ACTIVE SHAREHOLDER

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PROSUS NV

https://www.prosus.com/news/investors-general-meetings

Annual General Meeting
24th August 2022
Financial Year End: 31st March 2022

Proxies voted
The CDT Foundation
The Lewis Foundation
SCAT Social Change Assistance Trust

The major difference between the Prosus Integrated Annual Report (Report) and that of Naspers is that Prosus does not even have hyperlinks (that for a company that calls itself *a global consumer internet group*), other than that the colour changes – the pictures used are even the same. Consequently, much of this report will be the same as our report on Naspers. Not only does the Prosus report not have hyperlinks, but it is laid in Portrait format suitable for printing but not for reading on a computer screen.

The CEO states *We acknowledge that the discount has risen to an unacceptable level and that taking action to reduce it while still executing the group's strategy, should be a top priority*. Unfortunately, the various attempts to reduce that discount from the creation of Prosus to the sale of Tencent Shares and share repurchases have not met with any enthusiasm. A new and generous bonus will be paid to executive directors for any improvement in the discount!

The structure and control of the company is far from transparent and recent changes have added to the confusion rather than clarifying it. A detailed diagram is provided which shows us that control is vested in 2 private companies which have a voting pool and which have 0.03% of the shares but control 55% of the votes at the AGM, some directors also hold some of the shares with special voting rights increasing the 55% voting rights. Naspers holds 49% of the shares in one of those companies, thus the directors effectively control those shares. Some of the directors hold shares in the 2 companies and some of the directors are directors of the 2 companies. This structure appears to leave the directors only accountable to themselves and not to the shareholders.

The Naspers Report tells us the reason for this structure is to secure independence – *Differentiated voting rights and control structures are commonly used in the media and internet sectors to secure independence and deter raids and efforts to seize control*. However, we fail to understand how the defence of the independence is served by repeatedly railroading the remuneration and other resolutions through at AGMs despite massive opposition from shareholders with N shares (the free-float shares which have the major investment in the company). The Report does state some directors serve on the boards of the 2 companies which effectively control Naspers but that they act independently – it is hard to see how this can be the case

	Resolution	Rationale	Vote	Outcome of AGM
1	To discuss the annual report	It is pleasing that shareholders will be able to discuss the Report but questions will not be accepted at the meeting so we are not sure what form this discussion will take. Any questions must be submitted in advance of the meeting and presumably the board will select which questions it will answer.		
	Ordinary Resolution			
2	To approve the directors' remuneration report	We commend the company for disclosing the ratio of the average remuneration of other employees to that of the CEO 347:1. We note the explanations around the reason for the very high ratio largely revolve around the fact that the company operates in emerging markets where pay is low. The Financial Mail published a report stating that the average ratio in SA is 36:1 but they calculate Naspers's ratio as 200:1. This stark figure does bring into question the statement that the company does *operate in high-growth economies where socio-economic disparity can be large, societal fairness is very important to us*. The Report states that strong growth was seen across their e.commerce business with revenue growth of 56% with each segment reporting *strong growth and profitability*, however *aggregated trading losses increasing to US$1 120m, from just US$439m* an increase in losses of 255%. We are unable to understand how expanding these businesses contributed to such a high increase in losses and how this justified the generous bonuses paid. Other business highlights were not much more cheerful to this reader however we are told that the team *largely met the targets set in our business plans, including financial performance, except for achieving core headline earnings, including Tencent*. Frankly, it seems to require a large stretch of the imagination to state that targets were met given the financial highlights provided. Alternatively, the targets were rather soft.	AGAINST	FOR 86.5%

