

How we manage risk

Risk management is integral to the daily operations of our businesses. As a multinational group with activities in over 130 countries, Naspers is exposed to a wide range of risks that may have serious consequences. While the diversified nature of the group spreads this exposure, it does add complexity.

■ Risk philosophy

Naspers identifies and manages risk in line with international best corporate governance practice, applying the relevant rules and regulations.

Management and the board run a process of identifying major risks in each of the managed business units, using topdown and bottomup approaches. These are reported to the risk committees of the respective boards, together with tolerance levels and mitigation plans. We assess the level of risk we wish to bear, given potential returns. Major risks from a group perspective are summarised on page 2.

The diversified nature of the group helps spread risk, particularly in terms of global political and economic instability, market development, regulatory matters and currency fluctuations. Identifying risk and developing plans to manage risks are part of each unit's business plan. These are assessed biannually by the risk committee and by the board.

■ Risk policy

The group's risk profile is based on a formal and planned approach to risk management. Risk identification, management and reporting are embedded in business activities and processes.

The group's risk policy applies to all operations where Naspers has over 50% ownership and management control. The policy applies to risks the group faces in executing its strategy, operations, reporting and compliance activities and is reviewed annually. Some group companies have specific risk management functions whose output is reviewed by the Naspers risk committee.

Risk management supports, advises on, formulates, oversees and manages the risk management system and monitors the group's risk profile, ensuring major risks are identified and reported at the appropriate level in the group.

■ Risk framework

The Naspers enterprise-wide risk management (ERM) framework is designed to ensure significant risks and related incidents are identified, documented, managed, monitored and reported in a consistent and structured manner across the group. It is modelled on the COSO ERM⁽¹⁾ framework, and ISACA's Risk IT⁽²⁾ framework for information technology (IT).

How we manage risk (continued)



■ Major risks

We follow a process of identifying major risks in each of our managed business units, which includes both topdown and bottomup approaches. These are reported to the risk committees of the respective boards, together with tolerance levels and plans for mitigation. The group then assesses the level of risk we wish to bear, given potential returns.

⁽¹⁾ Committee of Sponsoring Organisations of Treadway Commission: 2004 Enterprise Risk Management – Integrated Framework.
⁽²⁾ ISACA: 2009 Risk IT framework (based on COBIT).

How we manage risk (continued)

■ Material issues and how we manage these

At present the following material group risks are evident among a wide range of potential exposures:

Our risks	Issue	How we manage the issue
<p>Regulatory and compliance issues</p>	<p>Our businesses, spread over more than 130 countries, are subject to extensive regulations and compliance obligations that may affect our operations.</p> <p>Video entertainment faces growing regulatory scrutiny and changes. We face regular scrutiny from tax authorities.</p>	<p>A tax, regulatory and legal compliance programme is in place.</p> <p>Regular reviews of the applicable laws and regulations are undertaken by in-country legal resources.</p> <p>Experienced regulatory teams participate in and monitor the applicable regulatory landscapes.</p> <p>Communication of regulatory issues to decision-makers.</p> <p>Proactive interaction with government agencies and regulators.</p> <p>Legal or compliance-related risks are managed in consultation with external lawyers and specialist advisers in specific legal jurisdictions.</p>
<p>Strategic and operational issues</p>	<p>The nature of some of our operations and the territories in which they operate, lend themselves to a higher fraud and corruption risk.</p> <p>South Africa's exchange control regulations require approval for transactions outside the common monetary area. If approvals are not received, this could hinder our ability to make foreign investments.</p> <p>The Naspers group has a decentralised operational control environment, while operating in entrepreneurial, international businesses.</p>	<p>Maintain an adequate system of internal control.</p> <p>Whistle-blower lines are in place.</p> <p>Code of ethics and business conduct is in place.</p> <p>Naspers complies with the South African Reserve Bank's regulations and with conditions under which approval for transactions outside the common monetary area is granted.</p> <p>A topdown approach to governance ensures policies are aligned between businesses and subsidiaries where we have management control.</p> <p>Governance documents and processes are reviewed by respective boards, company secretaries and Naspers's internal control oversight forum.</p>

