Chief financial officer's review

Decisive management actions in the review period support our purpose and strategy to create value for shareholders and all stakeholders.

Basil Sgourdos
Chief financial officer

In presenting and discussing our performance, we use certain alternative performance measures not defined by IFRS, referred to as non-IFRS-EU financial measures, alternative performance measures or APMs. Such measures include economic-interest-basis information; trading profit; adjusted EBITDA; headline earnings; core headline earnings; and growth in local currency, excluding acquisitions and disposals. Segmental reviews in this report are prepared showing revenue on an economic-interest basis (which includes consolidated subsidiaries and a proportionate share of associated companies and joint ventures), unless otherwise stated.

Numbers included in brackets represent the equivalent measure on the basis of growth in local currency, excluding acquisitions and disposals. For further explanation of the use of APMs, refer to about this report in the governance section.

A reconciliation of the alternative performance measures to the equivalent IFRS metrics is provided in 'Other information – Non-IFRS financial measures and alternative performance measures' of these consolidated annual financial statements.

The operating environment in the fiscal year ended 31 March 2023 remained difficult and continued to be characterised by geopolitical and macroeconomic uncertainty. Amid that uncertainty, the group leveraged its strong financial footing and remained focused on building long-term sustainable value in local marketplaces across its main segments. After years of investment and growth, these segments have scaled meaningfully, creating clear paths to profitability for each. The group is committed to achieving consolidated Ecommerce profitability in the first half of FY25 while maintaining industry-leading levels of growth. We believe this will form a strong basis to continue delivering long-term value to our shareholders.

Please note that the growth rates discussed below represent a comparison between FY23 and FY22, unless otherwise stated. The percentages in brackets represent local currency growth, excluding mergers and acquisitions (M&A), and a clearer view of the underlying operating performance.

Operating review

Our Ecommerce businesses maintained topline momentum. Consolidated revenue from continuing operations grew 8% (20%) to US$6.8bn, with the biggest contributions from Food Delivery, and Payments and Fintech. Given a sharp rise in the cost of capital, M&A investment of US$2.5bn was considerably lower than in recent years. We continue to explore opportunities, but are cautious as private market valuations remain high.

Increased consolidated trading losses from continuing operations of US$844 reflect our focused approach to incremental investment in our Ecommerce growth extensions. Our businesses are focused on accelerating their paths to aggregate profitability while continuing to invest in high-conviction growth areas. We drove efficiencies and cut back aggressively on costs, including at a corporate level. This supported an improvement in trading loss from US$376m in the first half of the year to US$263m in the second half in our Ecommerce segment. For the year, growth extensions accounted for US$492m of the trading losses. With the decision on OLX Autos, cost focus and focused investment on opportunities with high conviction on future profitability, we expected a continued significant reduction in trading losses in each reporting period and are committed to delivering consolidated Ecommerce trading profit during the first half of the 2025 financial year.

The core Classifieds business delivered sustained growth and improved profitability through stable operating metrics and strong performance in Europe. The autos and real-estate verticals and pay-and-ship initiatives contributed to revenue growth. Like listed peers, the OLX Autos business faced significant challenges and the group announced its intention to exit this business. This decision was driven by a major deterioration of market conditions in this industry towards the end of the second half of the year. The exit of OLX Autos will lead to a sizeable improvement in Classifieds and Ecommerce profitability.

Food Delivery's performance remained strong, with revenue growing well ahead of peers and profitability improving meaningfully. iFood continued to benefit from sustained momentum in the core restaurant food-delivery businesses and improved extensions, with targeted and disciplined investment in quick commerce and grocery marketplace. Given the group's conviction in iFood, we acquired the remaining 33.3% stake of iFood from Just Eat Takeaway in November 2022 for €1.5bn, plus a contingent consideration of up to €300m.

Payments and Fintech continued to see meaningful growth in the core payment service provider (PSP) business and in its burgeoning Indian credit business. India's payments business grew on the back of increased wallet share in existing merchants and further diversification of the revenue base, both of which contributed to improved trading profit margin. The credit business in India continued to scale and improved its trading loss margin, now approaching breakeven, by diversifying funding sources and enhancing cost discipline and risk management. The Global Payments Operations (GPO) showed strong revenue growth, but profitability was impacted by a once-off loss provision. Excluding this provision, the GPO business remains profitable.

In Edtech, our majority-owned enterprise platforms, Stack Overflow and GoodHabitz, continued to grow but investments weighed on profitability. We invested in sales, product enhancements and global footprint expansion to better position the businesses, improving their overall product offerings and bringing scale to the platforms as corporations look for alternative ways to upskill and reskill their workforces. The current focus of investment is to leverage our strong generative AI (artificial intelligence) in-house capabilities to deliver significant value to customers.