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<tr><th></th><th>Resolution</th><th>Rationale</th><th>Vote</th><th>Outcome of AGM</th></tr>
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<tr><th></th><th>Base Pay incl. benefits</th><th>STI</th><th>LTI</th><th>TOTAL</th></tr>
<tr><td>CEO</td><td>$ 1 574k</td><td>$ 897k</td><td>$ 13 412k</td><td>$ 15 883k</td></tr>
<tr><td></td><td>R22.994m</td><td>R 13.104m</td><td>R 195.928m</td><td>R 232.025m</td></tr>
<tr><td>CFO</td><td>$ 1 309k</td><td>$ 864k</td><td>$ 7 948k</td><td>$ 10 122k</td></tr>
<tr><td></td><td>R 19.122m</td><td>R 12.626m</td><td>R 116.108m</td><td>R 147.866m</td></tr>
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These are startling amounts, but we are told this is because Naspers is not a South African company but a global internet giant.
Rand amounts converted at the ruling rate on the last day of the financial year.
The Report includes detailed targets and the level achieved and the reward granted against each target. Excellent disclosure.
However, although we did not check each target, we did find it difficult to see how some achievements were justified – core headline earnings excluding Tencent we are told declined by 40% yet the maximum award was paid out through to maximum payout for achieving net zero Scope 1 and 2 emissions by next year. The only targets not met at least in part were: Revenue, Core Headline Earnings including Tencent, B2C and Holding Company discount.
Despite not achieving a few targets the CEO did reach Remco's desire that 90% of his income should be variable pay (STI plus LTI).
All shares due were vested despite the decline in the combined Naspers/Prosus share price – the price on 31 March 2018 for Naspers only (Prosus was created later) was R 2 842.82, and on 31 March 2022 R 1 664,12 plus Prosus share price of R 795.76 giving a total decline of 13.5%. We understood that the Share Options were dependent on a gain in the share price but clearly not.
Few shareholders will feel that their experience over the last 4 years has been in step with that enjoyed by the executives.
Given the massive discount at which Naspers shares trade, the board is proposing to introduce a special bonus for the CEO and CFO linked to reducing that discount. The bonus amounts will be $ 3 486k (R 50.925mand $ 2 000k (R 29.261m). Extraordinary!
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	Resolution	Rationale	Vote	Outcome of AGM
		We do commend the company for its greatly improved disclosure but do not consider the extraordinary remuneration is justified in terms of the policy or the results of the company. **In particular the fact that variable pay was per the target at 90% of total package suggests results were on target, something we find hard to accept.** **The bonus amounts to reduce the discount of approximately R 51m and R29m are extraordinary.** **We find the gross packages to be excessive.**		
3	To adopt the annual accounts for the financial year ended 31st March 2022	We could not find the full Annual Financial Statements (AFSs) and full report of the independent auditors on the company website. The company provides a Results Booklet which includes a summary of the Annual Financial Statements. We sent an email requesting a link to the "annual accounts" but rather than supply the full AFSs we were referred to the summary in the Report.. We cannot support a resolution for the adoption of the annual accounts if we are not provided with full AFSs.	AGAINST	FOR 99.9%
4	To make a distribution in relation to the financial year ended 31st March 2022	This resolution is for the distribution of a dividend of € 0.14 for every N ordinary share held. We do not have a problem with the distribution of profits by way of dividends. This resolution states that shareholders may elect to be paid the dividend or to receive a capital distribution equal to the amount of the dividend. If shareholders do not make an election, they will be paid a capital distribution. We do not like this complicated structure but do not oppose it.	FOR	FOR 99.8%
5	To discharge executive directors from liability	This resolution proposes that the executive directors be discharged from liability for the fulfilment of their tasks. We can see no reason why directors should be discharged of liability for executing their duties.	AGAINST	FOR 97.6%

