FAQ – FY2018 Trading Statement and change in accounting policy

Change in accounting policy for put option liabilities

1. How were put options previously accounted for?

- Contractually, we have the discretion to settle put option liabilities in cash or by issuing Naspers N ordinary shares.
- IFRS does not explicitly address the accounting for put option liabilities that can be settled by issuing an entity's own shares and accordingly an accounting policy choice exists. These put option liabilities are either 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) 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.
- The change in commercial intent to settle put option liabilities in cash, has prompted us to reassess the current accounting approach to ensure it remains reflective of the underlying economics and settlement expectations.
- Although we retain the commercial option to settle these put options by issuing Naspers N ordinary shares, we expect that these items will likely be settled in cash in the near term and this is why we considered it appropriate to change our accounting policy.

2. How do you calculate the liability related to put options that gets included on the balance sheet?

- Put option liabilities are measured at amounts reflecting the estimated gross cash consideration payable on settlement.
- The liabilities are measured with reference to either (i) discounted cash flow (DCF) analyses or (ii) recent transaction prices as evidenced by funding rounds or other mergers and acquisitions activity (e.g. share purchases).

3. **How does this change affect the earnings of the company?**
   - We applied the change in accounting policy retrospectively and restated the comparative information in the provisional report and consolidated annual financial statements.
   - All remeasurements of put option liabilities are recognised as part of "Other finance (costs)/income-net" in the income statement.
   - Such remeasurement gains and losses are included in headline earnings, but are adjusted for in the calculation of core headline earnings.
   - Headline earnings per Naspers N ordinary share for the year ended 31 March 2017 has reduced by 135 US cents (from 179 US cents to 44 US cents), and for the six months ended 30 September 2017 reduced by 1 US cent (from 212 US cents to 211 US cents). Core headline earnings was not affected by the change in accounting policy for put option liabilities.

Change in treatment of Tencent's digital content amortisation when calculating trading profit and core headline earnings

1. **What is core headline earnings?**
   - Core headline earnings is a non-IFRS, Naspers-defined metric, presented as additional information to shareholders.
   - We consider it more reflective of our operating performance.

2. **Can you outline the adjustments made to headline earnings in arriving at core headline earnings?**

   We adjust headline earnings for the following items in arriving at core headline earnings:
   - **Equity-settled share-based payment expenses** on transactions where there is no cash cost to the company. These include those relating to share-based incentive awards settled by issuing treasury shares as well as certain share-based payment expenses that are deemed to arise on shareholder transactions.
   - **Deferred taxation** income recognised on the first-time recognition of deferred tax assets as this generally relates to multiple prior periods and distorts current period performance.
   - **Fair-value adjustments** on financial instruments (including put option liabilities) and unrealised currency translation differences as these items obscure the group's underlying operating performance.
   - **Gains and losses** (including acquisition-related costs) resulting from acquisitions and disposals of businesses as these items relate to changes in the composition of the group and are not reflective of its operating performance.
   - The **amortisation of intangible assets** related to intangible assets recognised in business combinations and acquisitions, as these expenses are not considered operational in nature.
   - 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.

3. **Why has the core headline earnings calculation changed?**

- Historically, for Tencent, we adjusted core headline earnings for all amortisation expenses, excluding software, as these expenses primarily related to intangible assets resulting from business combinations and other acquisitions.
- However, Tencent has, in recent years, made a strategic decision to develop a number of digital content offerings. 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.
- We therefore decided to refine the treatment of amortisation within the core headline earnings calculation to include the digital-content element of Tencent's amortisation expenses.
- Only amortisation expenses related to intangible assets identified in business combinations and other acquisitions continue to be adjusted for in the core headline earnings calculation.

4. **By how much has Tencent's FY17 contribution to core headline earnings changed?**

- We reported Tencent's contribution to core headline earnings as US$2.5bn in FY17. Under the new calculation basis, this has been reduced by US$298m to US$2.2bn.
- Core headline earnings per Naspers N ordinary share for the year ended 31 March 2017 has accordingly decreased by 69 US cents (from 406 US cents to 337 US cents).

5. **How do I reconcile Tencent's reported results with Tencent's contribution to Naspers core headline earnings?**

	1HFY18		FY17	
	Tencent results as reported (RMB'm)[1]	Naspers's share (US$'m)	Tencent results as reported (RMB'm)[1]	Naspers's share (US$'m)
Tencent profit attributable to equity holders	32 707	1 615	41 095	2 037
Adjustments to core headline earnings:	(2 105)	(99)	4 385	200
- Impairment of investments	2 410	119	5 425	268
- Share-based payments[2]	2 975	147	5 123	246
- Fair-value adjustments and gains and losses on acquisitions and disposals	(8 387)	(409)	(7 770)	(393)
- Profit/losses on disposals of non-current assets	-	-	60	3
- Amortisation charges[3]	897	44	1 547	76
Tencent's contribution to Naspers core headline earnings		1 516		2 237

[1] 100% of Tencent Holdings Limited's results as reported in its interim and annual reports.
[2] All share-based payments are adjusted for as no split between equity and cash-settled awards is provided in Tencent's results.
[3] Restated for Tencent's digital content amortisation.

6. **What exchange rate does Naspers use to convert associate and joint venture earnings contributions?**

   - Where applicable, the earnings of associates and joint ventures are translated into Naspers' reporting currency of US dollar, using the exchange rates prevailing on the dates of the underlying transactions.

7. **Are your adjustments to associates' and joint ventures' contributions to Naspers core headline earnings based on publicly available information or internal management accounts?**

   - The adjustments made with respect to listed associates are largely based on publicly available information.
   - It should, however, be noted that the group applies a three-month lag period when reporting the results of many of its associates and joint ventures (including its listed associates) and accordingly certain lag-period adjustments (and the associated taxation and non-controlling interests related thereto) are not based on publicly available information.
   - For unlisted associates and joint ventures, the group's adjustments are based on information received from these companies. Similarly, lag-period adjustments impact the calculation.

8. **Will the calculation of core headline earnings change in future?**

   - Core headline earnings serves to highlight the composition of our earnings and the nature of certain items contained therein which we believe warrants separate disclosure.
   - While it is important to us that this metric is comparable over time, we recognise the ever-changing nature of our business and the operations of our equity-accounted investments. This could mean that core headline earnings may change over time.
   - We do not anticipate any further significant adjustments to core headline earnings in the near term. It should be noted, however, that we adjust for items contained in the earnings of equity-accounted investments to the extent that the information is available to us – where new and more detailed information becomes available, we may highlight those items in the calculation.