Our robust balance sheet continues to provide liquidity and optionality with which to navigate a volatile environment. During the year, the balance sheet benefited from Tencent's distribution of JD.com and Meituan shares. The group exited the JD.com stake mid-year and received US$3.7bn. The Meituan shares were received on 24 March 2023. In April 2023, Tencent announced a 50% increase in its dividend, which resulted in a dividend of around US$758m received in June 2023.

In October 2022, the group completed the disposal of its Russian classifieds business, Avito, and received the proceeds of RUB151bn (US$2.4bn). Avito is treated as a discontinued operation in the financial results and thus excluded from continuing operations. For OLX Autos, the operations that are classified as held for sale and the operations that are closed down by 31 March 2023 have been presented as discontinued operations and are reviewed separately by the CODM. OLX Autos operations whose exit process has not been finalised as at 31 March 2023 are presented as continuing operations.

In all, the group ended the year in a strong position with US$16.6bn in gross cash and cash equivalents and US$16.0bn in debt.

We are pleased with the group's resilient performance and financial footing in a particularly difficult macroeconomic environment. As noted by the chair, in FY23, we initiated an open-ended repurchase programme of Prosus and Naspers shares to preserve value for shareholders and increase our net asset value (NAV) per share over time. As announced, this is being funded by the regular on-market sale of Tencent shares. In the review period, we sold 3% of our shareholding in Tencent (being 9.7% of the issued share capital), generating proceeds of US$10.7bn and reducing our holding to 26.16%. At the closing price of HK$385.8 on 31 March 2023, this stake is valued at US$123bn. We have been investors in Tencent for over 20 years, and remain confident in the future of the China tech industry and Tencent in particular. By 31 March 2023, Prosus had repurchased 152 797 117 Prosus shares and 4 152 285 Naspers shares, with a total value of US$10.5bn. Naspers bought 16 320 371 for an additional US$2.5bn, leading to a 4.5% accretion in the NAV per share. As long as the discount remains elevated, the group will continue to take advantage of this market aberration to create value for shareholders on a daily basis.

As part of this programme, Naspers received approval from the South African Reserve Bank to continue funding its buyback with regular sales of Prosus shares. By 31 March 2023, Naspers had sold 43 356 695 Prosus shares and bought back 16 320 371 of its own shares to the value of US$2.5bn. Over time, the group intends to execute the programme in a manner that will keep the respective Prosus and Naspers free-float shareholder groups' relative economic interest in the underlying assets aligned with their position at the start of the programme.

In the fiscal year ended 31 March 2023, and in coming years, the group remains committed to: bringing its consolidated Ecommerce portfolio to profitability; continuing the open-ended share repurchase programme while its shares remain at elevated discount levels; pursuing simplification of the overall corporate structure; and crystallising value for investors in our portfolio of assets. We believe that these drivers acting in concert will result in meaningful value creation and shareholder return.

Given the wide geographical span of our operations and significant M&A activity in ecommerce, reported earnings were materially impacted by foreign exchange movements and the effects of acquisitions and disposals.

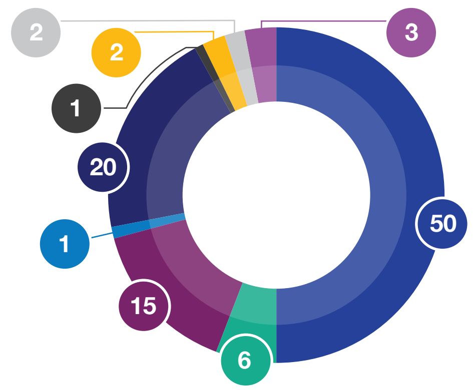
Financial review

Revenue

Our total revenue increased by US$484m, or 8%, from US$6 294m in the year ended 31 March 2022 to US$6 778m in the year ended 31 March 2023, primarily due to the biggest contributions to growth from Food Delivery, and Payments and Fintech.

We operate in countries and markets across the world, resulting in significant exposure to foreign exchange volatility. This can have an impact on reported revenues and costs as they are generally denominated in the local currency. The financial performance of our businesses is accounted for in the group in their respective functional currencies and translated to US dollar. The weakening of certain currencies against the US dollar in the year ended 31 March 2023 negatively affected our year-on-year performance by US$2 721m, or 43%, through the translation impact, specifically in the Classifieds, and Payments and Fintech businesses. Revenue growth expressed in local currency, excluding acquisitions and disposals, of 7% was achieved in the year ended 31 March 2023.