	Resolution	Rationale	Vote	Outcome of AGM
6	To discharge non-executive directors from liability	This resolution proposes that the non-executive directors be discharged from liability for the fulfilment of their tasks. Again, we can see no reason why non-executive directors should be discharged of liability for doing their jobs.	AGAINST	FOR 97.6%
7	To adopt the remuneration policy of the executive and non-executive directors	The same 2 executive directors serve in their positions as CEO and CFO of both Naspers and Prosus. Their remuneration is split across the 2 companies and as such our assessment of the policy and implementation serve both companies. The Report notes that the majority of members must be independent but Naspers has its own view on what constitutes independence, a view which we do not share. We therefore find that this committee, as with the board, is insufficiently independent. We find Remco's (Remuneration Committee) statement that the Group delivered a solid set of financial results not entirely convincing given that it goes on to note various increases in revenue but that trading profit reduced by 10%, and that core headline earnings declined 40%. We do agree with their statement that there is a critical benefit to applying attention to reduction of the discount, particularly given the growth in this discount despite (or perhaps because of) the boards various cross-holding, share swop, and share repurchase, schemes designed, we are told, to reduce the discount. We are delighted to hear that Remco seeks to align remuneration with shareholder performance, and that that they strive for a higher level of N shareholder support. Remco clearly has noticed that 65% of those free float shares opposed the remuneration resolutions at the last AGM. Remuneration resolutions require the support of 75% of shareholders and we remain puzzled as to how the support of these resolutions, despite such massive opposition of free-float shareholders, can be justified in terms of defending the group against a takeover. Executive remuneration per King IV should be clearly aligned with company strategy. The difficulty we have is that the company strategy is not that clear to us. A table is provided which sets out to create a link between pay principles: Pay for Performance; Shareholder Alignment;	AGAINST	FOR 87.9%

	Resolution	Rationale	Vote	Outcome of AGM
		Incentivisation; Consistency; and Attract and Retain Talent. These principles are all good and fine but are not a strategy for the company. Pay as is normal consists of Base Pay including benefits, Short-Term Incentives (STIs) and Long-Term Incentives (LTIs). Base pay and gross pay are benchmarked and the list of companies used in benchmarking is provided. This is as it should be. We are not convinced that the table of companies used in benchmarking is appropriate: Amazon, Alphabet, Meta, PayPal, Netflix, Uber, Booking.com, Snap, Adyen, Twitter, Doordash, eBay, Wayfair Inc, Zillow Group, Zalando SE, Expedia Group Inc, Ocado Group, IAC/InterActiveCorp, Just Eat Takeaway.com, Adevinta and Auto Trader Group. Comparing Naspers to these companies may perhaps be aspirational rather than actual, and could have the effect of inflating executive remuneration. STIs are discretionary and the committee may apply judgement with discretion. We recognise that there may be occasions where discretionary intervention may be necessary but do not favour discretionary bonuses. This concern is exacerbated by our concern that the board and Remco are insufficiently independent. STI is limited to 100% of annual Base Pay and is payable in cash; this is the norm. Beyond that however, the policy only states that: 50% of the bonus opportunity is based on delivery of financial performance; must address the holding company discount; and shall include Environmental and sustainability goals. This is all rather vague and insufficiently detailed to comprise a policy. The LTI we are told makes up the bulk of executive remuneration and consists of 3 elements – so is rather complex. The 3 elements are: • PSUs (Performance Share Units), these are designed to increase the value of the internet business excluding Tencent. There is a 3-year cliff vesting and the only performance condition is the compound annual growth in the valuation of these businesses. PSUs are settled in		

	Resolution	Rationale	Vote	Outcome of AGM
		shares in the company. It is pleasing that the growth is relative to a comparator peer group (the same peer group is used as that in comparing base pay). • SARs (Share Appreciation Rights) are designed to incentivise the growth in value of the business units or an aggregation of underlying assets. The increase in value is a nett increase and losses are offset against gains. The growth is measured over a 4-year period and gains are settled in cash. • SOs (Share Options) these are based on any gain in the share price of the company over a 4-year period and are only delivered if there is a gain in the share price. We could see no down-side for executives in this scheme when there is a decline in the share price as we have seen over the last 4 years. We found these LTI rewards all fairly short-term with 3 or 4-year periods and would prefer to see some longer-term rewards. We did have some difficulty in appreciating the distinction between the metric for the PSUs and for SARs and found the following only: PSUs – measures the three-year CAGR valuation of the Ecommerce portfolio against a basket of global peers. SARs – measures the value creation of directly controllable factors in the Global Ecommerce portfolio. We are still not entirely clear. Malus and clawback provisions apply as do minimum shareholding requirements – as they should. **The Remco Chair does state that they have increased disclosure but the metrics for the determination of the rewards remain unclear.** **We did not find any clear link to the company strategy and struggled to find a link to some aspects of the stated objectives (such as the discount in the value of the group and the value of its investment in Tencent). We found the following statements in terms of company strategy: partner with local entrepreneurs to build global technology leaders, operate at the intersection of**		

