23 Share-based payment plans

23.1 General employee share option plan

Certain senior employees are entitled to receive options based on merit. Options are issued annually by the board of directors of the company.

Between January 2006 and March 2013 a cash-settled option scheme was applied by the company, which replaced the previous equity-settled share option scheme. During March 2013, a hybrid scheme was introduced where executives and managers of the company and its subsidiaries are offered a weighted combination of:

- allocations of share appreciation rights;
- conditional awards of full-value performance shares; and
- grants of full value restricted shares (bonus matching and deferral element).

The hybrid scheme is regarded as an equity-settled share option scheme.

Refer to pages 85 to 99 for additional details regarding the schemes reflected below.

The total expense recognised for employee services received during the year to 30 September 2014 is R105,4 million (2013: R134,2 million). No expense was recognised in the current or previous financial year relating to the previous equity-settled share-based scheme. Of the total expense recognised, the portion arising from the share appreciation rights, performance share and restricted share option transactions amounted to R11,5 million, R9,9 million and R1,9 million (2013: R2,4 million, R2,7 million and Rnil) respectively.

Equity settled

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2014		Restated* 2013	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the year	458 400	59,54	735 330	56,36
Forfeited during the year	–	–	–	–
Exercised during the year[1]	(351 800)	54,81	(276 930)	51,09
Outstanding at the end of the year	106 600	75,13	458 400	59,54
Exercisable at the end of the year	106 600	75,13	458 400	59,54

** The amounts have been restated due to the adoption of IAS 19R.*

[1] *The weighted average share price at the date of exercise for the options exercised is R272,41 (2013: R305,77).*
The weighted average remaining contractual life for share options outstanding as at 30 September 2014 is 0,32 years (2013: 0,67 years).
The exercise price for options outstanding at the end of the year was R75,13 (2013: R51,29 to R99,24).

The observable volatility in the market was the basis upon which the options were valued.

Share options were fair valued using a modified Black-Scholes model.

Notes to the financial statements continued

for the year ended 30 September 2014

23 Share-based payment plans continued

23.1 General employee share option plan continued

Equity settled continued

The following inputs were used:

Date of grant	Strike price (rand)	Expiry date	Market price of underlying stock at grant date (rand)	Expected volatility of the stock over remaining life of option (%)	Dividend cover (times)
29/01/2004	51,29	28/01/2014	82,65	22,2	2,5
25/01/2005	75,13	24/01/2015	95,36	20,4	2,0

The interest rate yield curve was derived from the Nedbank Treasury calculation.

Share appreciation rights

The following table illustrates the number and WAEP of, and movements in, share appreciation rights during the year:

	2014		Restated* 2013	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the year	435 700	299,83	–	–
Granted during the year	559 010	255,56	445 800	299,83
Forfeited during the year	(39 551)	273,41	(10 100)	299,83
Exercised during the year[1]	–	–	–	–
Outstanding at the end of the year	955 159	274,81	435 700	299,83
Exercisable at the end of the year	–	–	–	–

* *The amounts have been restated due to the adoption of IAS 19R.*

[1] *The weighted average remaining contractual life for equity-settled options outstanding as at 30 September 2014 is 5,07 years (2013: 5,61 years).*
The weighted average fair value of options granted during the year was R59,21 per option (2013: R63,55 per option).
The range of exercise prices for options outstanding at the end of the year was R254,45 to R299,83 (2013: R298,67 to R299,83).

Options were valued using a modified Black-Scholes model taking into account the dividend cover, expected exercise pattern and volatility of the Tiger Brands share price. Subject to certain performance conditions, one-third of the equity-settled share options vest on each of the third, fourth and fifth anniversary dates from the date of the original grant date. All the equity-settled options mature six years after the grant date.

23 Share-based payment plans continued

23.1 General employee share option plan continued

Share appreciation rights continued

The following inputs were used:

Date of grant	Strike price (rand)	Expiry date	Market price of underlying stock at grant date (rand)	Expected volatility of the stock over remaining life of option (%)	Expected dividend cover (times)
30/09/2013	299,83	29/09/2019	299,11	24,5	2,0
13/02/2013	299,83	12/02/2019	289,50	23,2	2,0
13/02/2014	254,45	12/02/2020	250,00	21,5	3,0
02/05/2014	272,94	01/05/2020	279,50	21,8	3,0
02/06/2014	298,27	01/06/2020	299,84	21,8	3,0

Volatilities are based on the historical volatility of the Tiger Brands share price matching the remaining life of each option.

