Naspers Limited

Trading statement and change in accounting policy

Naspers Limited

(Incorporated in the Republic of South Africa)

(Reg. No 1925/001431/06)

JSE Share Code: NPN ISIN: ZAE000015889

LSE ADS Code: NPSN ISIN: US6315121003

(“Naspers”)

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Shareholders are advised that the Naspers group (“the group”) is finalising its provisional report and consolidated annual financial statements for the year ended 31 March 2018.

Compared to the group’s published results for the year ended 31 March 2017, it expects core headline earnings per share for the year to be between 40% (162 US cents) and 45% (183 US cents) higher than the prior period’s reported 406 US cents. However, as outlined below, the group has amended its calculation of core headline earnings and has restated the comparative period’s core headline earnings per share to 337 US cents. Accordingly, we expect core headline earnings per share for the year ended 31 March 2018 to be between 70% (236 US cents) and 75% (253 US cents) higher than the adjusted comparable period’s 337 US cents. Shareholders are reminded that the board considers core headline earnings an appropriate indicator of the operating performance of the group, as it adjusts for non-recurring and non-operational items.

Compared to the group’s published results for the year ended 31 March 2017, it expects earnings per share for the year to be between 280% (1 895 US cents) and 290% (1 963 US cents) higher than the prior period’s reported 677 US cents. However, as outlined below, the group restated the comparative earnings per share figure to 542 US cents as a result of its change in accounting policy. Accordingly, it is expected that earnings per share for the year will be between 380% (2 060 US cents) and 390% (2 114 US cents) higher compared to the adjusted prior period’s 542 US cents. The growth in earnings for the year was significantly impacted by the gain recognised on the sale of a 2% interest in Tencent Holdings Limited (Tencent) in March 2018, which is non-recurring.

Compared to the group’s published results for the year ended 31 March 2017, it expects headline earnings per share for the year to be between 130% (233 US cents) and 135% (242 US cents) higher than the prior period’s reported 179 US cents. However, as outlined below, the group restated the comparative headline earnings per share figure to 44 US cents as a result of its change in accounting policy. Accordingly, headline earnings per share for the year is expected to increase by between 840% (370 US cents) and 850% (374 US cents) from the adjusted prior period’s 44 US cents. Headline earnings for the year ended 31 March 2017 was restated and significantly reduced by the change in accounting policy for put options outlined below.

Further details will be provided in the summarised consolidated financial results, due for release on 22 June 2018. Financial information on which this trading statement is based has not been reviewed or reported on by the company’s auditors.

Shareholders should note that the group’s provisional report and consolidated annual financial statements will contain a change in accounting policy. To assist shareholders in understanding the group’s trading update, these changes and their impact on the group’s reporting for the comparative year ended 31 March 2017 and six months ended 30 September 2017 have been outlined below.

Change in accounting policy for put option liabilities

As part of our commitment to build shareholder value and prevent dilution, we indicated recently that we are unlikely to issue Naspers N ordinary shares to settle put option liabilities arising from mergers and acquisitions agreements, employee share option obligations or similar arrangements. Instead, the intention is to settle these items in cash, either through purchases of shares on the market or direct cash settlement.

When investing, we frequently partner with founders who remain in the business as non-controlling shareholders. To provide them with liquidity at a later date, agreements sometimes include put options that require the group to purchase the shares of non-controlling shareholders in future, with the option to settle by issuing Naspers N ordinary shares or in cash. In the past we selected to settle some of these by issuing Naspers N ordinary shares.

Change in accounting policy for put option liabilities *(continued)*

The recent change in commercial intent to settle put options in cash rather than Naspers N ordinary shares, has prompted us to reassess our accounting policy to ensure it remains reflective of the underlying settlement expectations. IFRS does not explicitly address accounting for put option liabilities that can be settled by issuing a variable number of an entity's own shares, as evidenced in the IFRS Interpretations Committee November 2016 rejection of this matter. As a result, an accounting policy choice exists – they can either be accounted for as (i) derivative financial instruments (at fair value in terms of IAS 39 *Financial Instruments Recognition and Measurement* or IFRS 9 *Financial Instruments*), or (ii) as liabilities equal to the amount payable on settlement (in terms of IAS 32 *Financial Instruments: Presentation*).

Up to 30 September 2017, put option liabilities were accounted for as derivative financial instruments given the historic intention to settle in Naspers N ordinary shares. All put option liabilities were measured at a fair value of zero as these options are priced at fair value, consequently there was no impact on the statement of financial position or income statement.

Given the intention to now settle in cash, it is more appropriate to recognise them as liabilities in the statement of financial position, at amounts reflecting the gross cash consideration payable on settlement. Consequently, in accordance with IAS 8, we have changed our accounting policy in this respect. Going forward, all remeasurements of these liabilities will be recognised in the income statement. These remeasurements will be included in headline earnings but excluded from core headline earnings.

