Notes to the financial statements continued

for the year ended 30 June 2014

26. Employee remuneration

26.1 Phantom share scheme

The Hyprop board recognises that a key factor in the success of Hyprop is the retention and incentivisation of management and staff. Accordingly, a scheme was formulated to reward employees who make a meaningful and sustainable contribution to the financial performance of Hyprop by providing them with the opportunity to participate in its future growth. Senior Hyprop management and staff were offered this incentive.

The incentive is directly linked to the performance of Hyprop's combined units. Employees were granted "phantom" Hyprop combined units at a notional strike price (the initial price (IP)). Employees receive an award equivalent to the increase in the market value of the Hyprop combined unit over the initial price. This award is paid in four payments within 30 days after the date on which the relevant payment is calculated.

The payment is calculated as follows:
Cash bonus = 1/4 AS x (P - IP) - relevant taxes
AS = allocated "phantom" units
P = volume weighted average traded price of Hyprop combined units for the 30 JSE trading days prior to the calculation date
IP = initial price

If the market price of the Hyprop combined unit on the relevant calculation date is not greater than the initial price, no payment is made. The award is only applicable if the employee is in the employ of Hyprop on the payment date. 473 979 "phantom" Hyprop combined units were in issue at 30 June 2014 (June 2013: 473 979). The scheme will expire in 2016.

The liability for the "phantom" scheme is measured at fair value at each reporting date. Refer to note 21.

26.2 Equity-settled share-based employee remuneration

On 1 January 2014, the group implemented a long-term employee incentive scheme (the conditional unit plan (CUP)), which consists of two components – performance units and the retention units. Both the performance and the retention components of the scheme will be settled with Hyprop units.

The terms and conditions of the long-term employee incentive scheme were approved at the annual general meeting on 5 December 2013.

26.2.1 Performance units

In terms of the CUP, fully paid awards are made on an annual basis, comprising performance units and retention units. The split between performance units and retention units is 70%: 30% for all participants.

The performance conditions for the units allocated as performance units are as follows:

- Growth in distribution per unit relative to the peer group (weighting 40%)
- Unit price performance relative to the peer group (weighting 40%)
- Strategic component, which will be determined by the remuneration committee in line with the prevailing circumstance and projects at the time of the award (weighting 20%).

Each of the performance conditions will be measured over a three-year performance period. Participants must be employed until the end of the vesting period to be eligible for the award.

26.2.2 Retention units

Retention units vest after five years, provided the participant is still employed by the group.

26. Employee remuneration continued

26.2 Equity-settled share-based employee remuneration continued

26.2.3 Reconciliation of units

	Number of performance units	Number of retention units
Unvested at 1 July 2013		
Granted	107 563	46 100
Forfeited		
Vested		
Unvested at 30 June 2014	107 563	46 100

	Performance units	Retention units
Tranche 1		
Grant date	1 January 2014	1 January 2014
Vesting period ends	31 December 2016	31 December 2018
Fair value of units at grant date	R73,17	R73,17
The inputs used in the measurement of the fair value at grant date were as follows:		
Expected life	3 years	5 years
Volatility	20,00%	20,00%
Interest-free rate after taxation of 28%	5,83%	5,83%
Dividend yield	5,81%	5,81%

The executive directors were allocated the following percentages of the total units allocated under tranche 1:

	Pieter Prinsloo (CEO)	Laurence Cohen (FD)
Tranche 1		
Performance units	19%	10%
Retention units	19%	10%

The charge to the statement of comprehensive income for the year ended 30 June 2014 amounted to R1,6 million. As the above are equity-settled shared-based payments, the accounting treatment recognises the share-based payments in profit and loss on a straight-line basis over the vesting period, with a corresponding credit to equity.