NASPERS

Creating value

by improving lives…

Mumbai, India

Risks and opportunities report 2019

Risks and opportunities

As entrepreneurs, our effectiveness in identifying and responding to opportunities and risks is key to our success.

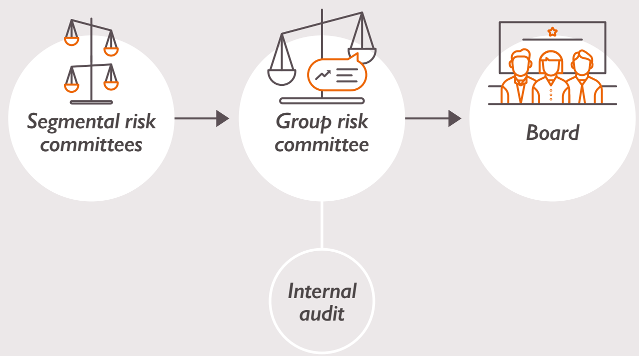
At Naspers we acknowledge the importance of managing risks and opportunities as effectively as possible given our global footprint and diverse business models. As a group, we promote a culture in which robust risk acceptance processes and a systematic way to evaluate opportunities are seen as a driver of competitive advantage. These are integrated into our everyday decisionmaking and good governance practice.

How we manage and govern risk and consider opportunities

We seek to create value for our stakeholders by operating within the ambit of approval by our managing board and supporting governance committees (refer to governance structures on page 60 of the integrated annual report). We set relevant tolerance levels for each significant risk individually and manage our business within these parameters. We understand that certain risks may have multiple consequences and that a certain consequence may materialise from different types of risk. The same applies to opportunities.

We require our businesses to apply a methodical approach to governance, risk and compliance. The six capitals transformation model is considered useful to analyse risks and opportunities as we aim to continuously reduce our impact and stimulate positive capital transformation.

RISK MANAGEMENT



For management at group and subsidiary level, our policies provide direction, scope and ambit to apply practices and principles to manage risk and opportunity, both operationally and strategically. Key risks are reported to segmental risk committees who in turn will communicate to the board. The risk committee assists the board to ensure that risk is governed in a way that supports the group in setting and achieving its strategic objectives.

Stakeholder relationship management, both internal and external, forms an integral part of our risk management processes. We are aware of the risks associated with outsourced services and third-party applications and continually look at better ways to manage our relationships with suppliers.

Our legal compliance office provides support with the help of in-country legal teams and where required, we consult specialists when contracting with potential suppliers and service providers.

We are cautious around privacy requirements for both internal and external stakeholders as well as our customers.

Drawing on best practice

Our risk management framework, system and processes draw on internationally recognised best business practice and frameworks. We promote the sharing of knowledge and learning from any incidents and good management practice between businesses within the group.

Responsibility

Management and the board are accountable for the choices and decisions we make, how we execute these and for delivering a commensurate reward – ie value in its broadest definition – within the parameters of the risk profile the board deems acceptable.

As Naspers continues to evolve and invest in companies that operate at different maturity levels, risk tolerance levels are set top-down and management of the business segments is accountable to manage risk within these levels.

The responsibility for managing risk lies with the owner of risk: in most cases operational management, assisted by the finance function and, where considered useful in our businesses, specialised risk management and risk support functions.

Group internal audit and risk support assess the effectiveness of the system of risk management and internal control and may provide assistance and guidance to the business.

At least semi-annually, our external auditor provides assurance over the reliability of the financial information that we publish.

ANALYSING AND RESPONDING TO DIFFERENT RISKS

Our businesses are expected to apply a defined, structured approach to identifying, assessing, analysing and responding to risk and opportunities within tolerance levels set by the board.

Identify → Assess → Analyse → Respond

Our risk analysis focuses on the impact of risk on our objectives without losing sight of any opportunities that may arise.

For risks we are not prepared to accept, we act to reduce our vulnerability.

Depending on the importance of the risk in relation to tolerance levels, active management of the risk takes various forms and varies in extent.