	Resolution	Rationale	Vote	Outcome of AGM
		high-growth markets and technology to address major societal needs at scale, build sustainable leadership positions in high-growth markets, and build businesses with big potential to address societal needs. We do not see the link to this in the remuneration policy. **We commend the inclusion of ESG metrics but we are not told what those measures are.** **The LTIs seem to be heavily weighted to valuations of businesses rather than the performance of those businesses. Of course, a valuation should take into account performance but we need to see a clearer link to performance.** **Overall, the policy is insufficiently clear for us to support this resolution.** **Non-Executive Directors** – Naspers and Prosus share the same directors and their fees are split across the 2 companies. Our recommendations will be identical for both companies. The Report states Given the global scale and complexity of the businesses that the group operates and in which it has interests, it is important that we can attract and retain the best globally orientated board members. We do note under board appointments that far too many of the board are former employees and executives. Board fee increases were 5% in 2020, 0% in 2021, 5% in 2022 and the 5% for 2023 has been deferred to 2024. For a globally oriented business these increases are high pegged as they are in US$ where inflation has traditionally been low. The Report notes that non-executive director remuneration is not linked to the company's share price or performance. This is normal but in the case of Naspers it might perhaps have been better had it been directly linked given the performance over the past few years. Directors are paid a flat fee and no attendance fee or other performance fee. We consider the payment of an attendance fee as a minimum measure of performance. We recognise that this is of limited		

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		value as a measure but it is at least some measure and attendance at Naspers meetings is far from perfect. We have previously stated our opposition to the outrageous daily travel fee of $ 3 500 per day. At year-end this translated to R 51 130 per day in addition to costs which are refunded or paid by the company. This is grossly excessive by any standards. **We oppose the Naspers/Prosus board fees on the basis that they are excessive, increases relate in inflation in South Africa rather than the US and fees are set in US$, there is no measure of performance such as an attendance fee, and the daily travel allowance is excessive.**		
8	To appoint directors	Naspers and Prosus share a board and we therefore evaluate the Prosus board as we have for the Naspers board. There have been some changes to the board but unfortunately little to satisfy those who would like to see an independent board representing all shareholders. The company shares a board with Naspers and the cross-holding and control structure have become more confused rather than clearer under the guidance of this board. All directors of Prosus are listed as appointed in 2019. Given the dual board system in use, <u>we have taken a stricter view of this and considered the dates that directors were appointed to the Naspers board</u>. Governance remains our key concern with the company. Mr Bekker the long-standing Chair of Naspers and former CEO of that company is not classified as independent. Given that fact, the company is required in South Africa to appointe a LID (Lead Independent Director). This it has done. The board has a retirement policy but this does not appear to apply to all, in particular the former executive directors or directors of the 2 private companies which control Naspers/Prosus. The following have not retired from the Naspers board despite their very long service with Naspers (Bekker 25 yrs, Pacak 24 yrs, Sorour 20 yrs, Stofberg 25 yrs, Letele 9 yrs, Oliviera de Lima 9 yrs, Meyer 13 yrs, and Jafta 19 yrs). We		