The group has applied the change in accounting policy retrospectively and has restated the comparative information presented in the provisional report and consolidated annual financial statements for the year ended 31 March 2017, as well as the comparative information to be contained in its interim report for the six months ending 30 September 2018. The summarised impact of the change in accounting policy on prior period results is an increase in liabilities of US$2.23bn and US$2.22bn as at 30 September 2017 and 31 March 2017 respectively, as well as the recognition of remeasurement losses (including foreign exchange translation effects) in the income statement of US$18m for the six months ended 30 September 2017 and US$640m for the year ended 31 March 2017.

The impact of the change is illustrated in the following tables:

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INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME (extract)

	30 September			31 March		
	2017	2017	2017	**2017**	2017	2017
	Restated US$'m	Change in accounting policy US$'m	Previously reported US$'m	**Restated US$'m**	Change in accounting policy US$'m	Previously reported US$'m
Other finance (costs)/income - net	**(65)**	(18)	(47)	**(899)**	(640)	(259)
Profit before taxation	**1 206**	(18)	1 224	**2 412**	(640)	3 052
Taxation	**(148)**	-	(148)	**(244)**	-	(244)
Profit for the year	**1 058**	(18)	1 076	**2 168**	(640)	2 808
Attributable to:						
Equity holders of the group	**1 092**	(6)	1 098	**2 337**	(584)	2 921
Non-controlling interests	**(34)**	(12)	(22)	**(169)**	(56)	(113)
	1 058	(18)	1 076	**2 168**	(640)	2 808
Earnings for the period	**1 092**	(6)	1 098	**2 337**	(584)	2 921
Earnings per N ordinary share (US cents)	**253**	(1)	254	**542**	(135)	677
Headline earnings for the period	**910**	(6)	916	**188**	(584)	772
Headline earnings per N ordinary share (US cents)	**211**	(1)	212	**44**	(135)	179
STATEMENT OF COMPREHENSIVE INCOME (extract)						
Profit for the year	**1 058**	(18)	1 076	**2 168**	(640)	2 808
Other comprehensive income for the year	**842**	-	842	**1 541**	(4)	1 545
Total comprehensive income for the year	**1 900**	(18)	1 918	**3 709**	(644)	4 353
Attributable to:						
Equity holders of the group	**1 968**	(6)	1 974	**3 905**	(587)	4 492
Non-controlling interests	**(68)**	(12)	(56)	**(196)**	(57)	(139)
	1 900	(18)	1 918	**3 709**	(644)	4 353

The group's change in accounting policy regarding put options had no impact on core headline earnings.

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STATEMENT OF FINANCIAL POSITION (extract)

	As at 30 September		
	2017	2017	2017
	Restated	Change in accounting policy	Previously reported
	US$'m	US$'m	US$'m
EQUITY AND LIABILITIES			
Capital and reserves attributable to the group's equity holders	**14 464**	(2 110)	16 574
Share capital and premium	**4 954**	-	4 954
Other reserves	**(319)**	(1 518)	1 199
Retained earnings	**9 829**	(592)	10 421
Non-controlling interests	**161**	(117)	278
TOTAL EQUITY	**14 625**	(2 227)	16 852
Non-current liabilities (subtotal)	**6 424**	1 717	4 707
Other non-current liabilities	**1 717**	1 717	-
Current liabilities (subtotal)	**3 022**	510	2 512
Accrued expenses and other current liabilities	**1 858**	510	1 348
TOTAL EQUITY AND LIABILITIES	**24 071**	-	24 071

	As at 31 March			As at 31 March/1 April		
	2017	2017	2017	**2016**	2016	2016
	Restated	Change in accounting policy	Previously reported	**Restated**	Change in accounting policy	Previously reported
	US$'m	US$'m	US$'m	**US$'m**	US$'m	US$'m
EQUITY AND LIABILITIES						
Capital and reserves attributable to the group's equity holders	**12 856**	(2 102)	14 958	**8 771**	(1 483)	10 254
Share capital and premium	**4 944**	-	4 944	**4 965**	-	4 965
Other reserves	**(1 000)**	(1 518)	518	**(2 304)**	(1 483)	(821)
Retained earnings	**8 912**	(584)	9 496	**6 110**	-	6 110
Non-controlling interests	**286**	(117)	403	**379**	(21)	400
TOTAL EQUITY	**13 142**	(2 219)	15 361	**9 150**	(1 504)	10 654
Non-current liabilities (subtotal)	**5 349**	1 708	3 641	**5 118**	1 095	4 023
Other non-current liabilities	**1 708**	1 708	-	**1 098**	1 095	3
Current liabilities (subtotal)	**3 439**	511	2 928	**2 455**	409	2 046
Accrued expenses and other current liabilities	**1 768**	511	1 257	**1 595**	409	1 186
TOTAL EQUITY AND LIABILITIES	**21 930**	-	21 930	**16 723**	-	16 723

Calculation of trading profit and core headline earnings – impact of digital content-related amortisation charges relating to Tencent

The group is required to calculate and present headline earnings (and the related basic and diluted per-share equivalents) in terms of the JSE Listings Requirements. Headline earnings represents an earnings metric that is intended to provide a like-for-like basis on which the earnings of entities can be compared.