Increasing risk

1 Controls to prevent and detect risk — We operate or implement enhanced control and monitoring measures that either prevent or detect the materialisation of a risk at the earliest stage.

2 Spread risk — We take measures that mitigate any material consequences and, on a portfolio basis, we spread uncorrelated risks.

3 Share or transfer risk — Where we can, we explore ways to share or transfer risk.

4 Mitigate risk — We run adequate insurance programmes to mitigate the risk of sudden losses caused by the materialisation of insurable risk.

5 Exit strategy — Wherever we find a risk outside acceptable levels, we consider ways to avoid the risk altogether, for example by entering into an exit strategy.

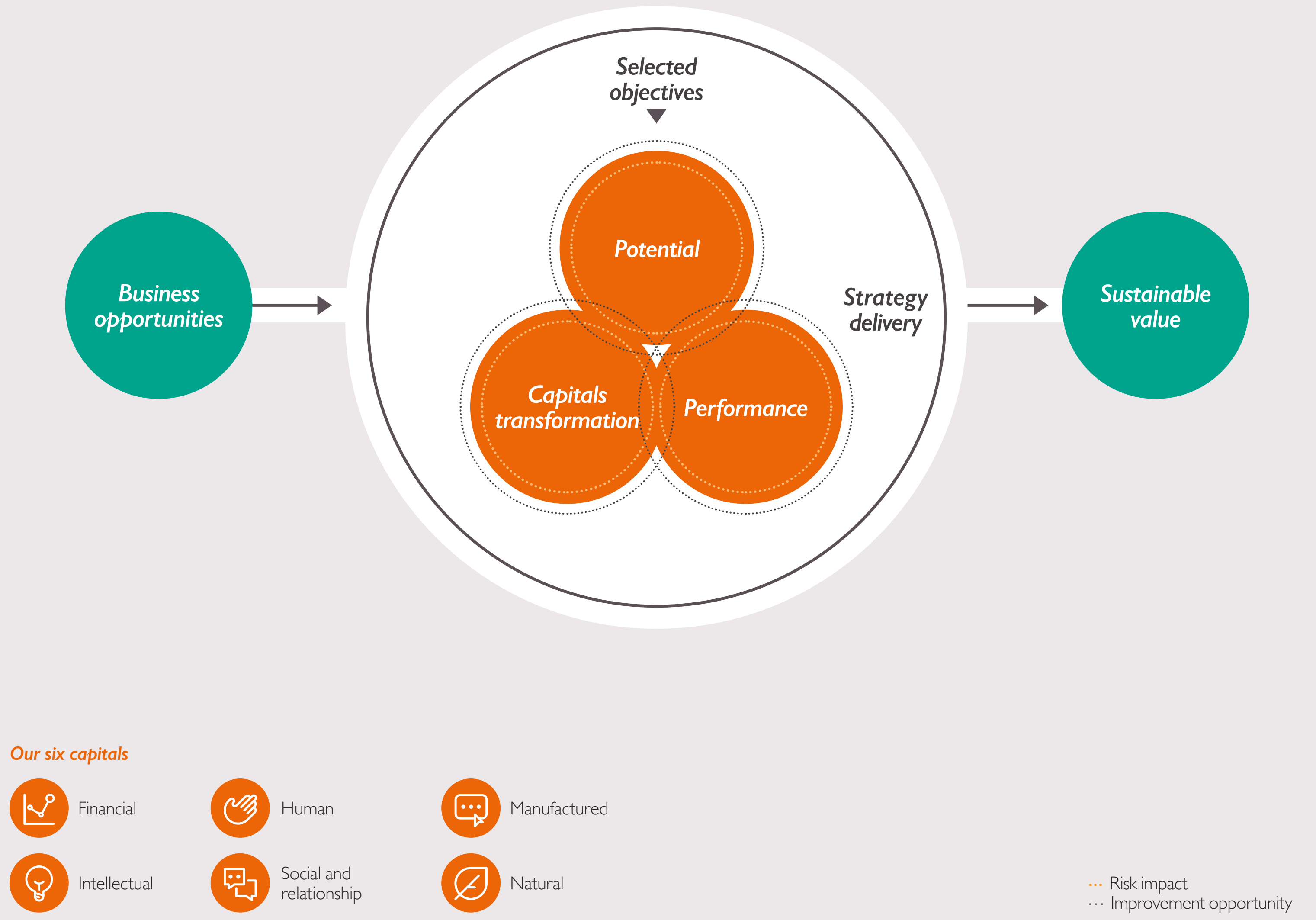
Risks and opportunities *continued*

Our objective-driven dynamic approach
Our programmes are aimed to mitigate risk within levels we deem acceptable and to also stimulate identification of opportunities to either improve our performance or strengthen our potential.

Our overarching aim is to transform our capitals for a net positive impact. This approach gives rise to various risks, specifically over-using any of the six capitals (higher input than intended) or under-producing (lower output than intended). We may also identify opportunities for greater efficiency (lower input than anticipated) or more effective production (higher output than anticipated) in any of the capitals and therefore, exceed against our original objectives. This can translate into wasted resources. Creating sustainable value is a continual process of balancing available resources for optimal benefit to our entire stakeholder base.

For our stakeholders, opportunities and risks matter most where they have the greatest impact on value (in its broadest sense). Therefore, we select opportunities and assess, manage and accept risks primarily on the basis of their potential impact on determined value drivers.

OBJECTIVE-DRIVEN DYNAMIC APPROACH



Risks and opportunities continued

Key areas of focus in the year

Capital reallocation
During the year we have executed and/or announced a number of major transactions that we see as transformational. All these implied (and still imply) careful weighing up of significant risk and opportunity and required significant management attention.

Main examples are:
- reinforcing our balance sheet for growth (eg, US$9.8bn in proceeds following the March 2018 Tencent trim and US$2.2bn Flipkart divestment, in both cases realising value created)
