The world in which we operate

Amid protracted global uncertainty, technology is transforming how people everywhere live their lives and creating value for all.

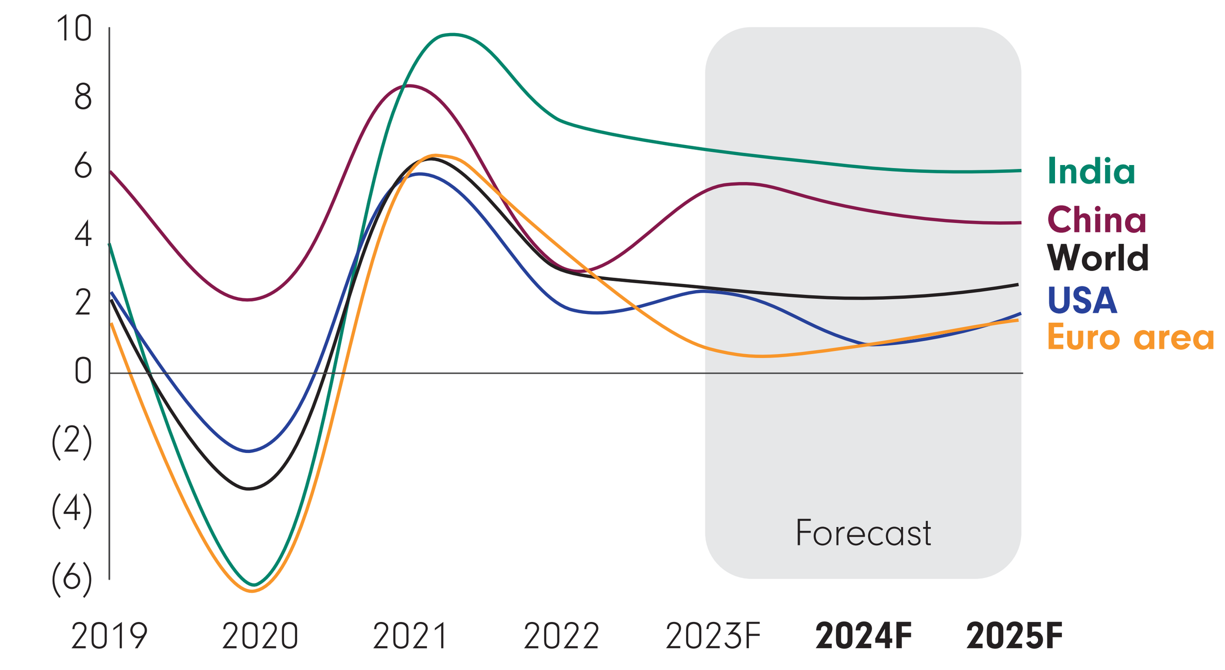
The economic cycle is distorted in the post-pandemic era, and forecasting is more difficult than usual. The complexities are multiple: inflation, although subsiding, remains above target levels; interest rates have climbed significantly with no signs of returning to the pre-2020 era; and the start-up funding scene is anaemic, with the IPO window largely shut. The geopolitical arena continues its shift towards a less stable, multipolar system, compounded by ongoing conflicts in Ukraine and Gaza and persistent US-China tensions. Yet, amid these challenges, 2023 and the beginning of 2024 saw a surprising bull run in United States public markets, fuelled by economic growth that surpassed expectations and the burgeoning promise of generative AI (GenAI).

We have identified key trends relevant to our business across the macroeconomic environment, technology and society, and investor landscape. Their implications have been distilled into four strategic priorities for the group (covered in our strategy on page 17).

Macroeconomic environment

A year ago, the global economic outlook was generally pessimistic. Different from these predictions, 2023 unfolded with a mix of positive and negative economic elements. The US defied expectations with a forecast real GDP growth rate accelerating to 2.5%[1] in 2023. India also exceeded growth forecasts, emerging as a bright light of economic optimism. Although struggling with low or negative growth in some regions like Germany, Europe successfully navigated its energy transition away from Russian gas. However, China was hindered by the property-sector crisis, elevated youth unemployment, subdued consumer confidence and challenging demographic developments.

Real GDP growth (%)



Source: EIU (Dec 2023).

Our world is changing rapidly and we have a role to play

Eight billion people and rising
Our footprint is in high-growth markets.

Global developments
The shared global challenges of climate change and rising inequalities demand action from all sections of society.

Increased pressure on natural resources
High-growth markets have the largest vulnerable populations and resource disparities.

Future of business
As a digital technology investor and operator, we have an opportunity and a responsibility.

Changes in capital markets
ESG investing is now the norm as investors demand and integrate environmental and social data into their decisions.

GenAI
We systematically explore emerging technologies and accelerate them across the group. Refer to the section on artificial intelligence on page 57.