Performance shares

The following table illustrates the number of, and movements in, performance shares during the year:

	2014 Number	Restated* 2013 Number
Outstanding at the beginning of the year	51 600	–
Granted during the year	82 650	53 400
Forfeited during the year	(5 989)	(1 800)
Exercised during the year[1]	–	–
Outstanding at the end of the year	128 261	51 600
Exercisable at the end of the year	–	–

* *The amounts have been restated due to the adoption of IAS 19R.*

[1] *The weighted average remaining contractual life for equity-settled options outstanding as at 30 September 2014 is 2,02 years (2013: 2,37 years).*

The weighted average fair value of options granted during the year was R375,21 per option (2013: R262,21 per option).

Options were valued using a modified Black-Scholes model taking into account the dividend cover, expected exercise pattern and volatility of the Tiger Brands share price.

Annual financial statements

Notes to the financial statements continued

for the year ended 30 September 2014

23 Share-based payment plans continued

23.1 General employee share option plan continued

Share appreciation rights continued

The following inputs were used:

Date of grant	Expiry date	Market price of underlying stock at grant date (rand)	Expected volatility of the stock over remaining life of option (%)	Expected dividend cover (times)
13/02/2013	12/02/2016	289,50	20,8	2,0
28/02/2014	27/02/2017	244,44	22,4	3,0

Volatilities are based on the historical volatility of the Tiger Brands share price matching the remaining life of each option.

Restricted shares

The following table illustrates the number of, and movements in, restricted shares during the year:

	2014 Number	Restated* 2013 Number
Outstanding at the beginning of the year	–	–
Granted during the year	26 950	–
Forfeited during the year	–	–
Exercised during the year[1]	–	–
Outstanding at the end of the year	26 950	–
Exercisable at the end of the year	–	–

* *The amounts have been restated due to the adoption of IAS 19R.*

[1] *The weighted average remaining contractual life for equity-settled options outstanding as at 30 September 2014 is 2,35 years. The weighted average fair value of options granted during the year was R229,93 per option.*

Options were valued using a modified Black-Scholes model taking into account the dividend cover, expected exercise pattern and volatility of the Tiger Brands share price.

23 Share-based payment plans continued

23.1 General employee share option plan continued

Restricted shares continued

The following inputs were used:

Date of grant	Expiry date	Market price of underlying stock at grant date (rand)	Expected volatility of the stock over remaining life of option (%)	Expected dividend cover (times)
13/02/2013	12/02/2016	289,50	20,8	2,0
28/02/2014	27/02/2017	244,44	22,4	3,0

Volatilities are based on the historical volatility of the Tiger Brands share price matching the remaining life of each option.

Cash settled

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, cash-settled options during the year:

	2014		Restated* 2013	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the year	2 372 827	192,88	3 028 470	177,92
Granted during the year	–	–	180 300	293,61
Forfeited during the year	(70 800)	210,30	(302 907)	197,59
Exercised during the year	(537 672)	141,48	(533 036)	139,29
Outstanding at the end of the year[1]	1 764 355	207,85	2 372 827	192,88
Exercisable at the end of the year	530 283	168,68	465 081	138,31

* *The amounts have been restated due to the adoption of IAS 19R.*

[1] *The weighted average remaining contractual life for cash-settled options outstanding as at 30 September 2014 is 2,36 years (2013: 2,90 years).*

The range of exercise prices for options outstanding at the end of the year was R130,59 to R299,83 (2012: R106,44 to R299,83).

The weighted average share price at the date of exercise was R291,39 (2013: R303,08).

Cash options were valued using a modified Black-Scholes model taking into account the dividend cover, expected exercise pattern and volatility of the Tiger Brands share price. Subject to certain performance conditions, one-third of the cash-settled share options vest on each of the third, fourth and fifth anniversary dates from the date of the original grant date. All the cash-settled options matures six years after the grant date.

Notes to the financial statements continued

for the year ended 30 September 2014

23 Share-based payment plans continued

23.1 General employee share option plan continued

Cash settled continued

The following inputs were used:

Date of grant	Strike price of option (rand)	Expiry date	Market price of the underlying stock at grant date (rand)	Expected volatility of the stock over the remaining life of the option (%)	Expected dividend cover (times)
13/02/2013	299,83	12/02/2019	289,50	33,7	3,0
01/10/2012	265,42	30/09/2018	272,35	33,7	3,0
02/07/2012	252,01	01/07/2018	247,00	33,7	3,0
03/02/2012	253,18	02/02/2018	255,00	34,0	3,0
01/06/2011	186,97	31/05/2017	194,90	34,0	3,0
02/02/2011	189,09	01/02/2017	188,16	33,4	3,0
21/06/2010	176,39	20/06/2016	177,00	22,5	3,0
03/02/2010	172,07	02/02/2016	176,50	21,7	3,0
06/07/2009	141,63	05/07/2015	144,01	21,7	3,0
02/02/2009	141,91	01/02/2015	137,60	21,7	3,0
16/09/2008	131,35	15/09/2014	137,00	21,7	3,0
22/01/2008	130,59	21/01/2014	146,50	21,7	3,0

The average volatility was 27,8% (2013: 26,6%) and the risk-free rate ranged from 6,4% to 7,4% (2013: 5,2% to 7,4%) during the year.