- unbundling our US$3.8bn Video Entertainment segment, thereby effectively creating a 100% online group of consumer internet businesses, and
- our announcement to pursue a listing on Euronext Amsterdam, creating Europe's largest consumer internet company.

We have furthermore redeployed significant amounts of capital to accelerate growth of our core businesses, such as:
- Classifieds: enlarging our interest in Avito and investing in letgo (respectively US$1.16bn and US$189m)
- a number of acquisitions in Payments and Fintech, and
- our US$716m investment and further capital injections and commitments in our food business, Swiggy.

Our efforts to continuously optimise our capital allocation also means that we, more often than not, reject opportunities and/or deals that we deem either not sufficiently attractive or outside risk parameters we feel comfortable with.

Platform, technology and architecture optimisation
For our core businesses, improving platforms and architecture to enhance customer experience and support scalability and security has been a leading theme.

This entails developing and introducing product improvements (including application of machine learning (ML) and artificial intelligence (AI) solutions), integration and consolidation of existing platforms and effect operational improvements by transitioning applications to cloud environments.

Cybersecurity and data privacy
As in the previous year, our cybersecurity and resilience has remained a major area of focus with a specific eye on data privacy, which has gained importance in the eyes of both our stakeholders and regulators worldwide. We are committed to protect sensitive data and operate our businesses such that we are able to detect and respond promptly to any attempts to breach data or abuse our systems: we understand that being able to do so is to manage a number of related risks. This may have a positive impact on our relationship with customers and other stakeholders.

Talent management
The talent that we need to execute on our strategic ambitions is scarce and highly sought after. Increasingly, talent shortage is a risk. We are addressing this issue by investing in HR support, enhancing our recruitment and retention strategies and by bettering our learning and development offering for all employees, eg through our MyAcademy learning platform. We also increasingly encourage businesses to consider and address topics of diversity (including gender equality) and inclusion.