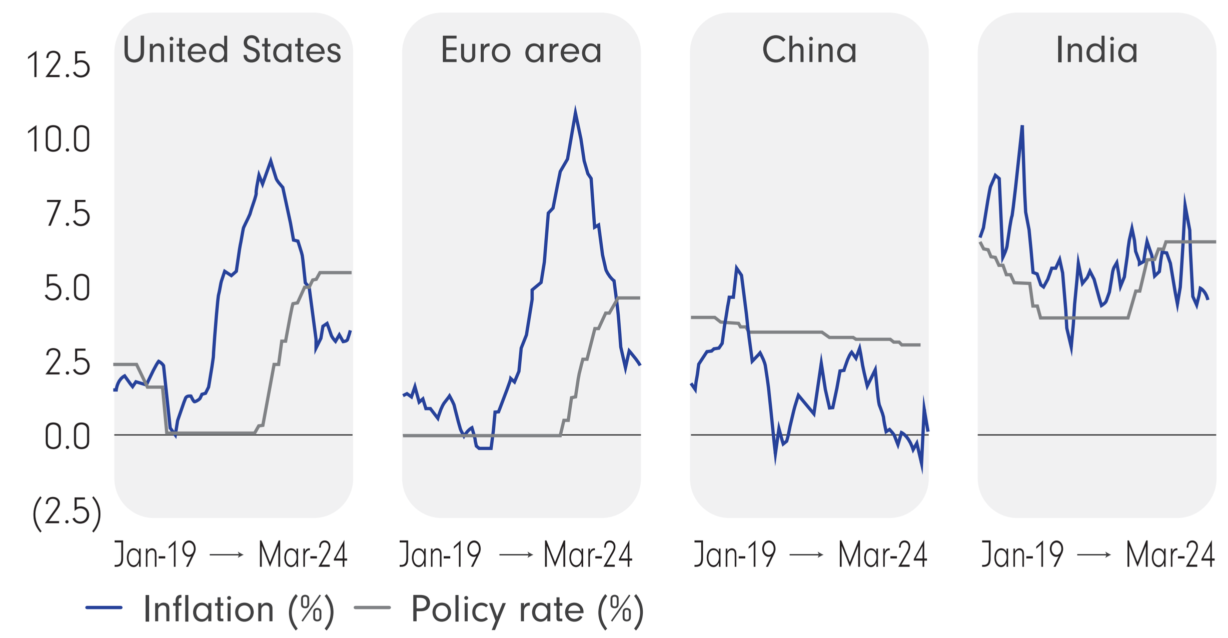
Decreasing inflation and elevated interest rates

The decrease in global inflation since its peak in 2022, achieved without surges in unemployment, has sparked cautious optimism.

However, the decrease seems to have plateaued and core inflation remains stubbornly high. Reaching the 2% US inflation target soon appears unlikely due to several factors, including the robust labour market.

Additionally, geopolitical tensions in the Middle East pose severe risks for inflation.

Inflation rates and policy rates in major economic areas (%)



Source: BIS, OECD, Trading Economics; note: for euro area, showing the main refinancing operations rate.

Major central banks have persisted in tightening monetary policies, aligning with the 'higher-for-longer' narrative. They are cautious about reducing rates too aggressively and prematurely. It is increasingly likely that interest rates will remain elevated and not revert to prior near-zero levels, as indicated by the increase in longer-term interest rates in 2023.

Public markets in 2023 and early 2024 were unexpectedly resilient. Following the challenging climate of 2022, key indexes such as the S&P 500 and Nasdaq recovered robustly to their historical peaks, driven among others by the fast development of GenAI.

The outlook is quite uncertain, if only due to geopolitical instability – undermining social cohesion, happiness and stability. Companies that address societal needs, like Prosus, have an important role in reducing inequality.

Diverging prospects across countries – India remains strong

While some macroeconomic drivers are similar across the world, there is wide variation in how economies have been performing.

China's GDP growth in calendar 2023 was 5.2%[1], driven by recovery from the zero-Covid-19 policy. A key area of concern for China is its property sector, which remains a drag on the economy. The sector's downturn has had ripple effects on overall economic growth and consumer confidence. China has been stimulating growth in new industries to reignite its economy.

In 2023, India's economy was a bright spot in the global economic landscape, with a robust GDP growth rate of 7.3%[1]. The country's outlook remains among the most promising of major economies.

Tech and society

The pandemic changed people's lives forever by accelerating the use of technology. However, the consequent growth of tech titans produced a countertrend of anti-tech sentiment and rising regulation. As a responsible tech operator and investor, we are well positioned to navigate and contribute to our changing world – creating value for our stakeholders.

1 Economist Intelligence Unit (EIU) March 2024.

The world in which we operate

Pandemic patterns changed the world

Since calendar 2020, people have redefined how they work, interact, shop and play, with much of this everyday activity moving online. As pandemic restrictions lifted, a new balance between online and offline has been established, but the shift to online is now entrenched. At the same time, sustainability has become a pressing concern given the mounting evidence of a climate crisis. In tandem with moving online, people are becoming far more climate aware and they increasingly expect companies to play their part.

The rise of a tech-enabled world

Technology is at the heart of transformation and tech titans have become the most valuable companies in the world. The changes evident in recent years are foundational and expected to endure. The way we live our lives, the way companies operate and market their products – people and businesses are relying more on technology.