In addition to headline earnings, we also calculate and present trading profit and core headline earnings. These are non-IFRS, Naspers-defined metrics and are presented as additional information to shareholders as we consider them more reflective of our operating performance. In arriving at core headline earnings, adjustments are made to the earnings of consolidated businesses, as well as the underlying earnings of associates and joint ventures, to the extent that the information is available.

Ensuring that core headline earnings remains reflective of our future potential operating performance, a review of the items adjusted for in the calculation is required as circumstances change.

We have historically adjusted core headline earnings for all amortisation expenses, excluding software, as these expenses have primarily related to intangible assets resulting from business combinations and other acquisitions. These expenses are not considered operational in nature.

Our associate Tencent has, in recent years, made a strategic decision to develop a number of digital content offerings (including video and music), with significant success. Consequently, content acquired now represents a meaningful part of the overall cost base for the digital content business, resulting in an increase in intangible assets and related amortisation expenses. As a result of this development, we considered it prudent to refine the treatment of amortisation within the core headline earnings calculation and to now include the digital-content element of Tencent’s amortisation expenses in core headline earnings. Only amortisation related to intangible assets identified in business combinations and other acquisitions continues to be adjusted for in the core headline earnings calculation. The effect is to adjust core headline earnings downward from US$1.5bn to US$1.2bn for the six months ended 30 September 2017 and from US$1.8bn to US$1.5bn for the year ended 31 March 2017.

IFRS 8 Operating Segments require segmental reporting to reflect the manner in which financial information is communicated internally to management. We therefore report trading profit on an economic-interest basis (i.e. including a proportionate consolidation of the trading profits of associates and joint ventures) in the segmental review which, similar to core headline earnings, excludes amortisation expenses on certain intangible assets. For the reasons outlined above, we will similarly no longer adjust trading profit to exclude the amortisation expenses recognised by Tencent on its digital content. The effect is to adjust trading profit downward from US$2.1bn to US$1.7bn for the six months ended 30 September 2017 and from US$2.7bn to US$2.3bn for the year ended 31 March 2017. Consolidated trading profit is unaffected by this change.

To ensure comparability between reporting periods, we have updated the comparative information for trading profit and core headline earnings (including basic and diluted per-share equivalents) in our provisional report and consolidated annual financial statements. The change to trading profit and core headline earnings had no impact on the group’s statement of financial position and income statement presented in accordance with IFRS.

The impact of the change is illustrated in the tables that follow.

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CALCULATION OF CORE HEADLINE EARNINGS (extract)

	Six months ended 30 September			Year ended 31 March		
	2017 New basis US$'m	2017 Adjustment US$'m	2017 Previously reported US$'m	**2017 New basis US$'m**	2017 Adjustment US$'m	2017 Previously reported US$'m
Headline earnings[1]	**910**	(6)	916	**188**	(584)	772
Adjusted for:						
- equity-settled share-based payment expenses	**173**	-	173	**296**	-	296
- amortisation of other intangible assets	**84**	(314)	398	**169**	(298)	467
- fair-value adjustments and currency translation differences[1]	**19**	6	13	**756**	584	172
- retention option expense	**-**	-	-	**1**	-	1
- business combination related losses	**10**	-	10	**44**	-	44
Core headline earnings	**1 196**	(314)	1 510	**1 454**	(298)	1 752
Core headline per N ordinary share (US cents)	**277**	(73)	350	**337**	(69)	406

[1] Restated for the group's change in accounting policy on put option liabilities as outlined above. Remeasurements of put options are excluded from core headline earnings.

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TRADING PROFIT IN THE SEGMENTAL REVIEW (extract)

	Six months ended 30 September			Year ended 31 March		
	2017 New basis	2017 Adjustment	2017 Previously reported	**2017 New basis**	2017 Adjustment	2017 Previously reported
	US$'m	US$'m	US$'m	**US$'m**	US$'m	US$'m
Internet	**1 418**	(402)	1 820	**2 031**	(423)	2 454
Social and internet platforms	**1 736**	(402)	2 138	**2 762**	(423)	3 185
- Tencent	**1 713**	(402)	2 115	**2 702**	(423)	3 125
- Mail.ru	**23**	-	23	**60**	-	60
Ecommerce	**(318)**	-	(318)	**(731)**	-	(731)
Video entertainment	**234**	-	234	**287**	-	287
Media	**21**	-	21	**19**	-	19
Corporate services	**(8)**	-	(8)	**(14)**	-	(14)
Economic interest	**1 665**	(402)	2 067	**2 323**	(423)	2 746
Less: Equity-accounted investments	**(1 595)**	402	(1 997)	**(2 537)**	423	(2 960)
Consolidated	**70**	-	70	**(214)**	-	(214)

Cape Town

13 June 2018

Sponsor: Investec Bank Limited