Future focus areas

For the near future we do not foresee the key focus areas becoming less relevant. In addition, we expect that the following topics will demand growing attention:

Data-driven technologies
Our businesses are placing greater emphasis on opportunities to enhance our services and customer experience through the development and deployment of data-driven technologies such as ML.

We need to understand and effectively manage the emerging risks that present themselves as a result. Such risks may relate to privacy and compliance in connection with the use of data, and also the control over and consequences of automated decisionmaking.

Sustainability
Through our policies and governance structures we put our commitment to ethical and sustainable entrepreneurship into practice. We also realise that the communities we serve and our various stakeholders take a growing interest in the sustainability of our operations and the impact of our corporate citizenship. We value our reputation and are fully aware of the importance of our social and relationship capital.

We understand that reputational risks relating to our commitment predominantly come from a misalignment of our values or a deviation from our desired business culture, which, in a group as diverse and geographically spread as ours, naturally is a challenge to eliminate.

Throughout our group we will continue to emphasise the importance of ethical and responsible behaviour and undertake various initiatives to ensure awareness of, and adherence to, our code of business ethics and conduct, while promoting a culture of integrated thinking in everything we do.

Risks and opportunities *continued*

Type of capital	We aim to	Key risks to this capital	Measures to manage these key risks and maximise opportunities	Extent to which risk has changed
Financial				
We are a for-profit organisation that invests in developing businesses to provide useful products and services to customers and deliver a sustainable return to investors.	• Invest in countries where we operate by creating business for local suppliers, employing people and giving governments their dues via taxes and levies. • Manage our assets and liabilities in a conservative manner with regard to the interests of our investors and other stakeholders and in accordance with board-approved risk appetite. • Focus on investments in business models and technologies that hold promise for future growth and have potential to scale globally. • Report accurately on our financial position and performance in accordance with applicable accounting standards. • Comply with relevant company law and securities exchange regulations.	• Global and political market disruptions. • Failing to compete effectively. • Unexpected changes in the value of our assets. • Insufficient funding to realise our ambitions. • Currency exchange fluctuations, and navigating exchange control. • Credit risk. • Counterparty risk. • Fraud-related crimes and theft. • Financial misstatement and/or failure to accurately disclose in our public reports.	• We monitor global and political developments and adjust quickly. • We allocate significant resources to analysing market developments and invest in early-stage opportunities to stay ahead. • We have a fully funded three-year plan with room for M&A, and we manage the balance sheet conservatively. • We act early to ensure we have the funds and resources to realise our ambitions. • We invest funds and manage our cash in accordance with our group treasury policy which, inter alia, sets minimum standards to mitigate risk of counterparty default. • We operate an effective internal control environment and the audit committee oversees the effectiveness of combined assurance.	• Decreasing as a result of the unbundling of MultiChoice Group (which had a different risk profile) and our focus on consumer internet. • Key risks that have decreased are driven by political, counterparty, currency and compliance risks (including tax).
Human				
We acknowledge that our employees' competencies, capabilities and experience, as well as their drive and engagement, is key to our success.	• Attract and retain high-calibre individuals to execute on strategy and build sustainable businesses. • Back entrepreneurs and local teams by providing them with resources to accelerate growth. • Provide our employees with focused career development and training. • Foster a safe and healthy working environment where people feel cared for, heard and supported in their ambitions. • Reinforce the leadership pipeline and accelerate the growth of top talent. • Support the ongoing development and growth of our businesses and equip our people with new skills for tomorrow. • Develop core business skills in ecommerce and media. • Be fair and responsible in our remuneration practices and have a pay-for-performance remuneration strategy. • Encourage diversity in our teams and thinking, and build inclusive workplaces. Our employment philosophy is founded on promoting equality and preventing unfair discrimination. • Be compliant with relevant labour laws in the countries where we operate.	• Failing to attract and retain talent to execute strategy. • Non-compliance with applicable health and safety, and labour and economic empowerment laws. • Inability of existing employees to adapt promptly to changes in market and innovation and adapt business strategies accordingly. • Unfair treatment and remuneration. • Inadequate development of employees.	• Strategies to develop employees and attract talent to meet the business's objectives, including learning and development initiatives (through MyAcademy that is online and classroom-based), training, and employee wellness initiatives across the group. • A global talent function that focuses on attracting, retaining, developing and engaging people with key skills and rewarding exceptional performance. • Our legal compliance programme ensures compliance with applicable occupational health and safety, labour, economic empowerment, transformation and diversity laws. • Human resource policies and procedures to address talent attraction, management and retention, development, succession planning, fair and responsible remuneration, working conditions, grievance procedures and diversity. • Initiatives to enhance our human capital include diversity and inclusion, gender equality and leadership development.	• Increasing as a result of shortages of necessary talent.