Global crackdown on big tech

While the technology sector has growth potential, challenges remain given the world's increasingly critical and political view of the sector. Accordingly, regulation is growing. This is normal – historically, all new sectors have faced greater oversight as they grew. Broad technological advancements pose challenges for regulators who strive to maintain a balance between fostering innovation, protecting consumers, and addressing the unintended consequences of digital disruption at scale. Globally, regulators must balance their responsibility to protect citizens with encouraging innovation in new technologies and businesses while avoiding the risk of overregulation.

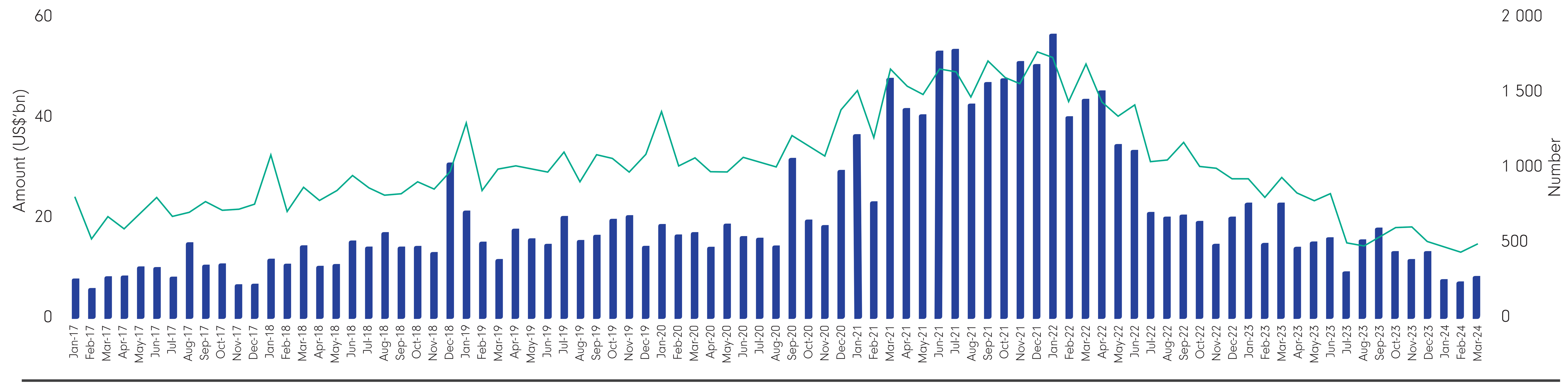
Investor landscape

Tech investment activity and valuations peaked in calendar 2021 when global capital was committed quickly on a broad range of investments. While private deal flow slowed significantly in calendar 2022 and 2023, we believe our focus remains true – we are confident that disciplined investment in exceptional entrepreneurs with outstanding tech-led businesses positions us to create long-term value.

Downturn in tech investing

According to PitchBook data and based on calendar years, global venture investment plummeted in 2022 and 2023 to the levels of 2017.

Private funding rounds* (US$'bn)



* Tech companies, excluding China, only primary funding rounds with announced amount.
Source: Prosus tech company database, PitchBook, CB Insights.

Against this background, we will remain a disciplined technology investor, creating sustainable value in our distinctive way.

Responding to the trends

In the past year, the world has been shaped by powerful macro, geopolitical, technology, regulatory and investor forces that have been challenging for all.

Despite the challenges, we remain focused on improving lives through technology and well positioned to capitalise on opportunities in this time of dislocation. We are prudent, focused and have an operator's advantage in assessing and optimising investments. Our global network is strong and our differentiation as patient, company-building capital is distinctive. We have well-established businesses in our portfolio as well as assets that can provide meaningful capital as we need it.

Momentum on ESG regulations

Globally, sustainability reporting requirements are increasing significantly and pose additional compliance challenges. In the European Union, the Corporate Sustainability Reporting Directive (CSRD) has been adopted into legislation, effective from 5 January 2023, that requires EU businesses – including qualifying EU subsidiaries of non-EU companies – to disclose their environmental and social impacts, and how their environmental, social and governance (ESG) actions affect their business. This includes large foreign multinational groups with EU subsidiaries. The cumulative effect of these expansions brings the total number of companies affected by CSRD to almost 50 000 (more than €22tn in net turnover). Non-EU companies fall under the scope of the CSRD if they meet certain criteria: (i) listed on an EU-regulated market with securities like stocks or bonds; or (ii) generate annual EU revenues surpassing €150m, with an EU branch annual net turnover of €40m (the EU turnover test). In India, Business Responsibility and Sustainability Reporting (BRSR) guidelines are a comprehensive ESG reporting framework that are mandatory for top 1 000 listed companies from 2023, with reasonable assurance required on a broad set of qualitative and quantitative disclosures. This also impacts our group significantly. Our companies are mostly private, which are at a disadvantage as they have yet to build their ESG disclosures to the level of mature European ESG counterparties, which is expected by the upcoming disclosure regulations. We have a strong commitment to transparency and to raising awareness about this deep divide between companies that have mature ESG disclosures to those starting on that journey.