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**MCAFEE INTERNATIONAL LIMITED
ANNUAL REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

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**MCAFEE INTERNATIONAL LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

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MCAFEE INTERNATIONAL LIMITED

DIRECTORS AND ADVISORS FOR THE YEAR ENDED 31 DECEMBER 2007

DIRECTORS

M Dalton
A E Ruiseal
E F Brown (resigned April 2008)
KS Krzeminski (appointed June 2008)

SECRETARY AND REGISTERED OFFICE

Abogado Nominees Limited
100 New Bridge Street
London
EC4V 6JA

REGISTERED AUDITORS

Deloitte & Touche
No 6 Lapps Quay
Cork
Ireland

BANKERS

ABN Amro Bank NV
250 Bishopsgate
London
EC2M 4AA

SOLICITORS

Baker & McKenzie LLP
100 New Bridge Street
London
EC4V 6JA

COMPANY REGISTERED NO

2825890

MCAFEE INTERNATIONAL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

The directors present their report and the audited financial statements of the company for the year ended 31 December 2007

PRINCIPAL ACTIVITY

The company acts as a sales representative for a group company in the sale of enterprise security and management software. The company also provides technical consultancy services on behalf of another group company.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENT

The profit and loss account is shown on page 8.

Both the level of business and the year end financial position were satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future.

RESULTS AND DIVIDENDS

The company's profit for the financial year is £1,326 (2006 £2,584) rounded to the nearest £'000.

The directors do not recommend the payment of a dividend (2006 £nil).

DIRECTORS AND THEIR INTERESTS

The directors who held office during the year are given below:

M Dalton
A E Ruiseal
E F Brown (resigned April 2008)

None of the directors had any disclosable interests in the shares of the company, or the immediate parent company.

The company's immediate parent company is a wholly owned subsidiary of a company incorporated outside Great Britain. As permitted by statutory instrument, no disclosure is made of any interests of the directors in the shares of the ultimate parent company.

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MCAFEE INTERNATIONAL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

RISKS AND UNCERTAINTIES FACING THE COMPANY

While we believe we compete well against our competitors in the current environment, some of our competitors have longer operating histories, greater brand recognition, stronger relationships with strategic channel partners, more established relationships with hardware vendors and/or greater financial, technical and marketing resources. These factors may provide our competitors with an advantage in penetrating markets with their network security and management products.

Our success depends significantly on proprietary software technology and a series of patents, trademarks, trade secrets and copyrights are relied upon to establish and protect proprietary rights to our software. However it is possible that these protections may be inadequate or competitors may independently develop technologies or products that are substantially equivalent or superior to our products thereby negatively impacting our market share.

AUDITORS

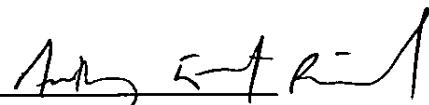
Each of the persons who is a director at the date of approval of this report confirms that

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

The auditors, Deloitte & Touche, Chartered Accountants, continue in office in accordance with Section 160(2) of the Companies Act, 1963.

Approved by the Board and signed on its behalf by

Director: 

Date: 29/10/2008

MCAFEE INTERNATIONAL LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, and,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF MCAFEE INTERNATIONAL LIMITED

We have audited the financial statements of McAfee International Limited for the year ended 31 December 2007 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' are responsible for preparing the financial statements as set out in the Statement of Directors Responsibilities in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom's Generally Accepted Accounting Practice).