Risks and opportunities *continued*

Type of capital	We aim to	Key risks to this capital	Measures to manage these key risks and maximise opportunities	Extent to which risk has changed
Manufactured				
Manufactured capital is key to our services and operations. Across the group, manufactured capital may include: • Office, service centre and warehouse buildings and equipment. • Information and technology infrastructure and equipment. • Distribution networks (such as customer service centres, retail outlets and courier services). • Public infrastructure such as roads for delivering goods. • Vehicles. • Inventory/Stock.	• Ensure that office buildings, warehouses, retail outlets, vehicles and equipment are efficient, well-maintained and adequately insured against relevant risks. • Operate a secure and resilient technological infrastructure. • Avoid obsolescence of products and services held for sale by procurement and inventory management. • Minimise our investments in working capital. • Manage our outsource partners to deliver on agreed service levels.	• Excessive write-offs or impairments of assets due to poor maintenance or inadequate investments. • Reduced service delivery capacity as a result of risks affecting supply chain, logistics and processes (both physical and electronic). • Product/Service offering, procurement, seller integration, and order and checkout flow. • Natural or human-induced disaster, and political risk. • Technical failures and cyber-incidents causing disruption.	• Robust business planning, including working capital. • Adequate insurance. • Maintenance programmes. • Business continuity planning, including disaster recovery and testing. • Contracting with and regular performance evaluations of our service providers. • Business and resource planning, including information and technology investment. • Asset maintenance programmes. • Insurance to protect business assets. • Responsible scaling strategies. • Business-continuity and disaster-recovery processes. The group's subsidiaries are required to act in line with Naspers's good governance guidelines, which, inter alia, require them to maintain business continuity and disaster-recovery plans. Businesses are responsible for ensuring adequate measures are in place for business and resource planning, supplier and external service provider selection, scaling strategies and insurance to protect their assets.	• Decreasing due to Naspers becoming asset-lighter as a result of unbundling of MultiChoice Group. In addition, moving to the cloud not only makes us asset-lighter, but it also increases our dependency on outsourced services suppliers.
Intellectual				
Intellectual capital (knowledge-based intangibles) includes intellectual property (IP) such as patents, copyrights, trademarks, domain names, confidential information, as well as institutional knowledge, systems, procedures and culture.	• Use intellectual capital to drive competitive advantage through customer-focused development and innovation strategies. • Adequately protect our intellectual capital and not infringe on rights of others. • Produce and acquire valuable content for consumption by our customers through our various platforms. • Cultivate positive, innovative, ethical cultures within the group. • Build intellectual capital through continuous investment in our people and knowledge-sharing programmes throughout the group.	• Ineffective response, including insufficient innovation, to meet our customers' changing demands and consumption patterns. • Improper use and/or inadequate protection of customer and privacy-sensitive data and other confidential information. • Failure to meet targets or lack of innovation. • Loss of market share, revenue and opportunities through infringement, theft or misuse of the business's IP rights. • Reputational damage or liability due to infringement, theft or misuse of IP and rights of third parties by any of our businesses. • Insufficient production of intellectual capital caused by inadequate human resource development and culture.	• Developing strategically important IP assets, as well as attracting, managing and developing talent, encouraging innovation, and managing performance to meet targets. • Developing relationships to grow intellectual capital, for example relationships with universities, think tanks and others. • Protect IP rights against infringement through effective cybersecurity measures guided by our global security policy. • Support provided by group head of IP. Group guidelines and monitoring in place. • Research and development spend strategies linked to value creation.	• Increasing as we need to increase our investment in data-driven technologies and run heightened risk of technology obsolescence or falling short of our competitors in building AI/ML solutions towards our service and product offering.

