	-	(81.0)	-	(81.0)
Actuarial gains on post-retirement benefit obligations	-	-	-	-	-	37.9	37.9
Net (losses)/gains not recognised in the Income Statement	-	-	-	(60.5)	(81.0)	37.9	(103.6)
Profit for the financial year	-	-	-	-	-	38.2	38.2
Total recognised (expense)/income	-	-	-	(60.5)	(81.0)	76.1	(65.4)
Dividends	-	-	-	-	-	(126.5)	(126.5)
Use of own shares on exercise of employee options and for other employee share plans	-	-	-	-	-	5.2	5.2
Fair value of share options taken to share option reserve	-	-	-	-	-	4.6	4.6
Deficit on share option exercises	-	-	-	-	-	(4.8)	(4.8)
Purchase of own shares held to satisfy employee share plans	-	-	-	-	-	(18.7)	(18.7)
Purchase and cancellation of own shares	(4.2)	-	4.2	-	-	(58.6)	(58.6)
At 31 December 2007	154.4	4.9	29.2	(61.9)	(60.4)	858.7	924.9

**30. Reconciliation of changes in equity continued**

Company	Share capital £m	Share premium reserve £m	Capital redemption reserve £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Attributable to equity holders £m
As at 1 January 2006	158.6	4.9	25.0	6.2	15.8	925.2	1,135.7
Net change in available-for-sale instruments	-	-	-	(7.6)	-	-	(7.6)
Net change in cash flow hedges	-	-	-	-	4.8	-	4.8
Actuarial losses on post-retirement benefit obligations	-	-	-	-	-	14.1	14.1
Net (losses)/gains not recognised in the Income Statement	-	-	-	(7.6)	4.8	14.1	11.3
Profit for the financial year	-	-	-	-	-	151.4	151.4
Total recognised (expense)/income	-	-	-	(7.6)	4.8	165.5	162.7
Dividends	-	-	-	-	-	(119.2)	(119.2)
Use of own shares on exercise of employee options and for other employee share plans	-	-	-	-	-	7.8	7.8
Fair value of share options taken to share option reserve	-	-	-	-	-	4.6	4.6
Deficit on share option exercises	-	-	-	-	-	(2.5)	(2.5)
As at 31 December 2006	158.6	4.9	25.0	(1.4)	20.6	981.4	1,189.1

The share premium reserve represents the excess of the consideration received for issued shares over the nominal value of those shares, net of transaction costs.

The capital redemption reserve was created on the sale of surplus conversion shares and to maintain the total amount of capital when shares were repurchased by the Company. The available-for-sale reserve represents cumulative fair value movements on assets which are still held at the Balance Sheet date and are classified as available-for-sale.

The cash flow hedge reserve represents cumulative fair value movements on financial instruments which are still held at the Balance Sheet date and are effective cash flow hedges.

**31. Share-based payments**

During the year, the Group had five share-based payment schemes with employees. These are all accounted for by the Group and Company as follows:

Arrangement	Executive Share Option Scheme										Sharesave Scheme	
	Grant of share option	Grant of share options	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme	'Save As You Earn' Scheme
Nature of the arrangement												
Date of grant	25/2/03	14/8/03	20/3/03	20/3/03	18/3/04	18/3/04	24/3/05	24/3/05	17/3/06	17/3/06	15/3/07	15/3/07
Number of instruments granted	1,368,230	59,608	1,366,351	789,338	1,832,649	427,490	510,251	155,307	419,466	300,192	645,928	201,219
Exercise price	£2.82	£3.07	£2.24	£2.24	£2.45	£2.45	£2.58	£2.58	£3.72	£3.72	£3.73	£3.73
Quoted share price at grant date	£2.77	£3.09	£2.98	£2.98	£3.05	£3.05	£3.06	£3.06	£5.22	£5.22	£4.38	£4.38
Contractual life (years)	10.0	10.0	3.5	5.5	3.5	5.5	3.5	5.5	3.5	5.5	3.5	5.5
Vesting conditions	Earnings per share growth over a 3 year period exceeds the growth in the Retail Price Index over the same period by a minimum of 9%	Earnings per share growth over a 3 year period exceeds the growth in the Retail Price Index over the same period by a minimum of 9%	Three-year service period and savings requirement	Five-year service period and savings requirement	Three-year service period and savings requirement	Five-year service period and savings requirement	Three-year service period and savings requirement	Five-year service period and savings requirement	Three-year service period and savings requirement	Five-year service period and savings requirement	Three-year service period and savings requirement	Five-year service period and savings requirement
Settlement	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares	Shares
Expected volatility	32%	31%	32%	32%	29%	29%	27%	27%	22%	26%	24%	27%
Expected life at grant date (years)	5.0	5.0	3.1	5.1	3.1	5.1	3.1	5.1	3.1	5.1	3.1	5.1
Risk-free interest rate	3.8%	4.4%	4.0%	4.2%	4.5%	4.5%	4.6%	4.6%	4.4%	4.4%	5.2%	5.0%
Expected dividend (dividend yield)	4.9%	4.8%	4.6%	4.6%	5.0%	5.0%	5.6%	5.6%	3.3%	3.3%	4.3%	4.3%
Expected annual departures	5%	5%	15%	10%	15%	10%	10%	5%	10%	5%	10%	5%
Fair value per granted instrument determined at grant date	£0.55	£0.65	£0.87	£0.91	£0.76	£0.79	£0.64	£0.67	£1.60	£1.75	£0.97	£1.11
Valuation model	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology	Black-Scholes methodology