Our responsibility, as independent auditors, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK & Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatement within it.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF MCAFEE INTERNATIONAL LIMITED

BASIS OF AUDIT OPINION - continued

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company as at 31 December 2007 and of its profit for the year then ended, and
- the financial statements have been prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Deloitte + Touche
Chartered Accountants and Registered Auditors
Cork

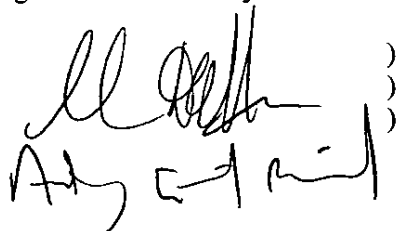
Date 29/10/2008

MCAFEE INTERNATIONAL LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 £'000	2006 £'000
TURNOVER – continuing operations	3	27,781	33,076
Staff costs	4	(20,289)	(19,387)
Depreciation	4	(387)	(479)
Other operating expenses		<u>(6,593)</u>	<u>(11,197)</u>
OPERATING PROFIT – continuing operations	4	512	2,013
Interest receivable and similar income	5	<u>633</u>	<u>489</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,145	2,502
Tax credit on profit on ordinary activities	8	<u>181</u>	<u>82</u>
RETAINED PROFIT FOR THE YEAR	16	<u>1,326</u>	<u>2,584</u>

There are no recognised gains and losses other than the result for the financial year as disclosed in the profit and loss account

The financial statements were approved by the board of directors on 29/10/2008 and signed on its behalf by



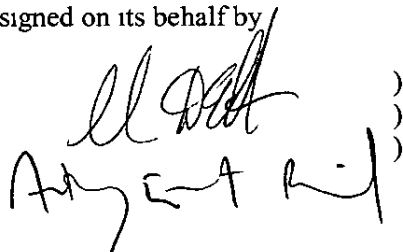
DIRECTORS

MCAFEE INTERNATIONAL LIMITED

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSS
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Note	2007 £'000	2006 £'000
PROFIT FOR THE YEAR		<u>1,326</u>	<u>2,584</u>
Total recognised gains relating to year		1,326	2,584
Prior year adjustment – Adoption FRS 20	9	—	<u>(2,443)</u>
TOTAL RECOGNISED GAINS SINCE LAST ANNUAL REPORT		<u>1,326</u>	<u>141</u>

The financial statements were approved by the board of directors on 29/10/2008
and signed on its behalf by



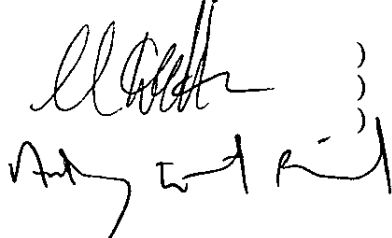
DIRECTORS

MCAFEE INTERNATIONAL LIMITED
BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 £'000	2006 £'000
FIXED ASSETS			
Tangible assets	10	<u>749</u>	<u>704</u>
CURRENT ASSETS			
Debtors	11	9,414	7,768
Cash at bank and in hand		<u>11,384</u>	<u>10,644</u>
		20,798	18,412
CREDITORS - Amounts falling due within one year	12	<u>(5,521)</u>	<u>(6,198)</u>
NET CURRENT ASSETS		<u>15,277</u>	<u>12,214</u>
NET ASSETS		<u>16,026</u>	<u>12,918</u>
CAPITAL AND RESERVES			
Called up share capital	14	50	50
Capital contribution	15	5,957	4,175
Profit and loss account	16	<u>10,019</u>	<u>8,693</u>
SHAREHOLDER'S FUNDS	17	<u>16,026</u>	<u>12,918</u>

The financial statements were approved by the board of directors on
and signed on its behalf by

29/10/2008



DIRECTORS

MCAFEE INTERNATIONAL LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Furniture and office equipment	20% to 30%
Leasehold improvements	The shorter of 20% or the term of the lease

Turnover

Turnover is calculated on the following basis:

- (a) Revenue generated from consultancy, training and contract research and development is recognised on amounts invoiced net of value added tax at the time of provision of the service.
- (b) Group commission receipts represent amounts invoiced to other group companies in respect of services provided under sales representative agreements. Revenue is recognised on an accruals basis in accordance with the substance of the relevant agreement.

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on an undiscounted basis, on all timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements.