The carrying amount of the liability relating to the cash-settled options at 30 September 2014 is R182,0 million (2013: R216,6 million) – refer to note 30. Cash-settled options exercised during the year amounted to R80,5 million (2013: R85,4 million).

Volatilities are based on the historical volatility of the Tiger Brands share price matching the remaining life of each option.

23 Share-based payment plans continued

23.2 Black managers participation right scheme (equity settled)

In terms of the BEE transaction implemented on 17 October 2005, 4 381 831 Tiger Brands shares were acquired by the Tiger Brands Black Managers Trust. The allocation of vested rights entitles beneficiaries to receive Tiger Brands shares (after making capital contributions to the Black Managers Trust) at any time after the lock-in period. In respect of options allocated on or before 31 July 2010, the lock-in period ends on 31 December 2014. In respect of allocations made after 31 July 2010, the lock-in date will be the latter of 31 December 2014 or, in respect of one-third of the allocations, three years after the allocation, the next third, four years and the last third, five years after the allocation. These vested rights are non-transferable.

After the lock-in date, the beneficiaries may exercise their vested rights, in which event the beneficiary may:

- instruct trustees to sell all of their shares and distribute the proceeds to them, net of the funds required to pay the capital contributions, taxation (including employees' tax), costs and expenses;
- instruct the trustees to sell sufficient shares to fund the capital contributions, pay the taxation (including employees' tax), costs and expenses, and distribute to them the remaining shares to which they are entitled; or
- fund the capital contributions, taxation (including employees' tax) costs and expenses themselves and receive the shares to which they are entitled.

The expense recognised for employee services received during the year to 30 September 2014 is R17,8 million (2013: R17,0 million).

The following table illustrates the number of, and movements in, share participation rights during the year:

	2014 Number	Restated* 2013 Number
Outstanding at the beginning of the year	2 811 031	2 853 209
Granted during the year	336 000	71 000
Forfeited during the year	(52 575)	(99 444)
Shares sold (death of employees)	(13 014)	(13 734)
Outstanding at the end of the year	3 081 442	2 811 031
Exercisable at the end of the year	–	–

* *The amounts have been restated due to the adoption of IAS 19R.*

The weighted average remaining contractual life for share options outstanding as at 30 September 2014 is 2,47 years (2013: 1,42 years).

The weighted average fair value of options granted during the year was R205,06 (2013: R205,89).

No weighted average exercise price has been calculated as there were no participation rights exercised.

Participation rights were valued using the Monte-Carlo simulation approach to estimate the average, optimal payoff of the participation rights using 5 000 permutations. The payoff of each random path was based on the projected Tiger Brands share price, outstanding debt projections and optimal early exercise conditions.

Volatility is measured as the annualised standard deviation of the daily price changes in the underlying share under the assumption that the share price is log-normally distributed. Historical daily share price data was used to estimate the expected volatility.

Notes to the financial statements continued

for the year ended 30 September 2014

23 Share-based payment plans continued

23.2 Black managers participation right scheme (equity settled) continued

The following inputs were used:

Date of grant	Initial strike price of participation rights (rand)	Expiry date	Market price of the underlying stock at grant date (rand)	Expected volatility of the stock over the remaining life of the participation right (%)	Expected dividend yield of the stock over the remaining life of the participation right (%)
31/01/2014	85,84	30/09/2027	266,00	24,7	3,3
31/07/2014	85,87	30/09/2027	308,75	24,7	3,3

The risk-free interest rate was obtained from constructed ZAR swap curves on the valuation dates using key inputs being South African money-market rates and swap rates as published by Bloomberg.

In terms of the BEE Phase II transaction implemented on 20 October 2009, 2 835 427 Tiger Brands shares were acquired by the Black Managers Trust II and 1 813 613 shares by Brimstone Investment Corporation Limited (Brimstone).

23.3 Black Managers Trust II and Brimstone participation right schemes (equity settled)

Brimstone

Brimstone is required to hold their shares via Brim Tiger SPV (Pty) Limited (previously Business Venture Investments No 1323 (Pty) Limited) (Brimstone SPV). Brimstone and the Brimstone SPV may not sell or encumber such shares until 31 December 2017 (the end date). The IFRS 2 charge of R61,9 million relating to Brimstone has been expensed upfront.