How we manage risk (continued)

Our risks	Issue	How we manage the issue
<p>Strategic and operational issues (continued)</p>	<p>The geographical spread of operations exposes us to a variety of economic, social and political risks. Certain countries in which we operate, may face difficulties due to currency fluctuations, fluctuating interest rates, bankruptcies, stock market declines, terrorist attacks, corruption, political instability, threats and ransom, epidemics and other factors that may materially harm our businesses.</p>	<p>In exercising the business strategy, we perform regular country and business reviews.</p> <p>Leading advisers are used for reviewing markets or businesses, including due diligence processes.</p> <p>Our broad spread of assets and markets mitigates our susceptibility to negative movements in a single market or segment. However, not all risks can be avoided or hedged, and some losses will occur.</p> <p>Boost growth and cut costs specifically in the video-entertainment business.</p>
	<p>We do not exercise control over our minority investments and the value of our stake in such investments could decrease if these businesses adopt strategies or take actions contrary to our preferred strategies and actions.</p>	<p>The group is represented on the boards and audit committees of most of these entities.</p> <p>The group builds relationships with management and partners.</p> <p>We monitor the performance and operations of these businesses.</p>
	<p>Significant investments might not be monetised effectively according to shareholder expectations.</p>	<p>Naspers maintains transparent communications with investors, aiming to provide insight into our operations, while protecting our competitive advantage and complying with stock exchange listings requirements.</p> <p>Segmental results assist the investment community to form an opinion of the valuation of businesses in the group.</p> <p>Regular impairment tests are performed and reported on in terms of investments.</p> <p>Regular operational and financial reviews as well as portfolio reviews are performed internally.</p>

How we manage risk (continued)

Our risks	Issue	How we manage the issue
<p>Strategic and operational issues (continued)</p>	<p>Technology is an integral part of our operations.</p> <p>We may be caught off-guard by the pace of new technologies or startups, or deploy new technologies too slowly or ineffectively.</p> <p>We may not detect social, consumer, technical or economic shifts in time or react sufficiently.</p>	<p>Continued focus on emerging technologies in our own products and services.</p> <p>Acquiring companies that have developed new technologies and demonstrated relevance in our segments and markets.</p> <p>Increased central management and controls.</p> <p>Focus on engineering resources and implementing recruitment programmes for the best engineers.</p> <p>The group monitors technology developments and disseminates knowledge to operating companies.</p> <p>Development of segment focus and sharing of technology across segments.</p>
	<p>Competitors in our markets may threaten the position of our companies, associates and joint ventures.</p> <p>Competition includes new or traditional players, as well as new technologies and products and services.</p> <p>Loss of market share and scale may place pressure on margins. We also compete against financial investors for attractive assets in the ecommerce markets.</p>	<p>Early to market with products and services we believe hold promise.</p> <p>Establish complementary businesses, reducing dependency on single elements of the value chain.</p> <p>Regular strategy reviews on how to respond to the changing competitive landscape.</p> <p>Acquiring new players or new technologies that may enhance or increase longevity of our platforms.</p>

How we manage risk (continued)