MCAFEE INTERNATIONAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

1. PRINCIPAL ACCOUNTING POLICIES - continued

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transactions (or, where appropriate, at the rate of exchange in a related forward exchange contract) Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date (or, where appropriate, at the rate of exchange in a related forward exchange contract) Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account

Operating leases

The company enters into operating leases as described in note 18 Rentals are charged on a straight line basis over each lease term

Pension contributions

The company operates a defined contribution pension scheme The charge to the profit and loss account represents contributions falling due for the year

Share based payments

Equity-settled share based payments granted to employees directly by the parent company, McAfee Inc. are measured at the fair value of the equity instrument at the grant date Fair value is measured using a Black Scholes options pricing model

The cost of equity-settled share based payments granted to employees is recorded as a capital contribution and recognised in the profit and loss account over the vesting period

2. CASH FLOW STATEMENT AND RELATED PARTY DISCLOSURES

The company is a wholly-owned subsidiary of McAfee Inc and is included in the consolidated financial statements of McAfee Inc., which are publicly available Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996)

As a wholly owned subsidiary of McAfee Inc, the company has taken advantage of the exemption available under Financial Reporting Standard 8 – Related Party Transactions and has not disclosed related party transactions with other group companies

MCAFEE INTERNATIONAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

3. TURNOVER	2007	2006
	£'000	£'000
Third party sales	582	760
Group services	<u>27,199</u>	<u>32,316</u>
	<u>27,781</u>	<u>33,076</u>

Geographical analysis by destination	2007	2006
	£'000	£'000
United Kingdom	582	760
Rest of Europe	<u>27,199</u>	<u>32,316</u>
	<u>27,781</u>	<u>33,076</u>

All turnover and the results for the period were generated in the European market In the directors' opinion, all turnover is derived from the company's single principal activity

4. OPERATING PROFIT	2007	2006
	£'000	£'000
Operating profit is stated after charging:		
Wages and salaries	17,625	16,814
Social security costs	2,171	2,120
Other pension costs	<u>493</u>	<u>453</u>
Staff costs	<u>20,289</u>	<u>19,387</u>
Depreciation of owned tangible fixed assets	387	479
Operating lease charges		
- land & buildings	840	840
Share based payments	<u>1,782</u>	<u>692</u>

In 2007 and 2006, audit fees were borne by another group company

MCAFEE INTERNATIONAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

5.	INTEREST RECEIVABLE AND SIMILAR INCOME	2007 £'000	2006 £'000
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Interest receivable and similar income

On bank interest and short term investments	<u>633</u>	<u>489</u>
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6.	DIRECTORS' EMOLUMENTS	2007 £'000	2006 £'000
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Directors' emoluments	361	412
Gains on exercise of share options	-	178
Company contributions paid to money purchase pension schemes	<u>13</u>	<u>13</u>

	<u>374</u>	<u>603</u>
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Highest paid director	2007 £'000	2006 £'000
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Director's emoluments	361	412
Gains on exercise of share options	-	178
Company contributions paid to money purchase pension schemes	<u>13</u>	<u>13</u>

	<u>374</u>	<u>603</u>
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7 EMPLOYEE INFORMATION

The average monthly number of persons (including executive directors) employed by the company during the year was as follows

By activity	2007 Number	2006 Number
Sales and marketing	97	119
Administration	46	32
Technical support	<u>81</u>	<u>87</u>
	<u>224</u>	<u>238</u>

MCAFEE INTERNATIONAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

8. TAX ON PROFIT ON ORDINARY ACTIVITIES	2007	2006
	£'000	£'000
Current tax		
UK corporation tax at 30%	888	1,084
Over provision in respect of prior years	<u>(712)</u>	<u>(467)</u>
Total current tax charge	<u>176</u>	<u>617</u>
Deferred tax credit		
Origination and reversal of timing differences	<u>(357)</u>	<u>(699)</u>
Tax credit on profit on ordinary activities	<u>(181)</u>	<u>(82)</u>
	2007	2006
	£'000	£'000
Profit on ordinary activities before tax	<u>1,145</u>	<u>2,502</u>
Profit on ordinary activities multiplied by standard rate in the UK 30%	344	751
Expenses not deductible for tax purposes	162	224
Capital allowances in excess of depreciation	(27)	(30)
Timing difference due to restatement	-	139
Other timing differences	<u>409</u>	<u>-</u>
Actual corporation tax charge	<u>888</u>	<u>1,084</u>