At the end date, Tiger Brands will be entitled to repurchase a certain number of shares from Brimstone at the subscription price of R7,40. The number of shares will be calculated in terms of a repurchase formula, whose inputs are:

- the total discounted value of the shares (being an amount equal to R148,07 per share) less the initial equity contribution by Brimstone, increased over the transaction term by a hurdle rate (being 85% of the prevailing prime rate);
- an amount equal to 85% of the distributions declared by Tiger Brands but not received by Brimstone SPV as a result of the condition attaching to the issue of the shares increased over the transaction term by the hurdle rate;
- the market value of a Tiger Brands ordinary share at the end date; and
- the subscription price of R7,40 per share.

23 Share-based payment plans continued

23.3 Black Managers Trust II and Brimstone participation right schemes (equity settled) continued

Black Managers Trust II

Originally allocations of vested rights to these shares were made to a total number of 484 black managers and are non-transferable.

The effective dates of these allocations were 31 January 2010 and 31 July 2010.

With effect from 31 December 2017, the black managers may elect to take delivery of the full benefit of a portion of the shares allocated to them in accordance with their vested rights (after Tiger Brands has exercised its right to repurchase a certain number of the shares from the Black Managers Trust II at the subscription price of 10 cents per share).

The number of shares to be repurchased by Tiger Brands will be calculated in terms of a repurchase formula, the inputs of which are similar to those as disclosed under the Brimstone heading above, other than for the fact that 90% of any distributions declared by Tiger Brands are not received by the Black Managers Trust II (as opposed to 85% in the case of Brimstone SPV) and the subscription price is 10 cents per share (as opposed to R7,40 in the case of the Brimstone SPV).

Upon termination of the trust on 31 December 2018, the black managers shall take delivery of all benefits due to them, failing which these will be forfeited, and the Trustees shall transfer those benefits and any unallocated Tiger Brands ordinary shares, or the net proceeds thereof, to the black managers who are beneficiaries of the Black Managers Trust II at that time.

In calculating the IFRS 2 charge, the following input parameters were utilised to determine the fair value of the rights granted to the beneficiaries of the Black Managers Trust II in terms of the BEE Phase II transaction:

- The allocation date;
- The maturity date of the rights;
- The market price of the underlying equity as at the valuation date;
- The strike price of the rights;
- The expected volatility of the underlying equity over the life of the rights;
- The expected dividend yield on the underlying equity over the life of the rights;
- The risk-free interest rates over the life of the rights; and
- The prime interest rates over the life of the rights.

Notes to the financial statements continued

for the year ended 30 September 2014

23 Share-based payment plans continued

23.3 Black Managers Trust II and Brimstone participation right schemes (equity settled) continued

Volatility is measured as the annualised standard deviation of the daily price changes in the underlying share on the assumption that the share price is log-normally distributed. Historical daily share price data was used to estimate the expected volatility.

Participation rights were valued using the Monte-Carlo simulation approach with the "market variable" being the Tiger Brands share price.

The path dependency of the option results from the relationship between the Tiger Brands share price and the strike price of the option, by virtue of the impact on the strike price of dividends paid by Tiger Brands during the life of the BEE Phase II transaction.

The expense recognised for employee services received during the year to 30 September 2014 is R19,9 million (2013: R14,1 million)

The following table illustrates the number of, and movements in, share participation rights during the year:

	2014 Number	Restated* 2013 Number
Outstanding at the beginning of the year	2 109 644	2 142 132
Granted during the year	720 800	117 000
Forfeited during the year	(145 059)	(144 736)
Shares sold (death of employees)	(3 029)	(4 752)
Outstanding at the end of the year	2 682 356	2 109 644
Exercisable at the end of the year	–	–

* *The amounts have been restated due to the adoption of IAS 19R.*

A risk-free rate was constructed using a zero-coupon ZAR swap interest rate curve as at the valuation date using a raw interpolation bootstrapping algorithm, with inputs from South African money-market rates (interbank acceptance rates and forward rate agreement (FRA) rates) and swap rates, as published by Bloomberg.

Date of grant	Initial strike price of participation rights (rand)	Expiry date	Market price of the underlying stock at grant date (rand)	Expected volatility of the stock over the remaining life of the participation right (%)	Expected dividend yield of the stock over the remaining life of the participation right (%)
31/07/2013	168,03	31/12/2018	317,00	23,6	2,7
01/01/2014	173,76	31/12/2018	264,80	23,6	2,7
31/01/2014	169,92	31/12/2018	266,00	23,6	2,7
31/07/2014	174,30	31/12/2018	308,75	23,6	2,7