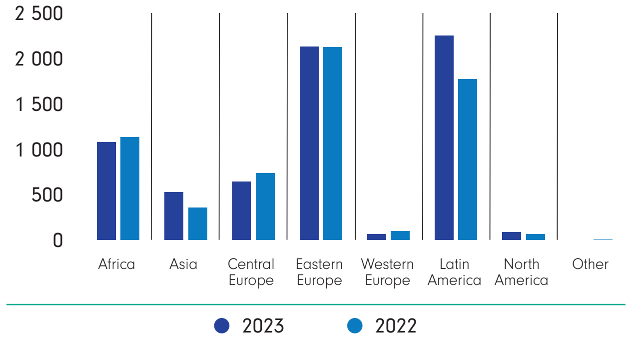
Total revenue (%)



	US$'m	%
Online sale of goods revenue	3 358	50
Classifieds listings revenue	436	6
Payment transaction commissions and fees	987	15
Mobile and other content revenue	52	1
Food-delivery revenue	1 366	20
Advertising revenue	99	1
Printing, distribution, circulation, publishing and subscription revenue	120	2
Edtech	134	2
Other revenue	226	3
Total	**6 778**	**100**

Online sales of goods revenue represented 50% and 56% of our total revenue in the year ended 31 March 2023 and the year ended 31 March 2022 respectively.

Revenue by geographic market (US$'m)



	2023	2022
Africa	**1 077**	1 135
Asia	**528**	358
Central Europe	**641**	736
Eastern Europe	**2 131**	2 124
Western Europe	**62**	99
Latin America	**2 252**	1 776
North America	**87**	65
Other	**0**	1
Total	**6 778**	6 294

Group revenue, measured on an economic-interest basis, was US$33.2bn, grew 7% in local currency, excluding acquisitions and disposals, driven by a healthy 19% (29%) increase in Ecommerce segment revenues.

Costs of providing services and sale of goods

The costs of providing services and sale of goods increased by US$221m, or 5%, from US$4 662m for the year ended 31 March 2022 to US$4 883m for the year ended 31 March 2023.

Platform/website hosting, warehousing costs and costs of goods sold on those platforms decreased by US$22m, from US$3 151m in the year ended 31 March 2022 to US$3 129m in the year ended 31 March 2023.

Delivery service costs increased from US$611m in the year ended 31 March 2022 to US$738m in the year ended 31 March 2023. This increase primarily related to logistics costs in the Food Delivery business on the back of increased gross merchandise value (GMV) of 27%.

Payment facilitation transaction costs increased by US$98m from US$605m in the year ended 31 March 2022 to US$703m in the year ended 31 March 2023. The increase primarily related to the Payments and Fintech business, particularly in India, where the increased transaction volumes with merchants resulted in increased transaction processing costs. In addition, following the growth in the Food Delivery business, payments facilitation costs increased accordingly.

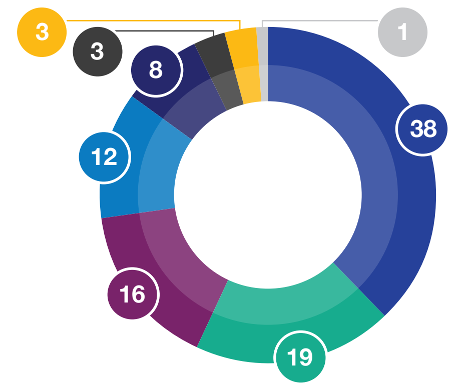
Selling, general and administrative costs

Selling, general and administrative costs increased by US$78m, or 3%, from US$2 454m in the year ended 31 March 2022 to US$2 532m in the year ended 31 March 2023.

General business administrative cost increased by US$64m from US$477m in the year ended 31 March 2022 to US$541m in the year ended 31 March 2023, primarily due to cost increases across all the segments as they scale.

Staff costs[1] decreased by US$73m, or 5%, from US$1 532m in the year ended 31 March 2022 to US$1 459m in the year ended 31 March 2023, primarily due to a decrease in share-based compensation costs. This was partially offset by increased salaries, wages and bonuses resulting from annual increases.

Total number of employees (%)



	Number of employees	%
Etail	10 366	38
Food Delivery	5 210	19
Classifieds	4 500	16
Payments and Fintech	3 447	12
Print	2 167	8
Edtech	859	3
Other	750	3
Corporate	274	1
Total	**27 573**	**100**

1 *Adjusted and restated to account for OLX Autos.*

Total permanent staff decreased from 28 300 at 31 March 2022 to 27 573 at 31 March 2023. Staff decreased particularly in the Classifieds and Etail segments. For further information regarding headcount, refer to the section on our people on page 79.

Cash share-based compensation costs decreased by US$344m due to changes in valuation assumptions, including share prices and volatility, as well as the impacts of allocations made and vesting of options.