9. PRIOR YEAR ADJUSTMENT

The previous year's financial statements of the Company were restated due to the adoption of FRS 20 Share Based Payments. Costs totalling £3,482,871 relate to share based payments granted to the company's employees in 2005 and prior years. As a result administrative expenses and the profit and loss account were debited by £1,039,631 and £2,443,240, respectively with the corresponding credit entry to capital contribution of £3,482,871.

MCAFEE INTERNATIONAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

10. TANGIBLE ASSETS

	Furniture and office equipment £'000	Leasehold improvements £'000	Total £'000
Cost			
At 1 January 2007	3,090	1,544	4,634
Additions	<u>422</u>	<u>10</u>	<u>432</u>
At 31 December 2007	<u>3,512</u>	<u>1,554</u>	<u>5,066</u>
Accumulated depreciation			
At 1 January 2007	2,581	1,349	3,930
Charge for the year	<u>360</u>	<u>27</u>	<u>387</u>
At 31 December 2007	<u>2,941</u>	<u>1,376</u>	<u>4,317</u>
Net book amount			
At 31 December 2007	<u>571</u>	<u>178</u>	<u>749</u>
At 31 December 2006	<u>509</u>	<u>195</u>	<u>704</u>

11. DEBTORS

	2007 £'000	2006 £'000
Trade debtors	247	746
Amounts owed by group undertakings	6,032	5,769
Other debtors	-	18
Deferred tax debtor (see note 13)	1,472	1,115
Prepayments and accrued income	<u>1,663</u>	<u>120</u>
	<u>9,414</u>	<u>7,768</u>

Amounts owed by group undertakings are unsecured, interest free, and have no fixed date of repayment

MCAFEE INTERNATIONAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

12. CREDITORS – Amounts falling due within one year	2007 £'000	2006 £'000
Trade creditors	726	557
Amounts owed to group undertakings	1,214	2,102
Other creditors	120	-
Corporation tax	630	577
Other taxes and social security	949	955
Accruals and deferred income	<u>1,882</u>	<u>2,007</u>
	<u>5,521</u>	<u>6,198</u>

Amounts owed to group undertakings are unsecured, interest free, and have no fixed date of repayment.

13. DEFERRED TAXATION	2007 £'000	2006 £'000
The recognised amounts of deferred taxation for timing differences are as follows:		
Depreciation in excess of capital allowances	227	252
Other timing differences	<u>1,245</u>	<u>803</u>
Deferred tax asset	<u>1,472</u>	<u>1,115</u>
There are no unprovided deferred tax assets		
Deferred tax assets:	£'000	£'000
At 1 January 2007	1,115	416
Credited to the profit and loss account	<u>357</u>	<u>699</u>
At 31 December 2007	<u>1,472</u>	<u>1,115</u>

MCAFEE INTERNATIONAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

14. CALLED UP SHARE CAPITAL	2007	2006
	£'000	£'000
Authorised		
50,000 ordinary shares of £1 each	<u>50</u>	<u>50</u>
Called up, allotted and fully paid		
50,000 ordinary shares of £1 each	<u>50</u>	<u>50</u>
15. CAPITAL CONTRIBUTION	2007	2006
	£'000	£'000
Opening balance	4,175	3,483
Share based payment	<u>1,782</u>	<u>692</u>
Closing balance	<u>5,957</u>	<u>4,175</u>
The capital contribution arises on the grant of share options to the company's employees under the McAfee Inc employee share options plan		
16. RESERVES	2007	2006
	£'000	£'000
At 1 January 2007	8,693	6,109
Retained profit for the year	<u>1,326</u>	<u>2,584</u>
At 31 December 2007	<u>10,019</u>	<u>8,693</u>
17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS	2007	2006
	£'000	£'000
Profit for the financial year	1,326	2,584
Increase in capital contribution	1,782	692
Shareholder's funds as at 1 January	<u>12,918</u>	<u>9,642</u>
Shareholder's funds as at 31 December	<u>16,026</u>	<u>12,918</u>