Our risks	Issue	How we manage the issue
<p>Strategic and operational issues (continued)</p>	<p>Failure of systems, software or infrastructure could disrupt service to our customers.</p> <p>We are subject to various cyber threats that target sensitive information, integrity and continuity of our services and/or reputation of our businesses.</p>	<p>Business continuity plans include backup, some redundancy and recovery measures.</p> <p>IT governance programme is in place.</p> <p>Specific internal control measures are in place to prevent, limit or detect cyber risks. However, all risks cannot be neutralised.</p>
	<p>A number of our businesses require significant investment to drive growth. In most instances, development spend is made over multiple years. There is a risk that we do not realise the planned return on these investments.</p>	<p>Regular review and discussion of business plans and monitoring of progress. We disclose in a transparent manner to stakeholders.</p> <p>Restructured the operations along functional lines rather than regional, to mitigate risk and improve execution capacity.</p> <p>Build local scale in ecommerce units and maintain a strong focus on cost management.</p>
	<p>Internet usage is rapidly moving to mobile devices. If we fail to deliver our services and products adequately on mobile devices, it will severely impact our long-term prospects.</p>	<p>Building mobile applications for our products and services is a priority.</p> <p>Measuring and tracking performance of our products and services on mobile.</p> <p>Continue to invest in the development of online services and products.</p>
	<p>Failure to secure significant content rights could result in loss of video-entertainment subscribers.</p> <p>Rising content prices impact margins significantly.</p>	<p>Review content rights and their economic value regularly.</p> <p>Investment in local content and sport and be a major funder of African content development.</p>

How we manage risk (continued)

Our risks	Issue	How we manage the issue
Financial and related reporting risks	<p>Our ability to comply with debt covenants and make payments on our debt depends on our operating performance, which in turn is subject to risks that may be outside our control.</p> <p>Interest rates are almost certain to rise globally, but the timing is uncertain. South Africa suffered a downgrade of its debt rating and should further downgrades occur, this could impact our ability to retain our ratings.</p>	<p>The group has a conservative approach to its debt profile, based on adequacy of internal free cash flow resources in servicing debt and the level of investments it makes.</p> <p>Debt-bearing capacity is reviewed and approved by the board.</p> <p>Group treasury adheres to a board-approved treasury policy.</p>
	<p>Should financial institutions where the group invests its surplus cash experience significant financial difficulty, the group could suffer losses. From time to time we are unable to extract surplus cash from African markets due to foreign currency restrictions.</p>	<p>Naspers has a treasury policy approved by the risk committee that monitors distribution of cash resources (and thus the impact of a loss) and the ratings of financial institutions. Cash resources are monitored. A treasury report is presented to the risk committee at financial reporting periods.</p> <p>Compliance to rules and regulations with regard to injecting and extracting cash flows.</p>
	<p>Dislocations in credit and capital markets may make it more difficult for us to borrow money or raise capital to finance expansion of our existing businesses or make acquisitions.</p>	<p>Constantly monitor credit markets to determine optimal time to arrange funding.</p> <p>Ensure the group has spare debt capacity to tide it over in times of difficulty.</p> <p>Significant transactions are brought to the board to consider in line with board-approved levels of authority.</p>

How we manage risk (continued)

Our risks	Issue	How we manage the issue
<p>Financial and related reporting risks (continued)</p>	<p>The group reports in US dollar. The weaker local currencies vs the relative stronger US dollar have a negative impact on our reported results.</p> <p>In addition, in video-entertainment and print markets the group has substantial input costs in foreign currencies.</p> <p>The movements of these currencies could have an impact on our income or expenses. Unrealised and realised currency translation gains or losses may distort the group's financial performance and position.</p>	<p>We comply with IFRS reporting and the financial statements are audited by independent auditors.</p> <p>Management explains the impact of changes in exchange rates on the financial results to stakeholders.</p> <p>The group has a treasury policy in place that deals with operational foreign currency exposures.</p>
<p>Human capital</p>	<p>We rely on the skills of key individuals with knowledge of our business and the markets in which we operate. Unanticipated loss of these individuals may disrupt the business. There is a global shortage of suitable talent.</p>	<p>Established a group-level human resources function to address recruitment, retention, development and reward considerations in an increasingly competitive global talent market.</p> <p>Succession plans are reviewed annually by the relevant human resources and remuneration committees.</p> <p>Introduced the Naspers Academy in 2013 to facilitate specific training of staff.</p>