Risks and opportunities *continued*

Type of capital	We aim to	Key risks to this capital	Measures to manage these key risks and maximise opportunities	Extent to which risk has changed
Social and relationship				
We acknowledge that we are required to act in line with our values and code of business ethics and conduct and manage both internal and external stakeholder relationships.	• Build trust and maintain the businesses' licences to operate, and maintain their brands and reputation. • Cultivate an ethical culture. • Engage with our stakeholders and respond to legitimate and reasonable issues raised. • Meet the requirements of regulatory and financial authorities and participate in the development of policies beneficial to societies and markets in which we operate. • Sustain corporate social initiatives focused, targeted and linked to business strategy.	• Unethical behaviour in breach of our code of business ethics and conduct, including bribery and corruption and unfair treatment of stakeholders. • Loss of consumer trust, for example failing to deliver on our service promise, data-security breaches, non-compliance and inferior product offerings. • Non-compliance with laws and regulations in the countries where we operate, specifically, but not limited to: company law, data privacy, anti-bribery and anti-corruption, taxes and duties, licence conditions, consumer protection, anti-money-laundering, and international sanctions.	• General ethics initiatives ensuring ethical standards for services and products provided. • We continue to strengthen our regulatory teams, increase engagement with regulators and invest in corporate affairs, government relations and communication, while operating a robust legal compliance programme. • Anti-bribery and anti-corruption initiatives as part of the legal compliance programme. • Measuring and monitoring strength of customer relationships (such as Net Promoter Score) and strategy to ensure customer satisfaction. • Adopting measures to protect customers (including frameworks and policies in place, and training and awareness) and ensuring customer privacy and data security are managed and monitored. This includes measures to protect against cyberthreats. • Managing stakeholder relationships and responding to legitimate and reasonable issues raised by major stakeholders. • Corporate social investment programmes that benefit the community and the business, such as providing learning and internship opportunities to students, contributing to the community and improving employment in the country, but also contributing to the human, intellectual and financial capitals of the business in the long term.	• No change.
Natural				
We acknowledge that we are required to act in an environmentally responsible way. As an internet and entertainment group, Naspers has a relatively low impact on natural resources. Our businesses consider the extent to which natural capital may significantly affect current or future operations; trigger legal or regulatory processes or fees, such as emission fees; have a financial impact, eg on insurance conditions; and affect company image or relationships with stakeholders, eg changing customer and employee preferences. Each business's response to mitigate key risks and pursue opportunities will differ depending on the unique risks and opportunities in their operating environments.	• Comply with laws and regulations that relate to the environment. • To be useful to the communities we serve, acknowledging that environmentally responsible behaviour forms part of that. • Adhere to water-preservation initiatives in the South African Western Cape province, which is experiencing a severe drought. • Invest in high-growth markets and credible sustainable products that may offer new revenue streams.	• Increased natural hazard costs, security costs or resource costs. • Increased compliance costs, new regulations or licence fees. • Changing customer, supplier and employee values or preferences may lead to reduced market share and decreased loyalty. • Local communities where we operate may face reduced access to, or availability of, natural capital or related ecosystem services.	• Reducing operational costs by minimising consumption and impact. • Reducing environmental compliance/regulatory fees and charges. • Our diverse businesses across the group adopt appropriate environmentally sustainable practices minimising the impact on natural capital, for example energy-saving, water-saving and recycling initiatives.	• No change.

NASPERS

Naspers head office
+27 (0)21 406 2121
40 Heerengracht
Cape Town
8001
South Africa

www.naspers.com