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		found no explanation of this anomaly and note that this represents more than 50% of the board. We find that 4 out of 16 directors meet our assessment of independence and are not convinced by the boards assessment of its own independence Skills of the board do seem to be rather light on IT and technical skills for a leading internet-based company and the average age of the board at 62 years is not what we would expect of a company competing in such a young industry. The board has a reasonable level of gender diversity but racial diversity is not what we expect with 1 Black African director.		
8	To appoint Mrs Sharmistha Dubey as a non-executive director	Ms Dubey, 51, is a new appointee to the board. She is an American citizen of Indian origin. She does not appear to be over-committed. She is well qualified to serve on this board and we support her appointment.	FOR	FOR 99.9%
9.1	To reappoint Mr JP Bekker as a non-executive director	Mr Bekker, 69, is the long-standing Chair and former CEO of Naspers with board service of 25 years with that company. He holds shares in the company which are material to his wealth and cannot be considered independent. As Chairman, Mr Bekker has not welcomed questions from shareholders and does appear to be above the rules such as the board retirement policy. We do not consider him sufficiently independent to serve on a board which has so few independent directors.	AGAINST	FOR 95.7%
9.2	To reappoint Prof D Meyer as a non-executive director	Prof Meyer, 55, has been a director for 13 years and is a director of Naspers Beleggings – one of the companies that controls the voting shares of Naspers. She appears to be exempt from the retirement policy. We do not consider her sufficiently independent to represent all shareholders and given our concern regarding the independence of the board we oppose her reappointment.	AGAINST	FOR 99.0%

	Resolution	Rationale	Vote	Outcome of AGM
9.3	To reappoint Mr SJZ Pacak as a non-executive director	Mr Pacak, 67, is the former CFO of Naspers and served for many years alongside Mr Bekker in their executive positions and now on the board. Mr Pacak has 24 years' service as a director and holds shares in the company that are material to his wealth, he does not appear to be required to retire in terms of the company's retirement policy. Given this we are most surprised that Mr Pacak considers himself sufficiently independent to chair the audit committee. We do not consider him sufficiently independent to serve on a board which has so few independent directors.	AGAINST	FOR 98.6%
9.4	To reappoint Mr JDT Stofberg as a non-executive director	Mr Stofberg, 71, is another long-serving member of Naspers with service dating back to at least 1997. Another of the directors who does not appear to be required to retire in terms of the boards retirement policy. We do not consider him sufficiently independent to serve on the board.	AGAINST	FOR 99.1%
10	To appoint Deloitte Accountants B.V. as the auditor for the financial year ending 31 March 2024	Pricewaterhouse Coopers have been auditors to Naspers for over a century and in response the requirement to rotate auditors Naspers has appointed Deloitte as incoming auditors. Prosus of course has not been registered for many years. We therefore have no concern regarding the length of service as auditors of Deloittee. Deloitte are one of the big four international firms and are suitably skilled and experienced. We support their appointment.	FOR	FOR 99.8%
11	To designate the board of directors as the company body to issue shares	We, in general, do not support broad enabling the directors to issue shares. In this case where the board is insufficiently independent, we are firmly opposed to such a resolution. The company is simultaneously seeking permission to repurchase shares in the company and to cancel shares in the company which does seem to contradict the desire to issue new shares. This adds to our concern that there is no clear plan to deal with the discount in the share price.	AGAINST	FOR 95.1%

	Resolution	Rationale	Vote	Outcome of AGM
12	To authorise the board of directors to resolve that the Company acquires shares in its own capital	We do not in general support the acquisition of the company's own shares as this is likely to be prejudicial to the interests of the minority shareholders. In this case a reduction in the free-float shares cannot be seen to be in the interests of any but the A shareholders as it will strengthen their already tight control of the company. In addition, the directors are seeking the right to issue new shares. That together with this resolution and the next does add to the perception that the directors have no clear plan on how to reduce the discount in the share price. We oppose this resolution.	AGAINST	FOR 93.3%
13	To reduce the share capital by cancelling own shares	We do not in general support the cancellation of shares without good and proper reasons. Prosus is a recently created company and to be now cancelling shares together with the fact that the directors are seeking the right to issue new shares, and to repurchase shares, creates the perception that the directors have no clear plan on how to reduce the discount in the share price. We oppose this resolution.	AGAINST	FOR 99.8%

OUTCOME OF THE AGM

Prosus is listed in Amsterdam and as such is not subject to the regulatory requirements of the JSE. Specifically, it does not disclose the voting of the different classes of shares, we do know that Naspers would have had a number of ordinary and special resolutions rejected if it were not for the special voting arrangements whereby the A shares (seemingly controlled by the directors) have 1 000 votes each.

All resolutions were approved and meeting attendance was 93.6% which is extraordinary – again, we do not know to what extent if any this is affected by the different classes of shares.