

NET 1 UEPS TECHNOLOGIES INC  
Form 10-K  
August 28, 2014

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934  
For the fiscal year ended **June 30, 2014**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **000-31203**

**NET 1 UEPS TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

**Florida**  
(State or other jurisdiction  
of incorporation or organization)

**98-0171860**  
(I.R.S. Employer  
Identification No.)

**President Place, 4<sup>th</sup> Floor, Cnr. Jan Smuts Avenue and Bolton Road  
Rosebank, Johannesburg 2196, South Africa**  
(Address of principal executive offices)

Registrant's telephone number, including area code: **27-11-343-2000**

Securities registered pursuant to section 12(b) of the Act:

| Title of Each Class   | Name of Each Exchange on Which Registered |
|---|---|
| <b>Common Stock,<br/><u>par value \$0.001 per share</u></b> | <b><u>NASDAQ Global Select Market</u></b> |

Securities registered pursuant to section 12(g) of the Act:

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filings requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of December 31, 2013 (the last business day of the registrant's most recently completed second fiscal quarter), based upon the closing price of the common stock as reported by The Nasdaq Global Select Market on such date, was \$218,600,379. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of August 25, 2014, 47,819,299 shares of the registrant's common stock, par value \$0.001 per share were outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the definitive Proxy Statement for our 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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NET 1 UEPS TECHNOLOGIES, INC.

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## PART I

### FORWARD LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties that could cause our actual results to differ materially from those projected, anticipated or implied in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in Item 1A Risk Factors. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, would, expects, plan, anticipates, believes, estimates, predicts, potential or continue or the negative of such terms and other common terminology. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Annual Report. We undertake no obligation to release publicly any revisions to the forward-looking statements after the date of this Annual Report. You should carefully review the risk factors described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by us in our 2015 fiscal year, which runs from July 1, 2014 to June 30, 2015.

### ITEM 1. BUSINESS

#### Overview

We are a leading provider of payment solutions and transaction processing services across multiple industries and in a number of emerging economies.

We have developed and market a comprehensive transaction processing solution that encompasses our smart card-based alternative payment system for the unbanked and under-banked populations of developing economies and for mobile transaction channels. Our market-leading system can enable the billions of people globally who generally have limited or no access to a bank account to enter affordably into electronic transactions with each other, government agencies, employers, merchants and other financial service providers. Our universal electronic payment system, or UEPS, and UEPS/EMV derivative discussed below, uses biometrically secure smart cards that operate in real-time but offline, unlike traditional payment systems offered by major banking institutions that require immediate access through a communications network to a centralized computer. This offline capability means that users of our system can conduct transactions at any time with other card holders in even the most remote areas so long as a smart card reader, which is often portable and battery powered, is available. Our off-line systems also offer the highest level of availability and affordability by removing any elements that are costly and are prone to outages. Our latest version of the UEPS technology has been certified by the EuroPay, MasterCard and Visa global standard, or EMV, which facilitates our traditionally proprietary UEPS system to interoperate with the global EMV standard and allows card holders to transact at any EMV-enabled point of sale terminal or ATM. The UEPS/EMV technology has been deployed on an extensive scale in South Africa through the issuance of MasterCard-branded UEPS/EMV cards to our social welfare grant customers. In addition to effecting purchases, cash-backs and any form of payment, our system can be used for banking, healthcare management, international money transfers, voting and identification.

We also provide secure transaction technology solutions and services, by offering transaction processing, financial and clinical risk management solutions to various industries. We have extensive expertise in secure online transaction processing, cryptography, mobile telephony and integrated circuit card (chip/smart card) technologies.

Our technology is widely used in South Africa today, where we distribute pension and welfare payments, using our UEPS/EMV technology, to over nine million recipient cardholders across the entire country, process debit and credit card payment transactions on behalf of a wide range of retailers through our EasyPay system, process value-added services such as bill payments and prepaid airtime and electricity for the major bill issuers and local councils in South Africa, and provide mobile telephone top-up transactions for all of the South African mobile

carriers. We are the largest provider of third-party and associated payroll payments in South Africa through our FIHRST service. We provide financial inclusion services such as microloans, mobile transacting and prepaid utilities to our cardholder base.

Internationally, through KSNET, we are one of the top three value-added network, or VAN, processors in South Korea, and we offer card processing, payment gateway and banking value-added services in that country. Our XeoHealth service provides funders and providers of healthcare in United States with an on-line real-time management system for healthcare transactions.

Our Net1 Mobile Solutions, or N1MS, business unit is responsible for the worldwide technical development and commercialization of our array of web and mobile applications and payment technologies, such as Mobile Virtual Card, or MVC, Chip and GSM licensing and Virtual Top Up, or VTU, and has deployed solutions in many countries, including South Africa, Namibia, Nigeria, Malawi, Cameroon, the Philippines and Colombia.

All references to the Company, we, us, or our are references to Net 1 UEPS Technologies, Inc. and its consolidated subsidiaries, collectively, and all references to Net1 are to Net 1 UEPS Technologies, Inc. only, except as otherwise indicated or where the context indicates otherwise.

## **Market Opportunity**

*Services for the Under-banked:* According to the World Bank, three quarters of the world's poor, living on less than \$2 a day, have no bank account. As a result, 2.5 billion adults around the world, or 50% of the world's adult population, do not have bank accounts or access to financial services. This situation arises when banking fees are either too high relative to an individual's income, a bank account provides little or no meaningful benefit or there is insufficient infrastructure to provide financial services economically in the individual's geographic location. We refer to these people as the unbanked and the under-banked. These individuals typically receive wages, welfare benefits, money transfers or loans in the form of cash, and conduct commercial transactions, including the purchase of food and clothing, in cash.

The use of cash, however, presents significant risks. In the case of recipient cardholders, they generally have no secure way of protecting their cash other than by converting it immediately into goods, carrying it with them or hiding it. In cases where an individual has access to a bank account, the typical deposit, withdrawal and account fees meaningfully reduce the money available to meet basic needs. For government agencies and employers, using cash to pay welfare benefits or wages results in significant expense due to the logistics of obtaining that cash, moving it to distribution points and protecting it from theft.

Our target under-banked customer base in most emerging economies, and particularly in South Africa, has limited access to formal financial services and therefore relies heavily on the unregulated informal sector for such services. By leveraging our smart card and mobile technologies, we are able to offer affordable, secure and reliable financial services such as loans and insurance products to these consumers and alleviate some of the challenges they face in dealing with the informal sector.

With over 30 million cards issued in more than ten developing countries around the world, our track record and scale uniquely positions us to continue further geographical penetration of our technology in additional emerging countries.

*Online transaction processing services:* The continued global growth of retail credit and debit card transactions is reflected in the March 2014 Nilson Report, according to which worldwide annual general purpose card purchase dollar volume increased 19.3% to \$20.6 trillion in 2013, while transaction volume increased by 12.2% to 200 billion transactions and cards issued increased by 13.3% to 8.3 billion cards during the same period. General purpose cards include the major card network brands such as MasterCard, Visa, UnionPay and American Express. In South Africa we operate the largest bank-independent transaction processing service through EasyPay, where we have developed a suite of value-added services such as bill payment, airtime top-up, gift card, money transfer and pre-paid utility purchases that we offer as a complete solution to merchants and retailers. In South Korea, through KSNET, we are one of the top three VAN processors and we provide card processing, banking value-added services and payment gateway functionality to more than 225,000 retailers. Our expertise in on-line transaction processing and value-added services provides us with the opportunity to participate globally in this rapidly growing market segment.

*Mobile Payments:* Despite lacking access to formal financial services, large proportions of the under-banked customer segment own and utilize mobile phones. The World Bank's research has confirmed the rising popularity of using mobile phones to transfer money and for banking that often does not require setting up an account at a brick-and-mortar bank. The World Bank has stated that mobile banking, which allows account holders to pay bills, make deposits or conduct other transactions via text messaging, has rapidly expanded in Sub-Saharan Africa, where traditional banking has been hampered by transportation and other infrastructure problems.

Mobile phones are therefore increasingly viewed as a channel through which this underserved population can gain access to formal financial and other services. Today, most mobile payment solutions offered by various participants in the industry largely provide access to information and basic services, such as allowing consumers to check account balances or transfer funds between existing accounts with the financial institution, but they offer limited functionality and ability to use the mobile device as an actual payments and banking instrument. Our UEPS and MVC solutions are enabled to run on the SIM cards in mobile phones and provide our users with secure payment and banking functionality.

*Healthcare:* Given the lack of broad-based healthcare services in many emerging economies, governments are increasingly focused on driving initiatives to provide affordable and accessible healthcare services to their populations. Similarly, countries such as the United States are embarking on expansive overhauls of their existing healthcare systems.

Through our XeoHealth service we utilize our real-time rules engine and claims processing technology to offer governments, funders and providers of healthcare a comprehensive solution that offers a completely automated healthcare rules adjudication and payment system, reducing both cost and time.

## **Our Core Proprietary Technologies**

### ***UEPS and UEPS/EMV***

We developed our core UEPS technology to enable the affordable delivery of financial products and services to the world's unbanked and under-banked populations. Our native UEPS technology is designed to provide the secure delivery of these products and services in the most under-developed or rural environments, even in those that have little or no communications infrastructure. Unlike a traditional credit or debit card where the operation of the account occurs on a centralized computer, each of our smart cards effectively operates as an individual bank account for all types of transactions. All transactions that take place through our system occur between two smart cards at the point of service, or POS, as all of the relevant information necessary to perform and record transactions reside on the smart cards.

The transfer of money or other information can take place without any communication with a centralized computer since all validation, creation of audit records, encryption, decryption and authorization take place on, or are generated between, the smart cards themselves. Importantly, the cards are protected through the use of biometric fingerprint identification, which is designed to ensure the security of funds and card holder information. Transactions are generally settled by merchants and other commercial participants in the system by sending transaction data to a mainframe computer on a batch basis. Settlements can be performed online or offline. The mainframe computer provides a central database of transactions, creating a complete audit trail that enables us to replace lost smart cards while preserving the notional account balance, and to identify fraud.

Our UEPS technology includes functionality that allows the following:

- Transparent and automatic recovery of transactions;
- Transaction cancellation;
- Refunds;
- Multiple audit trails;
- Offline loading and spending;
- Biometric identification;
- Continuous debit;
- Multiple wallets;
- Morphing of other common payment systems, such as EMV;
- Automatic credit;
- Automatic debit;
- Interest calculations; and
- Milking / batching of large transaction volumes in an off-line environment.

Our UEPS technology incorporates the software, smart cards, payment terminals, back-end infrastructure and transaction security to provide a complete payment and transaction processing solution.

Within industry verticals, our UEPS technology is applied to electronic commerce transactions in the fields of social security, wage distribution, banking, medical and patient management, money transfers, voting and identification systems. Market sectors include government and non-government organizations, or NGOs, healthcare, telecoms, financial institutions, retailers, petroleum and utilities.

Our latest version of the UEPS technology is interoperable with the global EMV standard, allowing the cards to be used wherever EMV cards are accepted, while also providing all the additional functionality offered by UEPS. This UEPS/EMV functionality is especially relevant in areas where there is an established payment system and provides flexibility to our customers to be serviced at any POS, including point of sale devices and ATMs.



***Mobile Virtual Card***

We have developed an innovative mobile phone-based payment solution, namely MVC, which enables secure purchases with no disruption to existing merchant infrastructures and significant incentives for all stakeholders.

The MVC solution utilizes existing and traditional payment methods but enhances them by replacing plastic card data with a one-time-use virtual card data, hence eliminating the risk of theft, phishing, skimming, spoofing, etc. The virtual card data replaces, digit-for-digit, the credit (or debit) card number, the expiration date and the card verification value with only the issuer bank identification number (first 6-digit) remaining constant.

The MVC solution uses the mobile phone to generate virtual cards offline. The mobile phone is the most available, cost-effective, secure and portable platform for generating virtual cards for remote payments (online purchasing, money transfers, phone and catalogue orders).

Following a simple registration process, the virtual card application is activated over-the-air, enabling the phone to generate virtual card numbers completely off-line. MVCs are used like traditional plastic credit or debit cards, except that as soon as the transaction is authorized, the generated card number expires immediately. While MVC has been focused primarily on card-not-present transactions for internet payments in our initial deployments, we have the ability to customize the software as industry acceptance increases to incorporate new trends such as presentation through near field communication, or NFC, or Quick Response, or QR, Codes.

Consumers can easily generate a new card on their mobile phone to shop on the internet or to place a catalogue or telephone order. MVCs are completely secure and can also be sent in a single click to family, friends, and service providers. Once the authorization request reaches the issuing bank processor, our servers decrypt the virtual card data, authenticate the consumer and pass the transaction request to the card issuer for authorization. MVC can be offered as a prepaid solution or directly linked to a subscriber's credit or debit card or other funding account. Subscribers can load prepaid virtual accounts with cash at participating locations, or electronically via their bank accounts or via direct deposit.

The benefits of MVC include, for:

- *Card issuers* increased transactional revenues from existing accounts, driving more transactional revenues and elimination of fraudulent card use.
- *Mobile network operators* revenues from payments, reduced churn, opportunities for powerful co-branding schemes.
- *Consumers* convenience, peace of mind, ease of use, rewards.
- *Merchants* elimination of charge-backs and fraud at no extra cost.

## Our Strategy

We intend to provide the leading transacting system for the billions of unbanked and under-banked people in the world to engage in electronic transactions, as well as to provide our transaction processing, value-added services processing, new secure mobile payment technologies and healthcare processing services globally. To achieve these goals, we are pursuing the following strategies:

*Build on our significant and established South African infrastructure* In South Africa, we are one of the leading independent transaction processors, the national provider of social welfare payment distribution services to the country's large unbanked and under-banked population, the largest third-party processor of retail merchant transactions and the leading processor of third-party payroll payments. We believe that our large cardholder base, specialized technology and payment infrastructure, together with our strong government and business relationships, position us at the epicenter of commerce in the country.

We believe that we are well-positioned to continue to gain market share and build upon the critical mass that we have developed in South Africa and have identified the following opportunities to continue to drive growth in our South African business:

- *Government focus on expansion of social benefits* As a result of the South African government's focus on the provision of social grants as a core element of its social assistance and poverty alleviation policies, and our SASSA contract to distribute such grants on a national basis, we believe that we are in a position to provide services to over 50% of the country's adult population. Through our national distribution platform and relationships with a number of leading companies across multiple industries, we believe we can provide many of the services consumed by our cardholders who would otherwise have to rely on the informal sector.
- *Increasing adoption of existing services* Our technology supports a variety of other products and smart card to smart card, or S2S, services that expand the use of our technology and provide us with new sources of transaction-based revenues. During the last several years, we have introduced these new products and

financial services in South Africa for existing and newly-enrolled cardholders. We have installed our POS terminals in thousands of mostly rural merchant locations throughout the country, which allows recipient cardholders to receive their grants at these locations and transact business with the retailers using our smart card. We have enabled our cards to be compliant with international EMV standards, which will allow our cardholder base to purchase goods and services at merchant POS locations that currently accept MasterCard-branded cards and all South African ATMs. This additional functionality allows us to significantly expand the number of terminals and ATMs that use our smart card, capturing fees from new transactions and positioning our cards to be used by a larger share of the banked population.

*Introduction of new services* We are also poised to benefit from the introduction and adoption of new services across our various platforms, which we believe will generate significant incremental transaction fee revenue from current and new users at a relatively low cost to us. Some of these services include:

- o *Value-added services through multiple EasyPay channels* EasyPay is the largest bank-independent financial switch and merchant processor in South Africa for credit and debit card transactions. Our technology also allows us to provide a variety of additional, value-added payment services, such as bill payment, prepaid mobile top-up, prepaid utility services and gift cards, that we sell into our existing card holder base as well as to new customers. We have developed additional platforms to access EasyPay's offerings such as self service kiosks, or EasyPay Kiosk, and web and mobile phone applications to create a larger, seamless, value-added payments eco-system.
- o *Third-party payments from payroll processing through FIHRST* Through our FIHRST service, we offer employers an easy and flexible method of making payments to employees and payroll-related creditors. By combining the FIHRST service and the EasyPay product suite, we can provide employees with the ability to pay their bills or purchase prepaid airtime and utilities as a payroll deduction or by providing them with credit facilities.

*Using our first wave/second wave approach to expand into new markets* We use what we refer to as a first wave/second wave approach to market expansion. In the first wave, we seek to identify an application for which there is a demonstrated and immediate need in a particular territory and then sell and implement our technology to fulfill this initial need. As a result, we should achieve the deployment of the required technological infrastructure as well as the registration of a critical mass of cardholders or customers. During this phase, we should generate revenues from the sale of our software and hardware devices, as well as ongoing revenues from transaction fees, maintenance services and the use of our biometric verification engine. Once the infrastructure has been deployed and we achieve a critical mass of customers, we intend to focus on the second wave, which should allow us to use this infrastructure to provide users, at a low incremental cost to us, with a wide array of financial products and services for which we can charge fees based on the value of the transactions performed.

*Leveraging our new payment technologies to gain access to developed and developing economies* While our business has traditionally focused on marketing products and services to the world's unbanked and under-banked population, we have developed and acquired proprietary technology, with a specific focus on mobile payments, that is particularly relevant to developed economies. Our MVC application for mobile telephones, for example, is designed to eliminate fraud associated with card-not-present credit card transactions effected by telephone or over the internet and are prevalent in developed economies such as the United States. We believe that mobile payments, mobile wallets and the related applications should be a critical component of a payment processor's future strategy and we have dedicated a significant portion of our research and development resources to ensure that we remain at the forefront of this rapidly evolving technological space. While some of our mobile solutions are more relevant in developed markets such as the United States, we have also experienced significant demand for our mobile payment solutions from developing economies, where mobile transacting is seen as the best solution to rapidly leapfrog the antiquated payment solutions typically available in these countries at minimal cost.

*Pursue strategic acquisition opportunities or partnerships to gain access to new markets or complementary product* We will continue to pursue acquisition opportunities and partnerships that provide us with an entry point for our existing products into a new market, or provides us with technologies or solutions complementary to our current offerings.

## **Our Business Units**

Our company is organized into the following business units.

**Cash Paymaster Services ( CPS )**

Our CPS business unit is based in Johannesburg, South Africa, and deploys our UEPS/EMV Social Grant Distribution technology to distribute social welfare grants on a monthly basis to over nine million recipient cardholders in South Africa. These social welfare grants are distributed on behalf of the South African Social Security Agency, or SASSA. During our 2014, 2013 and 2012 fiscal years, we derived approximately 27%, 42%, and 41% of our revenues respectively, from CPS social welfare grant distribution business.

CPS provides a secure and affordable transacting channel between social welfare grant recipient cardholders, beneficiaries, SASSA and formal businesses. CPS enrolls social welfare grant recipient cardholders and, as appropriate, the respective beneficiaries by issuing the recipient cardholder with a UEPS/EMV smart card that digitally stores their biometric fingerprint templates on the card, enabling them to access their social welfare grants securely at any time or place and providing them with a fully-fledged bank account.

The smart card is issued to the recipient cardholder on site and utilizes optical fingerprint sensor technology to identify and verify a recipient cardholder. The recipient cardholder simply inserts a smart card into the POS device and is prompted to present his fingerprint. If the fingerprint matches the one stored on the smart card, the smart card is loaded with the value created for that particular smart card. Additionally, during enrolment we capture the recipient cardholder's voice print to perform biometric verification when using channels such as ATMs and traditional POS terminals that normally do not have fingerprint readers.

The smart card provides the holder with access to all of the UEPS functionality, which includes the ability to have the smart card funded with pension or welfare payments, make retail purchases, enjoy the convenience of pre-paid facilities and qualify for a range of affordable financial services, including insurance and short-term loans as well as standard EMV transactional capabilities to operate wherever MasterCard is accepted. The smart card also offers the card holder the ability to make debit order payments to a variety of third parties, including utility companies, schools and retail merchants, with which the holder maintains an account. The card holder can also use the same smart card as a savings account.

Our UEPS/EMV Social Grant Distribution technology provides numerous benefits to government agencies, recipient cardholders and beneficiaries. The system offers government a reliable service at a reasonable price. For recipient cardholders and, as appropriate, the beneficiaries, our smart card offers financial inclusion, convenience, security, affordability, flexibility and accessibility. They can avoid long waiting lines at payment locations and do not have to get to payment locations on scheduled payment dates to receive cash. They do not lose money if they lose their smart cards, since a lost smart card is replaceable and the biometric fingerprint or voice identification technology helps prevent fraud. Their personal security risks are reduced since they do not have to safeguard their cash. Recipient cardholders have access to affordable financial services, can save money on their smart cards and can perform money transfers to friends and relatives living in other provinces. Finally, recipient cardholders pay no transaction fees when they use our infrastructure to load their smart cards, perform balance inquiries, purchase goods or effect monthly debit orders. For us, the system allows us to reduce our operating costs by reducing the amount of cash we have to transport.

This business unit has been allocated to our South African transaction processing and Financial inclusion and applied technologies reporting segments.

## **KSNET**

Our KSNET business unit is based in Seoul, South Korea, and is a significant payment solutions provider in South Korea, has the broadest product offering in the country, a base of approximately 225,000 merchants and an extensive direct and indirect sales network. KSNET's core operations comprise of three project offerings, namely card VAN, payment gateway, or PG, and banking VAN. KSNET is able to realize significant synergies across these core operations because it is the only payment solutions provider that offers all three of these offerings in South Korea. Over 90% of KSNET's revenue comes from the provision of payment processing services to merchants and card issuers through its card VAN.

KSNET's core product offerings are described in more detail below:

- *Card VAN* KSNET's card VAN offering manages credit and other non-cash alternative payment mechanisms for retail transaction processing for a wide range of merchants and every credit card issuer in South Korea.

Non-cash alternative payment mechanisms for which KSNET provides processing services include all credit and debit cards and e-currency (K-cash and TMoney). KSNET also records cash transactions for the South Korean National Tax Service in the form of cash receipts.

- *PG* KSNET offers PG services to the rapidly growing number of merchants that are moving online in South Korea. PG provides these merchants with a host of alternative payment solutions including the ability to accept credit and debit cards, gift and other prepaid cards, and bank account transfers. PG also provides virtual account capabilities. PG offers us an attractive growth opportunity as e-commerce transactions represent an increasing share of payments, driven by increased wire-line and wireless broadband penetration, an increasing number of merchants moving online, and the enhanced security of online transactions driving consumer acceptance. We believe that KSNET can become the leading provider in the PG industry by leveraging its existing merchant base and entering into new markets earlier than competitors.

- *Banking VAN* KSNET's banking VAN operations currently include account transaction processing services, payment and collections to banks, corporate firms, governmental bodies, and educational institutions. We distinguish card VAN from banking VAN because in the South Korean VAN market, banking VAN is recognized as a distinct service from card VAN. We are the only card VAN provider that also provides banking VAN services. Because the banking VAN business industry is at a nascent stage, the market at this time is relatively small.

This business unit has been allocated to our International transaction processing reporting segment.

### **EasyPay**

Our EasyPay business unit operates the largest bank-independent financial switch in South Africa and is based in Cape Town, South Africa. EasyPay focuses on the provision of high-volume, secure and convenient payment, prepayment and value-added services to the South African market. EasyPay's infrastructure connects into all major South African banks and switches both debit and credit card EFT transactions for some of South Africa's leading retailers and petroleum companies. It is a South African Reserve Bank, or SARB, approved third-party payment processor. In addition to its core transaction processing and switching operations, EasyPay provides a complete end-to-end reconciliation and settlement service to its customers. This service includes dynamic reconciliation as well as easy-to-use report and screen-query tools for down-to-store-level, management and control purposes.

The EasyPay suite of services includes:

- *EFT* EasyPay switches credit, debit and fleet card transactions for leading South African retailers and petroleum companies;
- *EasyPay bill payment* EasyPay offers consumers a point-of-sale bill payment service which is integrated into a large number of national retailers, the internet, self service kiosks and mobile handsets. EasyPay processes monthly account payment transactions for a number of bill issuers including major local authorities, telephone companies, utilities, medical service providers, traffic departments, mail order companies, banks and insurance companies;
- *EasyPay prepaid electricity* This service enables local utility companies such as Eskom Holdings Limited and a growing number of local authorities on a national basis to sell prepaid electricity to their customers;
- *Prepaid airtime* EasyPay vends airtime at retail POS terminals for all the South African mobile telephone network operators;
- *Electronic gift voucher* EasyPay supports the electronic generation, issuance and redemption of paper or card-based gift vouchers;
- *EasyPay licenses* EasyPay enables the issuance of new South African Broadcasting television licenses and the capturing of existing license details within retail environments via a web-based user interface;
- *Third party switching and processing support* EasyPay switches transactions from retail POS systems to the relevant back-end systems;
- *Hosting services* EasyPay's infrastructure supports the hosting of payment or back-up servers and applications on behalf of third parties, including utility companies;
- *EasyPay Kiosk* We have developed a biometrically enabled self service kiosk that allows our customers to access all the value-added services provided by EasyPay and to create and load their EasyPay virtual wallets with value; and
- *EasyPay Web and Mobile* This service enables EasyPay customers to access all the value-added services provided by EasyPay, such as bill payments and the purchase of prepaid airtime and utilities through a secure website that may be accessed through personal computers or through mobile handsets.

EasyPay provides 24x7 monitoring and support services, reconciliation, automated clearing bureau settlement, reporting, full disaster recovery and redundancy services.



EasyPay is also responsible for marketing our secure, integrated POS payment products and systems in South Africa.

This business unit has been allocated to our South African transaction processing reporting segment.

**Net1 Mobile Solutions**

Our N1MS business unit is managed from Johannesburg, South Africa with business development support branches in the United States and India. This business unit is responsible for the technical development and commercialization of our array of web and mobile applications and payment technologies.

NIMS offers an array of products and services that cater for the needs of the global market and comprises of the following key business lines:

- *Third Party Payments* Through FIHRST we are the largest provider of third party and payroll associated payments in South Africa, servicing over 1,800 employee groups that represent approximately 600,000 employees. Our market leading position is due to our ability to move informed money (the movement of money and its corresponding data to third party organizations). This allows us to provide one of the most comprehensive suites of financial services, ranging from garnishee orders through to payment modules and collections. We also offer the PayPlus service, providing employees with access to prepaid airtime, electricity and other value added services, or VAS.
- *Prepaid Vending* The Prepaid business line handles multichannel distribution of electronic products and services aimed at a variety of markets. Across Africa and abroad, our VTU solutions open up a separate revenue stream for Mobile Network Operators, or MNOs, and other clients. The stability and scalability of our VTU offerings enables our customers to facilitate more than 100 million monthly transactions.
- *MVC & Verification* Our internationally patented MVC technology is a market leading innovation which addresses the needs of the modern mobile payment market. It is the easiest, most secure and most convenient way to pay for goods and services online directly from a mobile phone. Our MVC technology provides a completely secure, off-line payment solution for card-not-present transactions, such as payments made for internet purchases. The MVC technology runs as an application on any mobile phone and utilizes our patented cryptographic card generator to secure any payment transaction. The advent of new technologies such as NFC or QR Codes also enables the utilization of our MVC technology for card present payments.
- *MNOs Solutions* We provide specialized solutions for MNOs that boost average revenue per user, increase subscriber activity, and collect valuable profiling data. Our solutions range from Advance Airtime and Mobile Wallet technology, through to SMS Mega Promotions, tailor-made for each MNO with a focus to maximize subscriber activity, brand perception and profitability.
- *Chip & SIM* Through our partnerships with MNOs as well as Card and Semiconductor manufacturers, we provide a strong lineup of feature rich chip and SIM solutions. All of these include our wide range of GSM Masks and custom software that enables mobile telephony, transactions and on-chip VAS. We support the above chip and SIM developments with dedicated chip-card based commerce frameworks. These incorporate POS, terminal and interbank transaction switching and clearance aimed at national government, petroleum and retail industries.
- *Custom Development* The Custom Development business line produces solutions that span across Web, Mobile, Server, POS and Desktop environments. These solutions have been developed by addressing the needs of various industries and now form an integral pillar in our product and service portfolio. We develop both client-facing and background services, with coverage on every relevant platform including Mobile (Android, iOS, BlackBerry, Windows Phone 8 and J2ME) and Web (with full cross-browser compatibility).
- *Cryptography* Our Cryptography business line focuses on security-orientated products which include our range of PIN encryption devices, card acceptance modules and Hardware Security Modules. These focus on financial, retail, telecommunications, utilities and petroleum sectors. In order to constantly enhance and improve our product offerings, special attention is placed on the development of security initiatives including TDES, EMV and PCI. We are a member of the STS association, actively participating in developing new and improved standards that address the needs of the modern cryptographic market.

This business unit has been allocated to our South African processing, International transaction processing, and Financial inclusion and applied technologies reporting segments.

### **Financial Services**

We have developed a suite of financial services that is offered to customers utilizing our payment solutions. We are able to provide our UEPS/EMV cardholders with competitive microfinance, life insurance, transactional and money transfer products based on our understanding of their risk profiles, demographics and lifestyle requirements.

Our financial services offerings are designed on the principles of simplicity and cost-efficiency as they bring financial inclusion to our millions of cardholders who were previously unable to access any formal financial services. Our largest financial services offering is the provision of short-term microloans to our South African UEPS/EMV cardholders, where we provide the loans using our surplus cash reserves and earn revenue from the service fees charged on these loans.

Following the suspension of our life insurance license during fiscal 2013 by the South African Financial Services Board, or FSB, that prevented us from writing any further life insurance policies, we have agreed a plan with the FSB to uplift the suspension. The eventual upliftment of the suspension is subject to FSB approval of our implementation of this plan. We intend to offer our customer base the insurance products applicable to this market segment when the suspension is uplifted, focusing on group life and funeral insurance policies.

Our Financial Services activities have been allocated to our Financial inclusion and applied technologies reporting segment.

### **XeoHealth**

Our XeoHealth business unit operates from Frederick, Maryland, and offers our XeoRules real time adjudication, or RTS, solutions for the end-to-end electronic processing of medical claims information in the United States. XeoHealth has won a number of projects in the United States either as the primary contractor for the provision of our RTS solution to customers, or as a sub-contractor to parties contracted to provide an adjudication solution.

XeoHealth has been allocated to our International transaction processing reporting segment.

### **Corporate**

The Corporate unit provides global support services to our business units, joint ventures and investments for the following activities:

- *Group executive* responsible for the overall company management, defining our global strategy, investor relations and corporate finance activities.
- *Finance and administration* provides company-wide support in the areas of accounting, treasury, human resources, administration, legal, secretarial, taxation, compliance and internal audit.
- *Group information technology* defines our overall IT strategy and the overall systems architecture and is responsible for the identification and management of the group's research and development activities.
- *Joint ventures and investments unit* provides governance support to our joint ventures and assists with the evaluation of new investment opportunities.

### **Competition**

In addition to competition that our UEPS system faces from the use of cash, checks, credit and debit cards, existing payment systems and the providers of financial services, there are a number of other products that use smart card technology in connection with a funds transfer system. While it is impossible for us to estimate the total number of competitors in the global payments marketplace, we believe that the most competitive product in this marketplace is EMV, a system that is promoted by most of the major card companies such as Visa, MasterCard, JCB and American Express. The competitive advantage of our UEPS offering is that our technology can operate real-time, but in an off-line environment, using biometric identification instead of the standard PIN methodology employed by our competitors. We have enhanced our competitive advantage through the development of our latest version of the UEPS technology that has been certified by EMV, which facilitates our traditionally proprietary UEPS system to interoperate with the global EMV standard and allows card holders to transact at any EMV-enabled point of sale terminal or ATM. The UEPS/EMV technology has been deployed on an extensive scale in South Africa through the issuance of MasterCard-branded UEPS/EMV cards to our social welfare grant recipient cardholders. We estimate that we process less than 1% of all global payment transactions in the international marketplace.

In South Africa, and specifically in the payment of salaries and wages, our competitors include the local banks and other transaction processors. The South African banks and the South African Post Office, or SAPO, also offer employees the option to open low cost bank accounts that enable the employees to receive their salaries or wages through the formal banking payment networks.

The payment of social welfare grants in South Africa is determined through a highly competitive tender process managed by SASSA. The participants in SASSA's tender processes have historically included the local banks, other payment processors, SAPO and mobile operators. We compete primarily on the basis of the innovative nature and security of our technology as well as the broadest distribution footprint.

We are able to load social welfare grants on behalf of the South African government directly onto a biometrically secured UEPS/EMV smart card in rural areas where there is little or no infrastructure or in semi-urban areas through our merchant acquiring system. Our UEPS/EMV-enabled smart cards are therefore used as a means of identification, security and as a transacting instrument. Grants loaded onto our UEPS/EMV-enabled smart cards can be used both online and offline and recipient cardholders pay no monthly account or transaction fees. The usefulness of a traditional bank card to its holder is dependent on the availability of a branch network, ATM infrastructure and merchants accepting the card. Access to bank branches, ATMs and merchants accepting traditional bank cards are limited or non-existent in the rural areas of South Africa. We believe the security, functionality and simplicity of our UEPS/EMV smart card provides us with a unique ability to service these rural areas of South Africa, as well as all urban areas through the existing POS and ATM infrastructure. Our technology eliminates the risk associated with receiving social welfare grants in cash as well as the costs associated with transaction fees charged by banks when recipient cardholders exceed the minimum number of free transactions per month.

We believe that SASSA considers the technology utilized, pricing of the payment service rendered and other factors such as BEE rating as the most important factors when considering potential service providers. We compete with other service providers on these aspects through SASSA's tender processes, when applicable, or through contract extension negotiations. Our current SASSA contract expires in 2017; however, as described in Item 3 Legal Proceedings, SASSA has been directed to conduct a new tender process which may result in the award of a new tender prior to the expiration of our contract.

We have identified 13 major card VAN companies in South Korea, of which KSNET is one of the three largest. The other two large VAN companies are NICE Information & Telecommunication Inc. and Korea Information & Communications Company, Limited. Entities operating in the VAN industry in South Korea compete on pricing and customer service.

EasyPay's competitors include BankservAfrica, UCS, eCentric and Transaction Junction. BankservAfrica is the largest transaction processor in South Africa which processes all transactions on behalf of the South African banks and claims to have processed in excess of 2.5 billion transactions during the twelve months ended June 2013 valued at trillions of ZAR.

In addition to our traditional competitors, we expect that we will increasingly compete with a number of emerging entities in the mobile payments industry. While the industry is still in its infancy, a number of entities are establishing their presence in this space. Specifically identified entities include traditional payment networks such as Visa, MasterCard and American Express; commercial banks such as Barclays and Citigroup; established technology companies such as Apple, Google and PayPal; mobile operators such as AT&T, Verizon, Vodafone and Bharti Airtel; as well as companies specifically focused on mobile payments such as M-Pesa, Monetise and Square.

## Research and Development

During fiscal 2014, 2013 and 2012, we incurred research and development expenditures of \$2.2 million, \$1.3 million and \$3.9 million, respectively. These expenditures consist primarily of the salaries of our software engineers and developers. Our research and development activities relate primarily to the continual revision and improvement of our core UEPS and UEPS/EMV software and its functionality and the design and development of our MVC concept and mobile payment applications. For example, we continually advance our security protocols and algorithms as well as develop new UEPS features that we believe will enhance the attractiveness of our product and service offerings. Our research and development efforts also focus on taking advantage of improvements in the hardware platforms that are not proprietary to us but which form part of our system.

## Intellectual Property

Our success depends in part on our ability to develop, maintain and protect our intellectual property. We rely on a combination of patents, copyrights, trademarks and trade secret laws, as well as non-disclosure agreements to protect our intellectual property. We seek to protect new intellectual property developed by us by filing new patents worldwide. We hold a number of trademarks in various countries.

## Financial Information about Geographical Areas and Operating Segments

Note 23 to our consolidated financial statements included in this annual report contains detailed financial information about our operating segments for fiscal 2014, 2013 and 2012. Revenues based on the geographic location from which the sale originated and geographic location where long-lived assets are held for the years ended June 30, are presented in the table below:

|      | Revenue |      | Long-lived assets |      |      |
|------|---------|------|-------------------|------|------|
| 2014 | 2013    | 2012 | 2014              | 2013 | 2012 |

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|               | \$ 000  | \$ 000  | \$ 000  | \$ 000  | \$ 000  | \$ 000  |
|---------------|---------|---------|---------|---------|---------|---------|
| South Africa  | 428,931 | 317,916 | 272,063 | 105,627 | 117,858 | 140,308 |
| South Korea   | 146,667 | 129,338 | 114,096 | 229,830 | 213,589 | 224,272 |
| Rest of world | 6,058   | 4,893   | 4,105   | 6,593   | 7,676   | 6,911   |
| Total         | 581,656 | 452,147 | 390,264 | 342,050 | 339,123 | 371,491 |

**Employees**

As of June 30, 2014, we had 4,415 employees. On a segmental basis, 193 employees were part of our management, 2,631 were employed in South African transaction processing, 228 were employed in International transaction processing, 1,363 were employed in Financial inclusion and applied technologies and corporate/eliminations activities.

On a functional basis, four of our employees were part of executive management, 121 were employed in sales and marketing, 212 were employed in finance and administration, 323 were employed in information technology and 3,755 were employed in operations.

As of June 30, 2014, approximately 77 of the 2,631 employees we have in South Africa who were performing transaction-based activities were members of the South African Commercial Catering and Allied Workers Union and approximately 164 of the 212 employees we have in South Korea who perform international transaction-based activities were members of the KSNET Union. We believe we have a good relationship with our employees and these unions.

## Corporate history

Net1 was incorporated in Florida in May 1997. In June 2004, Net1 acquired Net1 Applied Technology Holdings Limited, or Aplitec, a public company listed on the Johannesburg Stock Exchange, or JSE. In 2005, Net1 completed an initial public offering and listed on the Nasdaq Stock Market. In October 2008, Net1 listed on the JSE in a secondary listing, which enabled the former Aplitec shareholders (as well as South African residents generally) to hold Net1 common stock directly.

## Available information

We maintain an Internet website at [www.net1.com](http://www.net1.com). Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available free of charge through the SEC filings portion of our website, as soon as reasonably practicable after they are filed with the Securities and Exchange Commission. The information contained on, or accessible through, on our website is not incorporated into this Annual Report on Form 10-K.

## Executive Officers and Significant Employees of the Registrant

### *Executive officers*

The table below presents our executive officers, their ages and their titles:

| <b>Name</b>             | <b>Age</b> | <b>Title</b>   |
|-------------------------|------------|--|
| Dr. Serge C.P. Belamant | 60         | Chief Executive Officer, Chairman and Director             |
| Mr. Herman G. Kotzé     | 44         | Chief Financial Officer, Treasurer, Secretary and Director |
| Mr. Phil-Hyun Oh        | 55         | Chief Executive Officer and President, KSNET, Inc.         |
| Mr. Nitin Soma          | 47         | Senior Vice President Information Technology               |

*Dr. Belamant* is one of the founders of our company and has been our Chief Executive Officer since October 2000 and the Chairman of our board since February 2003. He was also Chief Executive Officer of Aplitec. Dr. Belamant spent ten years working as a computer scientist for Control Data Corporation where he won a number of international awards. Later, he was responsible for the design, development, implementation and operation of the Saswitch ATM network in South Africa that still rates as one of the largest ATM switching systems in the world. Dr. Belamant has patented a number of inventions, ranging from biometrics to gaming-related inventions, including our original funds transfer system patent. Dr. Belamant has more than 30 years of experience in the fields of operations research, security, biometrics, artificial intelligence and online and offline transaction processing systems. Dr. Belamant holds a PhD in Information Technology and Management.

*Mr. Kotzé* has been our Chief Financial Officer, Secretary and Treasurer since June 2004. From January 2000 until June 2004, he served on the board of Aplitec as Group Financial Director. Mr. Kotzé joined Aplitec in November 1998 as a strategic financial analyst. Prior to joining Aplitec, Mr. Kotzé was a business analyst at the Industrial Development Corporation of South Africa. Mr. Kotzé qualified as a member of the South African Institute of



Chartered Accountants at KPMG.

*Mr. Oh* has served as Chief Executive Officer and President of KSNET since 2007. He is the Chairman of the VAN Association in South Korea. Prior to that, he was the Managing Partner at Dasan Accounting Firm and was the Head of the Investment Banking Division at Daewoo Securities. Mr. Oh is responsible for the day to day operations of KSNET and as its Chief Executive Officer and President is instrumental in setting and implementing its strategy and objectives.

*Mr. Soma* has served as our Senior Vice President of Information Technology since June 2004. Mr. Soma joined Aplitec in 1997. He specializes in transaction switching and interbank settlements and designed the Stratus back-end system for Aplitec. Mr. Soma has over 15 years of experience in the development and design of smart card payment systems.

## ITEM 1A. RISK FACTORS

**OUR OPERATIONS AND FINANCIAL RESULTS ARE SUBJECT TO VARIOUS RISKS AND UNCERTAINTIES, INCLUDING THOSE DESCRIBED BELOW, THAT COULD ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS, CASH FLOWS, AND THE TRADING PRICE OF OUR COMMON STOCK.**

### Risks Relating to Our Business

*The South African Constitutional Court has ordered SASSA to run a new tender process for the payment of social grants. As a result, we cannot predict whether our SASSA contract will remain in effect for the remainder of its five-year term. We derive a substantial portion of our revenues from this contract and from the provision of financial and other services to our cardholder base. If we were to lose our SASSA contract, our business would suffer significantly.*

On April 17, 2014, the South African Constitutional Court issued its ruling on an appropriate remedy following its declaration on November 29, 2013 that the tender process followed by SASSA in awarding a contract to us was constitutionally invalid. In its ruling, the Constitutional Court upheld the declaration of invalidity of our SASSA contract, but suspended such declaration until the awarding of a new tender by SASSA in accordance with the ruling or if no tender is awarded, for the remainder of the existing five-year contract period, as further described below.

The Constitutional Court ordered SASSA to initiate a new tender process within 30 days after the ruling. The new tender must be for a period of five years and a new and independent Bid Evaluation and Bid Adjudication Committee must be appointed to evaluate and adjudicate the new tender process. The Constitutional Court further ruled that if SASSA does not award a new tender, the declaration of invalidity of our current SASSA contract will be further suspended until completion of the five-year year period for which the contract was originally awarded.

On June 5, 2014, SASSA filed a progress report with the Constitutional Court in which it stated that it has started taking the steps necessary to initiate a new tender process. We cannot predict what the timing or outcome of the new tender process will be, or if a new tender award will be made at all after the process is complete. We intend to participate in the new tender, which will consume a substantial portion of our management's time and attention. If SASSA awards the new tender to another bidder, we would lose the benefit of the remaining portion of our contract.

In addition, our SASSA contract has enabled us to offer a variety of innovative financial and other services, such as UEPS-based loans and procurement of prepaid airtime, to our social welfare recipient cardholders. Although we believe that our offerings frequently represent the lowest-cost alternative for our customers for these types of services, if we were to lose our SASSA contract, it might be less convenient for our cardholder customers to purchase these services from us and thus, we may have difficulty growing or even maintaining this aspect of our South African business, which would negatively affect our future operating performance.

*The DOJ and the SEC are investigating whether we have violated the Foreign Corrupt Practices Act, or FCPA, and other federal criminal laws, which has adversely impacted our business and reputation.*

On November 30, 2012, we received a letter from the U.S. Department of Justice, Criminal Division, informing us that the DOJ and the Federal Bureau of Investigation have begun an investigation into whether we and our subsidiaries, including our officers, directors, employees, and agents and other persons and entities possibly affiliated with us violated provisions of the FCPA and other U.S. federal criminal laws by engaging in a scheme to make corrupt payments to officials of the Government of South Africa in connection with securing our SASSA contract and also engaged in violations of the federal securities laws in connection with statements made by us in our SEC filings regarding this contract. On the same date, we received a letter from the Division of Enforcement of the

SEC advising us that it is also conducting an investigation concerning our company. The SEC letter states that the investigation is a non-public, fact-finding inquiry and that the SEC investigation does not mean that the SEC has concluded that we or anyone else has broken the law or that the SEC has a negative opinion of any person, entity or security. We are continuing to cooperate with the DOJ and the SEC regarding these investigations.

We have been, and will continue to be, exposed to a variety of negative consequences as a result of these investigations. There could be one or more enforcement actions in respect of the matters that are the subject of one or both of the investigations, and such actions, if brought, may result in judgments, settlements, fines, penalties, injunctions, cease and desist orders or other relief, criminal convictions and/or penalties. We cannot predict accurately at this time the outcome or impact of the investigations.

In addition, we have incurred and will continue to incur significant legal and other costs in responding to requests for information seeking documents, testimony and other information in connection with the investigations and cannot predict at this time the ultimate amount of all such costs. These matters have required the involvement of certain members of our senior management that has materially and adversely affected their ability to devote their time to other matters relating to our business. The investigations have negatively impacted our ability to maintain our existing business relationships and to obtain new business, as our business reputation has already suffered significant damage due to the perceptions created by an investigation of this nature. We believe that this damage to our reputation has, and will continue, to have a significant impact on our ability to execute certain aspects of our business strategy effectively. For example, in fiscal 2013 the FSB suspended Smart Life's license and prohibited it from writing any new long-term insurance policies in South Africa. We believe that the suspension was triggered by the adverse publicity we have received as a result of the DOJ and SEC investigations. While Smart Life's operations are not currently material, providing a variety of financial products, such as insurance, to our cardholder base is an important part of our future business strategy. In addition, in order to continue to fund the costs of the investigations, we have had to upstream a portion of our ZAR cash reserves to the United States, which has resulted in unfavorable currency conversion rates and the incurrence of dividend withholding taxes that we would not otherwise have had to pay.

***We have disclosed competitively sensitive information as a result of the AllPay litigation, which could adversely affect our competitive position in the future.***

In connection with the litigation challenging the award of the SASSA tender to us, we included our entire 2011 SASSA tender submission in the court record, which court record is in the public domain. Our tender submission contains competitively sensitive business information. As a result of this disclosure, our existing and future competitors have access to this information which could adversely affect our competitive position in any future similar tender submissions to the extent that such information continues to remain competitively sensitive.

***In order to meet our obligations under our SASSA contract, we are required to deposit government funds with financial institutions in South Africa before commencing the payment cycle and are exposed to counterparty risk.***

In order to meet our obligations under our SASSA contract, we are required to deposit government funds, which will ultimately be used to pay social welfare grants, with financial institutions in South Africa before commencing the payment cycle. If these financial institutions are unable to meet their commitments to us, in a timely manner or at all, we would be unable to discharge our obligations under our SASSA contract and could be subject to financial losses, penalties, loss of reputation and potentially, the cancellation of our contract. As we are unable to influence these financial institutions' operations, including their internal information technology structures, capital structures, risk management, business continuity and disaster recovery programs, or their regulatory compliance systems, we are exposed to counterparty risk.

***We may undertake acquisitions that could increase our costs or liabilities or be disruptive to our business.***

Acquisitions are a significant part of our long-term growth strategy as we seek to grow our business internationally and to deploy our technologies in new markets both inside and outside South Africa. However, we may not be able to locate suitable acquisition candidates at prices that we consider appropriate. If we do identify an appropriate acquisition candidate, we may not be able to successfully negotiate the terms of an acquisition, finance the acquisition or, if the acquisition occurs, integrate the acquired business into our existing business. These transactions

may require debt financing or additional equity financing, resulting in additional leverage or dilution of ownership.

Acquisitions of businesses or other material operations and the integration of these acquisitions will require significant attention from our senior management which may divert their attention from our day to day business. The difficulties of integration may be increased by the necessity of coordinating geographically dispersed organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures. We also may not be able to maintain key employees or customers of an acquired business or realize cost efficiencies or synergies or other benefits that we anticipated when selecting our acquisition candidates.

In addition, we may need to record write-downs from future impairments of goodwill or other intangible assets, which could reduce our future reported earnings. Finally, acquisition candidates may have liabilities or adverse operating issues that we fail to discover through due diligence prior to the acquisition.

***We have a significant amount of indebtedness that requires us to comply with restrictive and financial covenants. If we are unable to comply with these covenants, we could default on this debt, which would have a material adverse effect on our business and financial condition.***

As of June 30, 2014, we had approximately \$77.2 million of outstanding indebtedness, which we incurred to finance our acquisition of KSNET in October 2010. These loans are secured by a pledge by Net1 Korea of its entire equity interest in KSNET and a pledge by the immediate parent of Net1 Korea (also one of our subsidiaries) of its entire equity interest in Net1 Korea. The terms of the loan facility require Net1 Korea and its consolidated subsidiaries to maintain certain specified financial ratios (including a leverage ratio and a debt service coverage ratio) and restrict Net1 Korea's ability to make certain distributions with respect to its capital stock, prepay other debt, encumber its assets, incur additional indebtedness, or engage in certain business combinations. Although these covenants only apply to our South Korean subsidiaries, these security arrangements and covenants may reduce our operating flexibility or our ability to engage in other transactions that may be beneficial to us. If we are unable to comply with these covenants, we could be in default and the indebtedness could be accelerated. If this were to occur, we might not be able to obtain waivers of default or to refinance the debt with another lender and as a result, our business and financial condition would suffer.

***We face competition from the incumbent retail banks in South Africa and SAPO in the unbanked market segment, which could limit growth in our transaction-based activities segment.***

Certain South African banks have also developed their own low-cost banking products targeted at the unbanked and under-banked market segment. According to the 2013 FinScope survey, which is an annual survey conducted by the FinMark Trust, a non-profit independent trust, there has been a significant increase in the banked population at the bottom of the pyramid as LSM 3-4 increased from 45% in 2012 to 57% in 2013. As the competition to bank the unbanked in South Africa intensifies, we may not be successful in marketing our low-cost banking product to our target population. Moreover, as our product offerings increase, gain market acceptance and pose a competitive threat in South Africa, especially our UEPS/EMV product with biometric verification and our financial services offerings, the banks and SAPO may seek governmental or other regulatory intervention if they view us as disrupting their transactional or other businesses.

***Our microlending loan book exposes us to credit risk and our allowance for doubtful finance loans receivable may not be sufficient to absorb future write-offs.***

We expanded our microlending loan book by approximately 600% during fiscal 2014. The majority of these finance loans made are for a period of six months or less and we are in the process of determining and understanding the impairment risk of the book. We have created an allowance for doubtful finance loans receivable related to this book. However, this is a new allowance and management considered factors including the period of the UEPS-loan outstanding, creditworthiness of the customers and the past payment history and trends of its established UEPS-based lending book. We consider this policy to be appropriate taking into account factors such as historical bad debts, current economic trends and changes in our customer payment patterns. However, additional allowances may be required should the ability of our customers to make payments when due deteriorate in the future. A significant amount of judgment is required to assess the ultimate recoverability of these finance loan receivables, including on-going evaluation of the creditworthiness of each customer.

***We may face competition from other companies that offer smart card technology, other innovative payment technologies and payment processing, which could result in loss of our existing business and adversely impact our ability to successfully market additional products and services.***

Our primary competitors in the payment processing market include other independent processors, as well as financial institutions, independent sales organizations, and, potentially card networks. Many of our competitors are companies who are larger than we are and have greater financial and operational resources than we have. These factors may allow them to offer better pricing terms or incentives to customers, which could result in a loss of our potential or current customers or could force us to lower our prices as well. Either of these actions could have a significant effect on our revenues and earnings.

In addition to competition that our UEPS system faces from the use of cash, checks, credit and debit cards, existing payment systems and the providers of financial services and low cost bank accounts, there are a number of other products that use smart card technology in connection with a funds transfer system. During the past several years, smart card technology has become increasingly prevalent. We believe that the most competitive product in this marketplace is EMV, a system that is promoted by most of the major card companies such as Visa, MasterCard, JCB and American Express. Also, governments and financial institutions are, to an increasing extent, implementing general-purpose reloadable prepaid cards as a low-cost alternative to provide financial services to the unbanked population. Moreover, while we see the acceptance over time of using a mobile phone to facilitate financial services as an opportunity, there is a risk that other companies will be able to introduce such services to the marketplace successfully and that customers may prefer those services to ours, based on technology, price or other factors.

***A prolonged economic slowdown or lengthy or severe recession in South Africa or elsewhere could harm our operations.***

A prolonged economic downturn or recession could materially impact our results from operations. A recessionary economic environment could have a negative impact on mobile phone operators, our cardholders and retailers and could reduce the level of transactions we process and the take-up of financial services we offer, which would, in turn, negatively impact our financial results. If financial institutions and retailers experience decreased demand for their products and services our hardware, software and related technology sales will reduce, resulting in lower revenue.

***The loss of the services of Dr. Belamant or any of our other executive officers would adversely affect our business.***

Our future financial and operational performance depends, in large part, on the continued contributions of our senior management, in particular, Dr. Serge Belamant, our Chief Executive Officer and Chairman and Herman Kotzé, our Chief Financial Officer. Many of our key responsibilities are performed by these two individuals, and the loss of the services of either of them could disrupt our development efforts or business relationships and our ability to continue to innovate and to meet customers' needs, which could have a material adverse effect on our business and financial performance. We do not have employment agreements with these executive officers and they may terminate their employment at any time.

In addition, the success of our KSNET business depends heavily on the continued services of its president, Phil-Hyun Oh and the other senior members of the KSNET management team. We do not maintain any key person life insurance policies.

***We face a highly competitive employment market and may not be successful in attracting and retaining a sufficient number of skilled employees, particularly in the technical and sales areas and senior management.***

Our future success depends on our ability to continue to develop new products and to market these products to our target users. In order to succeed in our product development and marketing efforts, we need to identify, attract, motivate and retain sufficient numbers of qualified technical and sales personnel. An inability to hire and retain such technical personnel would adversely affect our ability to enhance our existing intellectual property, to introduce new generations of technology and to keep abreast of current developments in technology. Demand for personnel with the range of capabilities and experience we require is high and there is no assurance that we will be successful in attracting and retaining these employees. The risk exists that our technical skills and sales base may be depleted over time because of natural attrition. Furthermore, social and economic factors in South Africa have led, and continue to lead, numerous qualified individuals to leave the country, thus depleting the availability of qualified personnel in South Africa. In addition, our multi-country strategy will also require us to hire and retain highly qualified managerial personnel in each of these markets. If we cannot recruit and retain people with the appropriate capabilities and experience and effectively integrate these people into our business, it could negatively affect our product development



and marketing activities.

*System failures, including breaches in the security of our system, could harm our business.*

We may experience system failures from time to time, and any lengthy interruption in the availability of our back-end system computer could harm our revenues and profits, and could subject us to the scrutiny of our customers.

Frequent or persistent interruptions in our services could cause current or potential customers and users to believe that our systems are unreliable, leading them to avoid our technology altogether, and could permanently harm our reputation and brands. These interruptions would increase the burden on our engineering staff, which, in turn, could delay our introduction of new applications and services. Finally, because our customers may use our products for critical transactions, any system failures could result in damage to our customers' businesses. These customers could seek significant compensation from us for their losses. Even if unsuccessful, this type of claim could be time consuming and costly for us to address.

Although our systems have been designed to reduce downtime in the event of outages or catastrophic occurrences, they remain vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures, terrorist attacks, computer viruses, computer denial-of-service attacks and similar events. Some of our systems are not fully redundant, and our disaster recovery planning may not be sufficient for all eventualities.

Protection against fraud is of key importance to the purchasers and end users of our solutions. We incorporate security features, including encryption software, biometric identification and secure hardware, into our solutions to protect against fraud in electronic transactions and to provide for the privacy and integrity of card holder data. Our solutions may be vulnerable to breaches in security due to defects in the security mechanisms, the operating system and applications or the hardware platform. Security vulnerabilities could jeopardize the security of information transmitted using our solutions. If the security of our solutions is compromised, our reputation and marketplace acceptance of our solutions will be adversely affected, which would cause our business to suffer, and we may become subject to damage claims. We have not yet experienced any security breaches affecting our business.

Despite any precautions we may take, the occurrence of a natural disaster or other unanticipated problems with our system could result in lengthy interruptions in our services. Our current business interruption insurance may not be sufficient to compensate us for losses that may result from interruptions in our service as a result of system failures.

***The period between our initial contact with a potential customer and the sale of our UEPS products or services to that customer tends to be long and may be subject to delays which may have an impact on our revenues.***

The period between our initial contact with a potential customer and the purchase of our UEPS products and services is often long and subject to delays associated with the budgeting, approval and competitive evaluation processes that frequently accompany significant capital expenditures. A lengthy sales cycle may have an impact on the timing of our revenues, which may cause our quarterly operating results to fall below investor expectations. A customer's decision to purchase our products and services is often discretionary, involves a significant commitment of resources, and is influenced by customer budgetary cycles. To sell our products and services successfully we generally must educate our potential customers regarding the uses and benefits of our products and services, which can require the expenditure of significant time and resources; however, there can be no assurance that this significant expenditure of time and resources will result in actual sales of our products and services.

***Our proprietary rights may not adequately protect our technologies.***

Our success depends in part on our obtaining and maintaining patent, trade secret, copyright and trademark protection of our technologies in the United States and other jurisdictions as well as successfully enforcing this intellectual property and defending this intellectual property against third-party challenges. We will only be able to protect our technologies from unauthorized use by third parties to the extent that valid and enforceable intellectual property protections, such as patents or trade secrets, cover them. In particular, we place considerable emphasis on obtaining patent and trade secret protection for significant new technologies, products and processes. Furthermore, the degree of future protection of our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage.

We cannot predict the breadth of claims that may be allowed or enforced in our patents. For example, we might not have been the first to make the inventions covered by each of our patents and patent applications or to file patent applications and it is possible that none of our pending patent applications will result in issued patents. It is possible that others may independently develop similar or alternative technologies. Also, our issued patents may not provide a basis for commercially viable products, or may not provide us with any competitive advantages or may be challenged, invalidated or circumvented by third parties.

We also rely on trade secrets to protect our technology, especially where we believe patent protection is not appropriate or obtainable. However, trade secrets are difficult to protect. We have confidentiality agreements with employees, and consultants to protect our trade secrets and proprietary know-how. These agreements may be breached and or may not have adequate remedies for such breach. While we use reasonable efforts to protect our trade secrets, our employees, consultants or others may unintentionally or willfully disclose our information to competitors. If we were to enforce a claim that a third party had illegally obtained and was using our trade secrets, our enforcement efforts would be expensive and time consuming, and the outcome would be unpredictable. Moreover, if our competitors independently develop equivalent knowledge, methods and know-how, it will be more difficult for us to enforce our rights and our business could be harmed. If we are not able to defend the patent or trade secret protection position of our technologies, then we will not be able to exclude competitors from developing or marketing competing technologies.

We also rely on trademarks to establish a market identity for some of our products. To maintain the value of our trademarks, we might have to file lawsuits against third parties to prevent them from using trademarks confusingly similar to or dilutive of our registered or unregistered trademarks. Also, we might not obtain registrations for our pending trademark applications, and might have to defend our registered trademark and pending trademark applications from challenge by third parties.

***Defending our intellectual property rights or defending ourselves in infringement suits that may be brought against us is expensive and time-consuming and may not be successful.***

Litigation to enforce our patents, trademarks or other intellectual property rights or to protect our trade secrets could result in substantial costs and may not be successful. Any loss of, or inability to protect, intellectual property in our technology could diminish our competitive advantage and also seriously harm our business. In addition, the laws of certain foreign countries may not protect our intellectual property rights to the same extent as do the laws in countries where we currently have patent protection. Our means of protecting our intellectual property rights in countries where we currently have patent or trademark protection, or any other country in which we operate, may not be adequate to fully protect our intellectual property rights. Similarly, if third parties claim that we infringe their intellectual property rights, we may be required to incur significant costs and devote substantial resources to the defense of such claims. We may be required to discontinue using and selling any infringing technology and services, to expend resources to develop non-infringing technology or to purchase licenses or pay royalties for other technology. In addition, if we are unsuccessful in defending any such third-party claims, we could suffer costly judgments and injunctions that could materially adversely affect our business, results of operations or financial condition.

***Our strategy of partnering with companies outside South Africa may not be successful.***

In order for us to expand our operations into foreign markets, it may be necessary for us to establish partnering arrangements with companies outside South Africa, such as the ones we have co-established in Namibia and India. The success of these endeavors is, however, subject to a number of factors over which we have little or no control, such as finding suitable partners with the appropriate financial, business and technical backing and continued governmental support for planned implementations. In some countries, finding suitable partners and obtaining the appropriate support from the government involved may take a number of years before we can commence implementation. Some of these partnering arrangements may take the form of joint ventures in which we receive a minority interest. Minority ownership carries with it numerous risks, including dependence on partners to provide knowledge of local market conditions and to facilitate the acquisition of any necessary licenses and permits, as well as the inability to control the joint venture vehicle and to direct its policies and strategies. Such a lack of control could result in the loss of all or part of our investment in such entities. In addition, our foreign partners may have different business methods and customs which may be unfamiliar to us and with which we disagree. Our joint venture partners may not be able to implement our business model in new areas as efficiently and quickly as we have been able to do in South Africa. Furthermore, limitations imposed on our South African subsidiaries by South African exchange control regulations, as well as limitations imposed on us by the Investment Company Act of 1940, may limit our ability to establish partnerships or entities in which we do not obtain a controlling interest.

***We may have difficulty managing our growth.***

We continue to experience growth, both in the scope of our operations and size of our organization. This growth is placing significant demands on our management. Continued growth would increase the challenges involved in implementing appropriate operational and financial systems, expanding our technical and sales and marketing infrastructure and capabilities, providing adequate training and supervision to maintain high quality standards, and preserving our culture and values. International growth, in particular, means that we must become familiar and comply with complex laws and regulations in other countries, especially laws relating to taxation.

Additionally, continued growth will place significant additional demands on our management and our financial and operational resources, and will require that we continue to develop and improve our operational, financial and other internal controls. If we cannot scale and manage our business appropriately, we will not experience our projected growth and our financial results may suffer.

***We pre-fund the payment of social welfare grants through our merchant acquiring system in South Africa and pre-fund the settlement of certain customers in South Korea and a significant level of payment defaults by these merchants or customers would adversely affect us.***

We pre-fund social welfare grants through the merchants who participate in our merchant acquiring system in the South African provinces where we operate as well as pre-fund the settlement of funds to certain customers in South Korea. These pre-funding obligations expose us to the risk of default by these merchants and customers. Although we have not experienced any material defaults by merchants or customers in the return of pre-funded amounts to us, we cannot guarantee that material defaults will not occur in the future. A material level of merchant or customer defaults could have a material adverse effect on us, our financial position and results of operations.

***We may incur material losses in connection with our distribution of cash to recipient cardholders of social welfare grants.***

Many social welfare recipient cardholders use our services to access cash using their smart cards. We use armored vehicles to deliver large amounts of cash to rural areas across South Africa to enable these welfare recipient cardholders to receive this cash. In some cases, we also store the cash that will be delivered by the armored vehicles in depots overnight or over the weekend to facilitate delivery to these rural areas. We cannot insure against certain risks of loss or theft of cash from our delivery vehicles and we will therefore bear the full cost of certain uninsured losses or theft in connection with the delivery process, and such losses could materially and adversely affect our financial condition, cash flows and results of operations. We have not incurred any material losses resulting from cash distribution in recent years, but there is no assurance that we will not incur material losses in the future.

***We depend upon third-party suppliers, making us vulnerable to supply shortages and price fluctuations, which could harm our business.***

We obtain our smart cards, POS devices and the other hardware we use in our business from a limited number of suppliers, and do not manufacture this equipment ourselves. We generally do not have long-term agreements with our manufacturers or component suppliers. If our suppliers become unwilling or unable to provide us with adequate supplies of parts or products when we need them, or if they increase their prices, we may not be able to find alternative sources in a timely manner and could be faced with a critical shortage. This could harm our ability to implement new systems and cause our revenues to decline. Even if we are able to secure alternative sources in a timely manner, our costs could increase. A supply interruption or an increase in demand beyond current suppliers capabilities could harm our ability to distribute our equipment and thus, to acquire a new source of customers who use our UEPS technology. Any interruption in the supply of the hardware necessary to operate our technology, or our inability to obtain substitute equipment at acceptable prices in a timely manner, could impair our ability to meet the demand of our customers, which would have an adverse effect on our business.

***Shipments of our electronic payment systems may be delayed by factors outside of our control, which can harm our reputation and our relationships with our customers.***

The shipment of payment systems requires us or our manufacturers, distributors or other agents to obtain customs or other government certifications and approvals and, on occasion, to submit to physical inspection of our systems in transit. Failure to satisfy these requirements, and the very process of trying to satisfy them, can lead to lengthy delays in the delivery of our solutions to our direct or indirect customers. Delays and unreliable delivery by us may harm our reputation and our relationships with our customers.

***Our Smart Life business exposes us to risks typically experienced by life assurance companies.***

Smart Life is a life insurance company and exposes us to risks typically experienced by life assurance companies. Some of these risks include the extent to which we are able to continue to reinsure our risks at acceptable

costs, reinsurer counterparty risk, maintaining regulatory capital adequacy, solvency and liquidity requirements, our ability to price our insurance products appropriately, the risk that actual claims experience may exceed our estimates and the competitiveness of the South African insurance market. If we are unable to maintain our desired level of reinsurance at prices that we consider acceptable, we would have to either accept an increase in our exposure risk or reduce our insurance writings. If our reinsurers are unable to meet their commitments to us in a timely manner, or at all, we may be unable to discharge our obligations under our insurance contracts. As such, we are exposed to counterparty, including credit, risk of these reinsurers. Our product pricing includes long-term assumptions regarding investment returns, mortality, morbidity, persistency and operating costs and expenses of the business. Using the wrong assumptions to price our insurance products could materially and adversely affect our financial position, results of operations and cash flows.

Further, even though we currently reinsure the majority of our insurance contract liabilities, if our actual claims experience is higher than our estimates, our financial position, results of operations and cash flows could be adversely affected. Finally, the South African insurance industry is highly competitive. Many of our competitors are well-established, represented nationally and market similar products and we may not be able to effectively penetrate the South African insurance market.

### **Risks Relating to Operating in South Africa and Other Foreign Markets**

***If we do not achieve applicable black economic empowerment, or BEE, objectives in our South African businesses, we risk losing our government and private contracts. In addition, it is possible that we may be required to increase black shareholding of our company in a manner that could dilute your ownership.***

The South African government, through the Broad-Based Black Economic Empowerment Act, 2003, established a legislative framework for the promotion of BEE. The law recognizes two distinct mechanisms for the achievement of BEE objectives: compliance with sector-specific codes of good practice and compliance with industry-specific transformation charters. In June 2012 the South African government promulgated an Information and Communications Technology, or ICT, sector-specific code, to which we are subject. Achievement of BEE objectives is measured by the ICT sector scorecard which establishes a weighting to various components of BEE. We have taken a number of actions as a company to increase empowerment of black South Africans. However, it is possible that these actions may not be sufficient to enable us to achieve applicable BEE objectives. In that event, in order to avoid risking the loss of our government and private contracts, we may have to seek to comply through other means, including by selling or placing additional shares of Net1 or of our South African subsidiaries to black South Africans. Such sales of shares could have a dilutive impact of your ownership interest, which could cause the market price of our stock to decline.

We expect that our BEE rating will be important to our ability to win a new contract from SASSA and we continually seek ways to improve our BEE rating, especially the equity component of our rating. In April 2014, we implemented a BEE transaction pursuant to which we issued 4.4 million shares of our common stock to our BEE partners for ZAR 60.00 per share, which represented a 25% discount to the market price of our shares at the time that we negotiated the transaction. We entered into this transaction to improve the equity component of our BEE rating. We provided funding to the BEE partners in order for them to buy these shares from us. In June 2014, and in accordance with the terms of agreements, we repurchased approximately 2.4 million of these shares of our common stock in order for the BEE partners to repay the loans we provided to them. As a result of these transactions, as of June 30, 2014, the BEE partners owned approximately 4% of our shares of common stock. Under the BEE agreements, we have the option to exchange the remaining shares owned by the BEE partners for shares in CPS.

It is possible that we may find it necessary to issue additional shares to improve our BEE rating. If we enter into further BEE transactions that involve the issuance of equity, we cannot predict what the dilutive effect of such a transaction would be on your ownership or how it would affect the market price of our stock.

***Fluctuations in the value of the South African rand have had, and will continue to have, a significant impact on our reported results of operations, which may make it difficult to evaluate our business performance between reporting periods and may also adversely affect our stock price.***

The South African rand, or ZAR, is the primary operating currency for our business operations while our financial results are reported in US dollars. This means that as long as the ZAR remains our primary operating currency, depreciation in the ZAR against the US dollar, and to a lesser extent, the South Korean won, would negatively impact our reported revenue and net income, while a strengthening of the ZAR would have the opposite effect. Depreciation in the ZAR may negatively impact the prices at which our stock trades. The US dollar/ZAR exchange rate has historically been volatile and we expect this volatility to continue. During fiscal 2014, the ZAR was significantly weaker against the US dollar than during most of the preceding several years, which adversely affected



our 2014 revenue and net income. We provide detailed information about historical exchange rates in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Currency Exchange Rate Information.

Due to the significant fluctuation in the value of the ZAR and its impact on our reported results, you may find it difficult to compare our results of operations between financial reporting periods even though we provide supplemental information about our results of operations determined on a ZAR basis. This difficulty may increase as we expand our business internationally and record additional revenue and expenses in the euro and other currencies. It may also have a negative impact on our stock price.

We generally do not engage in any currency hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on our results of operations, other than economic hedging relating to our inventory purchases which are settled in US dollars or euros. We have used forward contracts in order to hedge our economic exposure to the ZAR/US dollar and ZAR/euro exchange rate fluctuations from these foreign currency transactions. We cannot guarantee that we will enter into hedging transactions in the future or, if we do, that these transactions will successfully protect us against currency fluctuations.

***South Africa's high levels of poverty, unemployment and crime may increase our costs and impair our ability to maintain a qualified workforce.***

While South Africa has a highly developed financial and legal infrastructure, it also has high levels of crime and unemployment and there are significant differences in the level of economic and social development among its people, with large parts of the population, particularly in the rural areas, having limited access to adequate education, healthcare, housing and other basic services, including water and electricity. In addition, South Africa has a high prevalence of HIV/AIDS and tuberculosis. Government policies aimed at alleviating and redressing the disadvantages suffered by the majority of citizens under previous governments may increase our costs and reduce our profitability, all of which could negatively affect our business. These problems may prompt emigration of skilled workers, hinder investment into South Africa and impede economic growth. As a result, we may have difficulties attracting and retaining qualified employees.

***The economy of South Africa is exposed to high inflation and interest rates which could increase our operating costs and thereby reduce our profitability.***

The economy of South Africa in the past has been, and in the future may continue to be, characterized by rates of inflation and interest rates that are substantially higher than those prevailing in the United States and other highly developed economies. High rates of inflation could increase our South African-based costs and decrease our operating margins. Although higher interest rates would increase the amount of income we earn on our cash balances, they would also adversely affect our ability to obtain cost-effective debt financing in South Africa.

***South African exchange control regulations could hinder our ability to make foreign investments and obtain foreign-denominated financing.***

South Africa's exchange control regulations restrict the export of capital from South Africa, the Republic of Namibia and the Kingdoms of Lesotho and Swaziland, known collectively as the Common Monetary Area without the prior approval of SARB. While the South African government has relaxed exchange controls in recent years, it is difficult to predict whether or how it will further relax or abolish exchange control measures in the foreseeable future.

Although Net1 is a US corporation and is not itself subject to South African exchange control regulations, these regulations do restrict the ability of our South African subsidiaries to raise and deploy capital outside the Common Monetary Area, to borrow money in currencies other than the South African rand and to hold foreign currency. Exchange control restrictions may also affect the ability of these subsidiaries to pay dividends to Net1 unless the affected subsidiary can show that any payment of such dividend will not place it in an over-borrowed position. As of June 30, 2014, approximately 69% of our cash and cash equivalents were held by our South African subsidiaries. Exchange control regulations could make it difficult for our South African subsidiaries to: (i) export capital from South Africa; (ii) hold foreign currency or incur indebtedness denominated in foreign currencies without the approval of SARB; (iii) acquire an interest in a foreign venture without the approval of SARB and first having complied with the investment criteria of SARB; or (iv) repatriate to South Africa profits of foreign operations. These regulations could also limit our ability to utilize profits of one foreign business to finance operations of a different foreign business.

Under current exchange control regulations, SARB approval would be required for any acquisition of our company which would involve payment to our South African shareholders of any consideration other than South African rand. This restriction could limit our management in its ability to consider strategic options and thus, our shareholders may not be able to realize the premium over the current trading price of our shares.

***Most of South Africa's major industries are unionized, and the majority of employees belong to trade unions. We face the risk of disruption from labor disputes and new South African labor laws.***

Trade unions have had a significant impact on the collective bargaining process as well as on social and political reform in South Africa in general. Although only approximately 2% percent of our South African workforce is unionized and we have not experienced any labor disruptions in recent years, such labor disruptions may occur in the future. In addition, developments in South African labor laws may increase our costs or alter our relationship with our employees and trade unions, which may have an adverse effect on us, our financial condition and our operations.

***Operating in South Africa and other emerging markets subjects us to greater risks than those we would face if we operated in more developed markets.***

Emerging markets such as South Africa, as well as some of the other markets into which we have recently begun to expand, including African countries outside South Africa, South America, Southeast Asia and Central and Eastern Europe, are subject to greater risks than more developed markets.

While we focus our business primarily on emerging markets because that is where we perceive there to be the greatest opportunities to market our products and services successfully, the political, economic and market conditions in many of these markets present risks that could make it more difficult to operate our business successfully.

Some of these risks include:

- political and economic instability, including higher rates of inflation and currency fluctuations;
- high levels of corruption, including bribery of public officials;
- loss due to civil strife, acts of war or terrorism, guerrilla activities and insurrection;
- a lack of well-developed legal systems which could make it difficult for us to enforce our intellectual property and contractual rights;
- logistical and communications challenges;
- potential adverse changes in laws and regulatory practices, including import and export license requirements and restrictions, tariffs, legal structures and tax laws;
- difficulties in staffing and managing operations and ensuring the safety of our employees;
- restrictions on the right to convert or repatriate currency or export assets;
- greater risk of uncollectible accounts and longer collection cycles;
- indigenization and empowerment programs; and
- exposure to liability under US securities and foreign trade laws, including the FCPA, and regulations established by the US Department of Treasury's Office of Foreign Assets Control, or OFAC.

Many of these countries and regions are in various stages of developing institutions and political, legal and regulatory systems that are characteristic of democracies. However, institutions in these countries and regions may not yet be as firmly established as they are in democracies in the developed world. Many of these countries and regions are also in the process of transitioning to a market economy and, as a result, are experiencing changes in their economies and their government policies that can affect our investments in these countries and regions. Moreover, the procedural safeguards of the new legal and regulatory regimes in these countries and regions are still being developed and, therefore, existing laws and regulations may be applied inconsistently. In some circumstances, it may not be possible to obtain the legal remedies provided under those laws and regulations in a timely manner.

As the political, economic and legal environments remain subject to continuous development, investors in these countries and regions face uncertainty as to the security of their investments. Any unexpected changes in the political or economic conditions in these or neighboring countries or others in the region may have a material adverse effect on the international investments that we have made or may make in the future, which may in turn have a material adverse effect on our business, operating results, cash flows and financial condition.

### **Risks Relating to Government Regulation**

***We are required to comply with certain US laws and regulations, including the FCPA as well as economic and trade sanctions, which could adversely impact our future growth.***

We must comply with the FCPA, which prohibits US companies or their agents and employees from providing anything of value to a foreign official for the purposes of influencing any act or decision of these individuals in their official capacity to help obtain or retain business, direct business to any person or corporate entity or obtain any unfair advantage. In addition, OFAC administers and enforces economic and trade sanctions against targeted foreign

countries, entities and individuals based on US foreign policy and national security goals.

Any failure by us to adopt appropriate compliance procedures and ensure that our employees, agents and business partners comply with the FCPA could subject us to substantial penalties. In addition, the requirement that we comply with the FCPA could put us at a competitive disadvantage with companies that are not required to comply with the FCPA or could otherwise harm our business. For example, in many emerging markets, there may be significant levels of official corruption, and thus, bribery of public officials may be a commonly accepted cost of doing business. Our refusal to engage in illegal behavior, such as paying bribes, may result in us not being able to obtain business that we might otherwise have been able to secure or possibly even result in unlawful, selective or arbitrary action being taken against us by foreign officials. Furthermore, the trade sanctions administered and enforced by OFAC target countries which are typically less developed countries.

Since less developed countries present some of the best opportunities for us to expand our business internationally, restrictions against entering into transactions with those foreign countries, as well as with certain entities and individuals in those countries, can adversely affect our ability to grow our business.

***Changes in current South African government regulations relating to social welfare grants could adversely affect our revenues and cash flows.***

We derive a substantial portion of our current business from the distribution of social welfare grants in South Africa. Because social welfare eligibility and grant amounts are regulated by the South African government, any changes to or reinterpretations of the government regulations relating to social welfare may result in the non-renewal or reduction of grants for certain individuals, or a determination that currently eligible social welfare grant recipient cardholders are no longer eligible. If any of these changes were to occur, the number of grants we distribute could decrease which could result in a reduction of our revenue and cash flows.

***We do not have a South African banking license and therefore we provide our social welfare grant distribution and wage payment solution through an arrangement with a third-party bank, which limits our control over this business and the economic benefit we derive from it. If this arrangement were to terminate, we would not be able to operate our social welfare grant distribution and wage payment business without alternate means of access to a banking license.***

The South African retail banking market is highly regulated. Under current law and regulations, our South African social welfare grant distribution and wage payment business activities in the unbanked market requires us to be registered as a bank in South Africa or to have access to an existing banking license. We are not currently so registered, but we have entered into an agreement with Grindrod Bank Limited, or Grindrod, that enables us to implement our social welfare grant distribution and wage payment solution in compliance with the relevant laws and regulations. If the agreement were to be terminated, we would not be able to operate these services unless we were able to obtain access to a banking license through alternate means. We are also dependent on Grindrod to defend us against attacks from the other South African banks who may regard the rapid market acceptance of our UEPS/EMV product with biometric verification as disruptive to their funds transfer or other businesses and may seek governmental or other regulatory intervention.

In addition, the South African Financial Advisory and Intermediary Services Act, 2002, requires persons who give advice regarding the purchase of financial products or who act as intermediaries between financial product suppliers and consumers in South Africa to register as financial service providers. We are in the process of applying for a license under this Act in order to sell financial products. We currently comply with the Act by operating as a juristic representative of a duly licensed third party. If our status as juristic representative were to be cancelled and if we fail to obtain our own license, we may be stopped from continuing this part of our business in South Africa.

***Our payment processing businesses are subject to substantial governmental regulation and may be adversely affected by liability under, or any future inability to comply with, existing or future regulations or requirements.***

Our payment processing activities are subject to extensive regulation. Compliance with the requirements under these various regulatory regimes may cause us to incur significant additional costs and failure to comply with such requirements could result in the shutdown of the non-complying facility, the imposition of liens, fines and/or civil or criminal liability.

***We may be subject to regulations regarding privacy, data use and/or security which could adversely affect our business.***

We are subject to regulations in a number of the countries in which we operate relating to the collection, use, retention, security and transfer of personally identifiable information about the people who use our products and services, in particular, personal financial and health information. New laws in this area have been passed by several jurisdictions, and other jurisdictions are considering imposing additional restrictions. The interpretation and application of user data protection laws are in a state of flux. These laws may be interpreted and applied inconsistently from country to country and our current data protection policies and practices may not be consistent with those interpretations and applications. Complying with these varying requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. Any failure, or perceived failure, by us to comply with any regulatory requirements or international privacy or consumer protection-related laws and regulations could result in proceedings or actions against us by governmental entities or others, subject us to significant penalties and negative publicity and adversely affect us. In addition, as noted above, we are subject to the possibility of security breaches, which themselves may result in a violation of these laws.

## **Risks Relating to our Common Stock**

### ***Our stock price has been and may continue to be volatile.***

Our stock price has experienced recent significant volatility. During the 2014 fiscal year, our stock price ranged from a low of \$7.01 to a high of \$13.00. We expect that the trading price of our common stock may continue to be volatile as a result of a number of factors, including, but not limited to the following:

- government or regulatory investigations, including developments in the current US government investigations;
- fluctuations in currency exchange rates, particularly the US dollar/ZAR exchange rate;
- announcement of additional BEE transactions, especially one involving the issuance or potential issuance of equity securities or dilution of our existing business in South Africa;
- quarterly variations in our operating results, especially if our operating results fall below the expectations of securities analysts and investors;
- announcements of acquisitions, disposals or impairments of intangible assets;
- the timing of or delays in the commencement, implementation or completion of major projects;
- large purchases or sales of our common stock;
- general conditions in the markets in which we operate; and
- economic and financial conditions.

***A majority of our common stock is beneficially owned by a small number of shareholders. The interests of these shareholders may conflict with those of our other shareholders.***

There is a concentration of ownership of our outstanding common stock because approximately 53% of our outstanding common stock is owned by three shareholders. Based on their most recent SEC filings disclosing ownership of our shares, International Value Advisers, LLC, or IVA, Allan Gray Proprietary Limited, and investment entities affiliated with General Atlantic LLC, beneficially owned approximately 27%, 18% and 8% of our outstanding common stock, respectively. General Atlantic also has the right to representation on our board of directors although it is not currently exercising that right.

The interests of IVA, Allan Gray and General Atlantic may be different from or conflict with the interests of our other shareholders. As a result of the ownership by IVA, Allan Gray and General Atlantic, they will be able, if they act together, to influence our management and affairs and all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change of control of our company, thus depriving shareholders of a premium for their shares, or facilitating a change of control that other shareholders may oppose.

***We may seek to raise additional financing by issuing new securities with terms or rights superior to those of our shares of common stock, which could adversely affect the market price of our shares of common stock.***

We may require additional financing to fund future operations, including expansion in current and new markets, programming development and acquisition, capital costs and the costs of any necessary implementation of technological innovations or alternative technologies, or to fund acquisitions. Because of the exposure to market risks associated with economies in emerging markets, we may not be able to obtain financing on favorable terms or at all.

If we raise additional funds by issuing equity securities, the percentage ownership of our current shareholders will be reduced, and the holders of the new equity securities may have rights superior to those of the holders of shares of common stock, which could adversely affect the market price and voting power of shares of common stock. If we raise additional funds by issuing debt securities, the holders of these debt securities would similarly have some rights senior to those of the holders of shares of common stock, and the terms of these debt securities could impose restrictions on operations and create a significant interest expense for us.



*We may have difficulty raising necessary capital to fund operations or acquisitions as a result of market price volatility for our shares of common stock.*

In recent years, the securities markets in the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies have experienced wide fluctuations that have not necessarily been related to the operations, performance, underlying asset values or prospects of such companies. For these reasons, our shares of common stock can also be expected to be subject to volatility resulting from purely market forces over which we will have no control. If our business development plans are successful, we may require additional financing to continue to develop and exploit existing and new technologies, to expand into new markets and to make acquisitions, all of which may be dependent upon our ability to obtain financing through debt and equity or other means.

***Issuances of significant amounts of stock in the future could potentially dilute your equity ownership and adversely affect the price of our common stock.***

We believe that it is necessary to maintain a sufficient number of available authorized shares of our common stock in order to provide us with the flexibility to issue shares for business purposes that may arise from time to time. For example, we could sell additional shares to raise capital to fund our operations or to acquire other businesses, issue shares in a BEE transaction, issue additional shares under our stock incentive plan or declare a stock dividend. Our board may authorize the issuance of additional shares of common stock without notice to, or further action by, our shareholders, unless shareholder approval is required by law or the rules of the NASDAQ Stock Market. The issuance of additional shares could dilute the equity ownership of our current shareholders. In addition, additional shares that we issue would likely be freely tradable which could adversely affect the trading price of our common stock.

***Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act, especially over companies that we may acquire, could have a material adverse effect on our business and stock price.***

Under Section 404 of the Sarbanes-Oxley Act of 2002, or Sarbanes, we are required to furnish a management certification and auditor attestation regarding the effectiveness of our internal control over financial reporting. We are required to report, among other things, control deficiencies that constitute a material weakness or changes in internal control that materially affect, or are reasonably likely to materially affect, internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis.

The requirement to evaluate and report on our internal controls also applies to companies that we acquire. Some of these companies may not be required to comply with Sarbanes prior to the time we acquire them. The integration of these acquired companies into our internal control over financial reporting could require significant time and resources from our management and other personnel and may increase our compliance costs. If we fail to successfully integrate the operations of these acquired companies into our internal control over financial reporting, our internal control over financial reporting may not be effective.

While we continue to dedicate resources and management time to ensuring that we have effective controls over financial reporting, failure to achieve and maintain an effective internal control environment could have a material adverse effect on the market's perception of our business and our stock price.

***You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions based upon U.S. laws, including the federal securities laws or other foreign laws, against us or our directors and officers and experts.***

While Net1 is incorporated in the state of Florida, United States, the company is headquartered in Johannesburg, South Africa and substantially all of the company's assets are located outside the United States. In addition, all of Net1's directors and officers reside outside of the United States and our experts, including our independent registered public accountants, are based in South Africa.

As a result, even though you could effect service of legal process upon Net1, as a Florida corporation, in the United States, you may not be able to collect any judgment obtained against Net1 in the United States, including any judgment based on the civil liability provisions of the U.S. federal securities laws, because substantially all of our assets are located outside the United States. Moreover, it may not be possible for you to effect service of legal process upon the majority of our directors and officers or upon our experts within the United States or elsewhere outside South Africa and any judgment obtained against any of our foreign directors, officers and experts in the United States, including one based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the

United States and may not be enforced by a South African court.

A foreign judgment is not directly enforceable in South Africa, but constitutes a cause of action which will be enforced by South African courts provided that:

- the court or arbitral body which pronounced the judgment had international jurisdiction and competence to entertain the case according to the principles recognized by South African law with reference to the jurisdiction of foreign courts;
- the judgment is final and conclusive (that is, it cannot be altered by the court which pronounced it);
- the judgment has not lapsed;

- the recognition and enforcement of the judgment by South African courts would not be contrary to public policy in South Africa, including observance of the rules of natural justice which require that no award is enforceable unless the defendant was duly served with documents initiating proceedings, that he was given a fair opportunity to be heard and that he enjoyed the right to be legally represented in a free and fair trial before an impartial tribunal;
- the judgment was not obtained by improper or fraudulent means;
- the judgment does not involve the enforcement of a penal or foreign revenue law or any award of multiple or punitive damages; and
- the enforcement of the judgment is not otherwise precluded by the provisions of the Protection of Business Act 99 of 1978 (as amended), of the Republic of South Africa.

It has been the policy of South African courts to award compensation for the loss or damage actually sustained by the person to whom the compensation is awarded. South African courts have awarded compensation to shareholders who have suffered damages as a result of a diminution in the value of their shares based on various actions by the corporation and its management. Although the award of punitive damages is generally unknown to the South African legal system, that does not mean that such awards are necessarily contrary to public policy. Whether a judgment was contrary to public policy depends on the facts of each case. Exorbitant, unconscionable, or excessive awards will generally be contrary to public policy. South African courts cannot enter into the merits of a foreign judgment and cannot act as a court of appeal or review over the foreign court. Further, if a foreign judgment is enforced by a South African court, it will be payable in South African currency. Also, under South Africa's exchange control laws, the approval of SARB is required before a defendant resident in South Africa may pay money to a non-resident plaintiff in satisfaction of a foreign judgment enforced by a court in South Africa.

It is doubtful whether an original action based on United States federal securities laws may be brought before South African courts. A plaintiff who is not resident in South Africa may be required to provide security for costs in the event of proceedings being initiated in South Africa. Furthermore, the Rules of the High Court of South Africa require that documents executed outside South Africa must be authenticated for the purpose of use in South African courts.

In reaching the foregoing conclusions, we consulted with our South African legal counsel, Cliffe Dekker Hofmeyr Inc.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

We lease our corporate headquarters facility which consists of approximately 93,000 square feet in Johannesburg, South Africa. We also lease properties throughout South Africa, including a 12,088 square foot manufacturing facility in Lazer Park and 134 depot facilities. We also lease additional office space in Johannesburg, Cape Town and Durban, South Africa; Seoul, South Korea; and Frederick, Maryland. These leases expire at various dates through 2018.

We own land and buildings in Ahnsung, Kyung-gi, South Korea, which facility is used for the storage of business documents. We believe we have adequate facilities for our current business operations.

### ITEM 3. LEGAL PROCEEDINGS

#### *SASSA tender litigation*

On April 17, 2014, the South African Constitutional Court, the highest court in South Africa, issued its ruling on an appropriate remedy following its declaration on November 29, 2013, that the tender process followed by SASSA in awarding a contract to us in January 2012 was constitutionally invalid. The Constitutional Court upheld the declaration of invalidity of our SASSA contract, but suspended such declaration until the awarding of a new tender by SASSA in accordance with the ruling or if no tender is awarded, for the remainder of the existing five-year contract period, as further described below.

The Constitutional Court ordered SASSA to initiate a new tender process within 30 days after the ruling. The request for proposals for the new tender must contain adequate safeguards to ensure that no loss of lawful existing social grants occurs, the payment of lawful existing grants is not interrupted, and personal data obtained in the payment process remains private and may not be used in any manner for any purpose other than payment of grants or for any purpose sanctioned by the Minister of Social Development. The new tender must be for a period of five years and a new and independent Bid Evaluation and Bid Adjudication Committee must be appointed to evaluate and adjudicate the new tender process. Their evaluation and adjudication must be made public by filing, with the Registrar of the Constitutional Court, a status report on the first Monday of every quarter of the year until completion of the process.

The Constitutional Court further ruled that if SASSA does not award a new tender, the declaration of invalidity of our current SASSA contract will be further suspended until completion of the five-year year period for which the contract was originally awarded. In this event, SASSA must, within 14 days of its decision not to award the tender, lodge a report to the Registrar of the Constitutional Court setting out all the relevant information on whether and when it will be ready to assume the duty to pay grants itself. Furthermore, CPS, our wholly owned subsidiary that won the 2012 tender, must in this event file with the Constitutional Court an audited statement of expenses incurred, income received and net profit earned by it during the five year completed contract period, which statement must also be verified by an independent auditor appointed by SASSA and filed with the Constitutional Court. Finally, AllPay was ordered to pay SASSA's and our costs in relation to the application to lead further evidence brought in the main merits application and all parties were ordered to pay their own costs related to the provision of further evidence to the Constitutional Court in order for it to determine the ruling described above.

The Constitutional Court ruling effectively ends this litigation, which was commenced by AllPay on February 8, 2012 in the High Court of South Africa against us and SASSA, challenging SASSA's award of the tender to us.

#### *Suit against AllPay*

On December 11, 2012, we commenced a lawsuit in the South Gauteng High Court in South Africa against AllPay. In our lawsuit, we have alleged that AllPay, wrongfully and unlawfully and with the intention of injuring our reputation, infringing our goodwill and reducing our share price, competed unlawfully with us, by

- directly or indirectly making false reports and providing false information to members of the South African media which AllPay orchestrated thereby creating the basis for false media reports which alleged or implied that the SASSA tender process was tainted by corruption through bribes by or on behalf of our subsidiary, CPS;
- introducing the media reports and allegations of corruption by or on behalf of us in connection with the SASSA tender process into the court proceedings in South Africa instituted by AllPay which sought to set aside the award of the tender to us;
- causing an unfounded report to be made to the Johannesburg Stock Exchange, or JSE, regarding disclosure that we made in relation to the SASSA contract;

- making a report to the DOJ, bringing to the attention of the DOJ the corruption allegations and the South African media reports and repeating the allegations made in the report to the JSE; and
- falsely seeking to create the impression in media reports and radio interviews that it had been found in the South African court proceedings described above that the tender process was tainted by corruption.

In the lawsuit, we are seeking damages in the aggregate amount of ZAR 478 million (approximately US\$45.2 million based on the ZAR/US dollar exchange rate on June 30, 2014) plus interest and costs. The damages claimed may increase as we quantify the continued impact of AllPay's actions. A trial date will be applied for after the exchange of the required pleadings and finalization of any interlocutory issues which may arise. We cannot predict when this matter will go to trial.

***Our application to prompt the Hawks to conduct an investigation into corruption allegations that appeared in the South African media***

On February 14, 2013, we filed an application pursuant to Section 34 of the South African Prevention of Corrupt Activities Act in South Africa with the South African Police Service. Section 34 deals with the reporting of suspected fraud, theft, extortion and forgery.

Matters reported under Section 34 are usually referred for investigation to the South African Directorate for Priority Crime Investigation, known as the Hawks. We filed the Section 34 application to prompt the Hawks to conduct an investigation into who may have made corruption allegations that appeared in the South African media after we were awarded the SASSA tender in January 2012. The Hawks have confirmed to us that our Section 34 application has been accepted for investigation. We have provided certain electronic information to the Hawks at their request and we will cooperate with the Hawks in their investigation.

***United States securities litigation***

On December 24, 2013, Net1, our chief executive officer and our chief financial officer were named as defendants in a purported class action lawsuit filed in the United States District Court for the Southern District of New York alleging violations of the federal securities laws. The lawsuit alleges that we made materially false and misleading statements regarding our business and compliance policies in our SEC filings and other public disclosures. The lawsuit was brought on behalf of a purported shareholder of Net1 and all other similarly situated shareholders who purchased our securities between August 27, 2009 and November 27, 2013. The lawsuit seeks unspecified damages. On July 23, 2014, the Court appointed a lead plaintiff and lead counsel. No motion for class certification has been filed. We believe this lawsuit has no merit and intend to defend it vigorously.

There are no other material pending legal proceedings, other than ordinary routine litigation incidental to our business, to which we are a party or of which any of our property is the subject.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***Market information*

Our common stock is listed on The Nasdaq Global Select Market, or Nasdaq, in the United States under the symbol **UEPS** and on the JSE in South Africa under the symbol **NT1**. The Nasdaq is our principal market for the trading of our common stock.

The following table sets forth, for the periods indicated, the high and low sales prices of our common stock as reported by Nasdaq.

| <b>Period</b>                    | <b>High</b> | <b>Low</b> |
|----------------------------------|-------------|------------|
| Quarter ended September 30, 2012 | \$10.51     | \$7.84     |
| Quarter ended December 31, 2012  | \$9.39      | \$3.01     |
| Quarter ended March 31, 2013     | \$7.95      | \$5.01     |
| Quarter ended June 30, 2013      | \$8.00      | \$6.60     |
| Quarter ended September 30, 2013 | \$13.00     | \$7.01     |
| Quarter ended December 31, 2013  | \$12.74     | \$7.33     |
| Quarter ended March 31, 2014     | \$10.90     | \$7.58     |
| Quarter ended June 30, 2014      | \$12.09     | \$7.03     |

Our transfer agent in the United States is Computershare Shareowner Services LLC, 480 Washington Blvd, Jersey City, New Jersey, 07310. According to the records of our transfer agent, as of August 20, 2014, there were 10 shareholders of record of our common stock. A substantially greater number of holders of our common stock are street name or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions. Our transfer agent in South Africa is Link Market Services South Africa (Pty) Ltd, 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein, 2001, South Africa.

*Dividends*

We have not paid any dividends on our shares of common stock during our last two fiscal years and presently intend to retain future earnings to finance the expansion of the business. We do not anticipate paying any cash dividends in the foreseeable future. The future dividend policy will depend on our earnings, capital requirements, expansion plans, financial condition and other relevant factors.

*Issuer purchases of equity securities*

In June 2014, we repurchased 2,428,122 shares of our common stock from our BEE partners pursuant to the Relationship Agreements with them, at a price of ZAR 109.98 per share. Our BEE transactions, including the repurchase, are described in detail in footnote 14 to our consolidated financial statements.

In August 2013, our Board of Directors authorized the repurchase of up to \$100 million of our common stock from time to time. The authorization has no expiration date. We have not repurchased any shares under this authorization. The repurchase of shares described in the previous paragraph were effected pursuant to a separate authorization by our Board of Directors.



*Share performance graph*

The chart below compares the five-year cumulative return, assuming the reinvestment of dividends, where applicable, on our common stock with that of the S&P 500 Index and the NASDAQ Industrial Index. This graph assumes \$100 was invested on June 30, 2009, in each of our common stock, the S&P 500 companies, and the companies in the NASDAQ Industrial Index.

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected historical consolidated financial data should be read together with Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8 Financial Statements and Supplementary Data. The following selected historical financial data as of June 30, 2014 and 2013, and for the three years ended June 30, 2014 have been derived from our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected historical consolidated financial data presented below as of June 30, 2012, 2011 and 2010 and for the years ended June 30, 2011 and 2010, have been derived from our consolidated financial statements, which are not included herein. The selected historical financial data as of each date and for each period presented have been prepared in accordance with US GAAP. These historical results are not necessarily indicative of results to be expected in any future period.

**Consolidated Statements of Operations Data**

(in thousands, except per share data)

|   | Year Ended June 30 |            |            |            |            |
|---|--------------------|------------|------------|------------|------------|
|   | 2014(1)            | 2013(1)    | 2012(1)    | 2011(2)    | 2010       |
| Revenue   | \$ 581,656         | \$ 452,147 | \$ 390,264 | \$ 343,420 | \$ 280,364 |
| Cost of goods sold, IT processing, servicing and support    | 260,232            | 196,834    | 141,000    | 109,858    | 72,973     |
| Selling, general and administrative                         | 168,072            | 191,552    | 137,404    | 119,692    | 80,854     |
| Equity instruments granted pursuant to BEE transactions (3) | 11,268             | -          | 14,211     | -          | -          |
| Depreciation and amortization                               | 40,286             | 40,599     | 36,499     | 34,671     | 19,348     |
| Impairment losses   | -                  | -          | -          | 41,771     | 37,378     |
| Operating income  | 101,798            | 23,162     | 61,150     | 37,428     | 69,811     |
| Interest income   | 14,817             | 12,083     | 8,576      | 7,654      | 10,116     |
| Interest expense  | 7,473              | 7,966      | 9,345      | 8,672      | 1,047      |
| Income before income taxes                                  | 109,142            | 27,279     | 60,381     | 36,410     | 78,880     |
| Income tax expense  | 39,379             | 14,656     | 15,936     | 33,525     | 40,822     |
| Net income attributable to Net1                             | 70,111             | 12,977     | 44,651     | 2,647      | 38,990     |
| Income from continuing operations per share:                |                    |            |            |            |            |
| Basic   | \$ 1.51            | \$ 0.28    | \$ 0.99    | \$ 0.06    | \$ 0.84    |
| Diluted   | \$ 1.50            | \$ 0.28    | \$ 0.99    | \$ 0.06    | \$ 0.84    |

(1) Includes revenue and implementation costs related to our SASSA contract from April 2012. In addition, 2014 includes recovery of \$26.6 million of implementation costs from SASSA.

(2) Includes KSNET from November 2010.

(3) Includes a non-cash charge of approximately \$11.3 million in 2014 related to common stock issued in our BEE transactions. In addition, 2012 includes a non-cash charge of approximately \$14.2 million in connection with the issuance of a now-expired option to purchase shares of our common stock in a previous BEE transaction.

**Additional Operating Data:**

(in thousands, except percentages)

|   | Year ended June 30, |            |            |            |           |
|---|---------------------|------------|------------|------------|-----------|
|   | 2014(1)             | 2013(1)    | 2012(1)    | 2011(1)    | 2010(1)   |
| Cash flows provided by operating activities | \$ 37,145           | \$ 55,917  | \$ 20,406  | \$ 66,223  | \$ 68,683 |
| Cash flows used in investing activities     | \$ 21,640           | \$ 447,816 | \$ 292,539 | \$ 323,685 | \$ 90,186 |

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|   |    |          |    |         |    |         |    |         |    |          |
|---|----|----------|----|---------|----|---------|----|---------|----|----------|
| Cash flows provided by (used in) financing activities . | \$ | (13,378) | \$ | 409,716 | \$ | 231,907 | \$ | 183,269 | \$ | (48,478) |
|---|----|----------|----|---------|----|---------|----|---------|----|----------|

|                         |     |    |     |     |     |
|-------------------------|-----|----|-----|-----|-----|
| Operating income margin | 18% | 5% | 16% | 11% | 25% |
|-------------------------|-----|----|-----|-----|-----|

(1) Cash flows used in investing activities include movements in settlement assets and cash flows provided by (used in) financing activities include movement in settlement liabilities.

**Consolidated Balance Sheet Data:***(in thousands)*

|   | <b>As of June 30,</b> |           |             |           |             |         |             |         |             |         |
|---|-----------------------|-----------|-------------|-----------|-------------|---------|-------------|---------|-------------|---------|
|   | <b>2014</b>           |           | <b>2013</b> |           | <b>2012</b> |         | <b>2011</b> |         | <b>2010</b> |         |
| Cash and cash equivalents                               | \$                    | 58,672    | \$          | 53,665    | \$          | 39,123  | \$          | 95,263  | \$          | 153,742 |
| Total current assets before settlement assets           |                       | 282,908   |             | 184,723   |             | 175,236 |             | 213,421 |             | 226,429 |
| Goodwill  |                       | 186,576   |             | 175,806   |             | 182,737 |             | 209,570 |             | 76,346  |
| Intangible assets                                       |                       | 68,514    |             | 77,257    |             | 93,930  |             | 119,856 |             | 68,347  |
| Total assets  |                       | 1,350,945 |             | 1,276,322 |             | 955,893 |             | 781,645 |             | 472,090 |
| Total current liabilities before settlement obligations |                       | 81,823    |             | 76,859    |             | 73,377  |             | 102,406 |             | 57,927  |
| Total long-term debt                                    |                       | 62,388    |             | 66,632    |             | 79,760  |             | 111,776 |             | 4,343   |
| