

5 Reorganisation costs

Reorganisation costs arising in the year are as follows:

	2006 £m
Redundancy costs	3.2
Other initiatives	0.5
	3.7

£1.2m was included within trade and other payables as at 31 March 2006.

6 Employees

Numbers employed

	2006	2005
The average number of employees during the year was:		
Management and administration	314	321
Distribution and marketing	4,892	4,672
	5,206	4,993

Of these staff, 2,447 were employed in the United Kingdom (2005: 2,331).

Aggregate employment costs

	£m	£m
Wages and salaries	131.9	116.9
Social security costs	15.4	13.9
Equity-settled transactions	2.7	2.4
Pension costs	12.9	13.7
	162.9	146.9

The remuneration of individual Directors is detailed on page 23.

7 Share-based payments

The Group has a number of share-based payment plans for employees. These comprise an Executive Incentive Plan awarded to the Group's senior executives, a Long Term Incentive Option Plan (LTIOP) awarded to key senior employees, a Save As You Earn (SAYE) scheme that is made available to the majority of employees and a US 423 option scheme that is offered to all permanent employees in the US operating company.

The LTIOP and SAYE schemes were in operation before 7 November 2002 in addition to a pre-existing Long Term Incentive Plan. The recognition and measurement principles in IFRS 2 have only been applied to grants made, under all these schemes, after 7 November 2002 in accordance with the transitional provisions in IFRS 1 and IFRS 2.

Executive Incentive Plan (EIP)

The EIP scheme is a one-off conditional award on 1 February 2006 of shares to the 12 most senior executives in the Group to be delivered following the financial year ending 31 March 2009. The number of shares to be awarded is dependent on the performance of the Group during the year ending 31 March 2009 varying between 0 and 2,700,000. Dividends are accrued during the life of the options. 450,000 of the options have a cash alternative settlement arrangement. The fair value of the EIP options was calculated using a Black-Scholes model based on the assumptions below.

	EIP 2006
Fair value at grant date	300p
Assumptions used	
Share price	300p
Expected volatility	39.7%
Expected option life	3.25 years
Risk free interest rate	4.4%

Volatility was estimated based on the historical volatility of the shares over a three year period up to the date of grant.

Long Term Incentive Option Plan (LTIOP)

The LTIOP schemes are awarded to key senior employees at a grant price equal to Group's share price. The vesting conditions include a continuation of service, a minimum of three years, and the performance of the Group's shares against a comparator group. The share price is tested against this group after three years and can be retested after four and five years if the options have not vested. The proportion of the options vesting is also dependent on the comparative share performance. The share options can be exercised up to 10 years after the grant date. Any options remaining unexercised after 10 years from the date of grant will expire.

There are currently three LTIOP schemes. 5,264,667 options were granted on 30 June 2005, 4,959,435 options were granted on 30 June 2004 and 6,452,956 options were granted on 30 June 2003. The fair value of the LTIOP options was calculated at the grant date using a Monte Carlo model based on the assumptions below.

	LTIOP 2005	LTIOP 2004	LTIOP 2003
Fair value at grant date	35.6p	78.6p	78.3p
Assumptions used			
Share price	249p	369p	349p
Exercise price	251p	365p	349p
Expected volatility	34.9%	39.7%	39.7%
Expected option life	7 years	7 years	7 years
Expected dividend yield	6.2%	4.9%	5.9%
Risk free interest rate	4.1%	5.0%	5.0%

Notes to the Group Accounts continued

7 Share-based payments continued

Volatility was estimated based on the historical volatility of the shares over a three year period up to the date of grant.

Save as You Earn (SAYE) schemes

The SAYE schemes are available to the majority of employees of the Group. They provide a purchase price equal to the daily average market price at the date of the offer less 20%. (The French scheme may be offered at a different rate to ensure compliance with French regulations.) The option vesting conditions are the employees' continued employment for the three or five year period and the maintenance of the employees' savings in an account. Failure of either of these conditions is deemed a forfeiture of the option. At the end of the period the employee has six months to either purchase the shares at the agreed price, or withdraw their savings with the accrued interest. There are no market conditions to the vesting of the options.

There have been twelve SAYE awards since 7 November 2002. Four were awarded on 24 June 2005, four were awarded on 30 June 2004 and a further four on 30 June 2003. The options granted, the fair value calculated using a Black-Scholes model, and the assumptions used, are shown below.

	SAYE 3 yr 2005	SAYE 5 yr 2005	SAYE 3 yr 2004	SAYE 5 yr 2004	SAYE 3 yr 2003	SAYE 5 yr 2003
Options granted	1,105,515	795,833	386,423	291,856	1,454,116	1,241,553
Fair value at grant date	55.2p	58.3p	107.2p	126.8p	106.6p	128.0p
Assumptions used						
Share price	247p	247p	357p	357p	325p	325p
Exercise price	212p	212p	283p	283p	260p	260p
Expected volatility	34.8%	35.7%	38.4%	38.4%	39.7%	41.9%
Expected option life	3 years	5 years	3 years	5 years	3 years	5 years
Expected dividend yield	6.3%	6.3%	4.9%	4.9%	5.9%	5.9%
Risk free interest rate	4.1%	4.1%	5.0%	5.0%	5.0%	5.0%

French awards have the following differences to the above awards

Options granted	10,384	25,210	6,434	15,502	11,139	38,910
Fair value at date of grant	55.2p	58.3p	103.4p	123.6p	101.4p	123.9p
Exercise price	212p	212p	292p	292p	272p	272p

Volatility was estimated based on the historical volatility of the shares over a 3 or 5 year period, as appropriate, up to the date of grant.

US s423 scheme

The US s423 scheme is available to permanent employees of Allied, the Group's US operating company. The options are granted to those who elect to participate and the scheme has a savings element similar to the SAYE scheme. At the end of one year up to 20% of the options can be exercised with the remainder exercisable after two years. The option price is the lesser of 85% of the market value of the shares on the date of grant and the date of exercise. There are no market conditions to the vesting of the options.

There are currently two s423 awards outstanding. 15,496 options were granted on 24 June 2005 and 6,233 options were granted on 30 June 2004. The fair value of the options was calculated at the grant date using a Black-Scholes model and the assumptions used are shown below.

	s423 2005	s423 2004
Fair value at grant date	47.5p	82.0p
Assumptions used		
Share price	247p	370p
Exercise price	207p	296p
Expected volatility	28.4%	39.0%
Expected option life	2 years	2 years
Expected dividend yield	6.3%	5.4%
Risk free interest rate	4.1%	5.0%

Number and weighted average exercise prices of share options

In thousands of options	Weighted average exercise price 2006	Number of options 2006	Weighted average exercise price 2005	Number of options 2005
Outstanding at the beginning of the year	353p	22,188	349p	19,054
Forfeited during the year	311p	(4,461)	336p	(2,519)
Lapsed during the year	413p	(1,009)	n/a	–
Exercised during the year	201p	(18)	227p	(13)
Granted during the year	175p	9,917	360p	5,666
Outstanding at the end of the year	292p	26,617	353p	22,188
Exercisable at the end of the year	537p	1,974	502p	1,419

Outstanding options include 7,570,411 options relating to schemes in operation before 7 November 2002.

The options outstanding at 31 March 2006 have an exercise price in the range 0p to 686p and a weighted average contractual life of 8.5 years

Employee expenses

	2006 £m	2005 £m
Share options granted in 2003/04	1.2	1.4
Share options granted in 2004/05	0.9	1.0
Share options granted in 2005/06	0.6	–
Total expense recognised as employee costs	2.7	2.4