Depreciation and amortisation

Depreciation and amortisation in selling, general and administration expenses increased by US$27m, or 14%, from US$197m in the year ended 31 March 2022 to US$224m in the year ended 31 March 2023. The increase in depreciation expenses primarily related to the acquisitions of property, plant and equipment, notably computer and office equipment, following growth in our Food Delivery businesses. Amortisation increased on the back of acquired intangible assets related to business combinations.

Finance income/(costs) – net

Net finance cost decreased by US$261m from US$349m in the year ended 31 March 2022 to US$88m in the year ended 31 March 2023.

Interest expense increased by US$164m, or 40%, from US$407m in the year ended 31 March 2022 to US$571m in the year ended 31 March 2023, as a result of full-year interest paid on the publicly traded bonds.

Interest income increased by US$425m, or 733%, from US$58m in the year ended 31 March 2022 to US$483m in the year ended 31 March 2023, due to increased cash balances on hand.

Interest expense relates primarily to interest on the publicly traded bonds. Interest income includes interest earned on bank accounts and short-term investments.

Other finance income increased from a finance loss of US$91m for the year ended 31 March 2022 to an income of US$19m for the year ended 31 March 2023. This relates primarily to a gain on foreign exchange differences related to the foreign exchange impacts on the translation of assets and liabilities offset by fair value losses of derivative instruments, which include options exercised, forward exchange contracts, derivatives embedded in lease agreements and the cross-currency interest rate swap.

Share of equity-accounted results

Our equity-accounted results in equity-accounted companies decreased by US$4 080m, or 44%, from US$9 256m in the year ended 31 March 2022 to US$5 176m in the year ended 31 March 2023. This is driven primarily by a decrease in our share of fair value gains on financial instruments of US$1.7bn, reduced gains on acquisitions and disposals of US$396m and additional impairment losses of US$827m. This was in addition to reduced profitability in Tencent of US$1.2bn and a decrease in Tencent's contribution to equity-accounted earnings as a result of the sale of this investment to fund the open-ended share repurchase programme.

Impairments

Impairment on goodwill increased from US$246m recognised in the year ended 31 March 2022 to US$684m in the year ended 31 March 2023. This relates to an impairment of US$560m recognised on Stack Overflow and US$116m recognised on the OLX Autos business unit.

Impairment on equity-accounted investments increased from US$588 recognised in the year ended 31 March 2022 to US$1 745 in the year ended 31 March 2023. This relates to an impairment of US$997m (recognised in the first half of the financial year related to Delivery Hero), US$301m related to Skillsoft and US$448m related primarily to unlisted equity-accounted investments.

Net gains on acquisitions and disposals

Gains on acquisitions and disposals of US$50m were recognised in the year ended 31 March 2023, compared to a loss of US$1 128m in the year ended 31 March 2022.

In March 2022 a loss of significant influence of US$1 137m was recognised on VK as a result of our resignation from the board of directors. This relates primarily to the reclassification of a portion of the group's foreign currency translation reserves related to VK from other comprehensive income to the income statement.

Taxation

Our tax expenses decreased by US$16m, or 25%, from US$64m in the year ended 31 March 2022 to US$48m in the year ended 31 March 2023.

Profit from discontinued operations

Discontinued operations consist of the group's Russian business and the autos business unit. In May 2022, as a result of the continued conflict in the region, the group announced its decision to exit its Russian business. Accordingly, Avito was presented as a discontinued operation. The transaction was completed in October 2022. The group recognised a gain on disposal of the subsidiary of US$568m. Discontinued operations for the OLX Autos business include the operations classified as held for sale and the operations closed down by 31 March 2023. Refer to note 36 for details of this business unit's disposal group.

Core headline earnings

Core headline earnings for the year were US$1.1bn, a decrease of -48% (-14% in local currency) or US$1.0bn, primarily due to lower contributions from our associates (US$1.3bn) of which US$1.1bn relates to Tencent. Refer to 'Other information – Non-IFRS financial measures and alternative performance indicators' of this report for a reconciliation of non-IFRS financial measures.

Cash and debt position

At year-end the group had a net cash position of US$0.6bn, comprising US$16.6bn in cash (including short-term investments) net of US$16.0bn of interest-bearing debt (excluding capitalised lease liabilities).

The group's free cash outflow (excluding Avito) was US$518m, a sizeable year-on-year improvement. This was due to improved working capital management and lower tax paid, specifically withholding tax due to fewer Avito dividends being received. Excluding OLX Autos, the free cash outflow was limited to US$138m. Tencent remains a meaningful contributor to our cash flow via a stable dividend of US$565m.

Basil Sgourdos
Chief financial officer

26 June 2023