MCAFEE INTERNATIONAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

18. FINANCIAL COMMITMENTS

At 31 December 2007 the company had annual commitments under non-cancellable operating leases expiring as follows:

	2007		2006	
	Land and buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Within one year	-	-	-	-
Within two to five years	-	-	-	-
After five years	<u>840</u>	<u>-</u>	<u>840</u>	<u>-</u>
	<u>840</u>	<u>-</u>	<u>840</u>	<u>-</u>

19. PENSION COMMITMENTS

The company operates a defined contribution pension scheme, the assets of which are held in a separately administered fund. The aggregate pension contributions due for the year are given in note 4. The contributions outstanding at 31 December 2007 were £nil (2006: £nil).

20. ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is NetTools Company, incorporated in the United Kingdom.

The ultimate parent company and controlling party is McAfee Inc., incorporated in the State of Delaware, United States of America, and is the parent undertaking of the largest group to consolidate these financial statements. Copies of McAfee Inc. consolidated financial statements can be obtained from McAfee Inc., 3965 Freedom Circle, Santa Clara, California, 95054, USA.

21. SHARE BASED PAYMENTS

The company's ultimate parent company, McAfee Inc., has an ownership-based compensation scheme for employees of the group. In accordance with the plan, employees are granted options to purchase ordinary shares at a predetermined exercise price.

Each employee's share options convert into one ordinary share of McAfee Inc. on exercise. No amounts are paid or payable by the recipient on receipt of the option. Shares subject to the option vest over four years with one fourth vesting one year from the grant date and one forty-eighth of the shares vesting each month thereafter. The standard life of the grant is 10 years. If an optionee remains an employee of the company throughout the life of the grant and does not exercise the grant before the 10 year expiration date, the option expires.

MCAFEE INTERNATIONAL LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

21. SHARE BASED PAYMENTS - continued

If an optionee ceases to be an employee of the Company, all unvested options cancel immediately on the termination date. The vested options generally remain exercisable for a period of 90 days. If the optionee does not exercise the vested options by the exercise grace period deadline the vested options will expire.

As a result of the trading blackout (which ended on December 21, 2007) the term of certain vested options belonging to former employees and directors, which would have normally expired during the blackout, were extended such that these vested options will be exercisable for 90 days after the trading blackout was lifted i.e. through March 20, 2008.

Reconciliation of outstanding share options granted under the employee share option plan at the beginning and end of the financial year

	Number of options	2007 Weighted average exercise price £	Number of options	2006 Weighted average exercise price £
Balance at the beginning of the year	782,697	11.41	817,446	11.06
Granted during the year	78,800	17.63	116,225	13.20
Forfeited during the year	(91,742)	13.06	(72,372)	12.25
Exercised during the year	(54,234)	9.89	(52,410)	8.67
Expired during the year	<u>(1,803)</u>	6.12	<u>(26,192)</u>	11.56
Balance at end of year	<u>713,718</u>	11.15	<u>782,697</u>	11.41
Exercisable at end of year	506,865	10.09	408,961	10.72

The fair values are calculated using the Black Scholes model, the key assumptions are

- Risk free interest rate 4.5% (2006 4.8%)
- Expected life in years 5.8 (2006 5.6)
- Volatility 34% (2006 38.7%)

The weighted average fair value is £7.19 (2006 £5.78). The range of expected lives in years is 5.7 to 6.0 with the range of fair values being £5.41 to £8.46.

The company recognised an expense of £1,781,606 (2006 £692,521) and a capital contribution of £1,781,606 (2006 £692,521) related to equity-settled share-based payment transactions during the year.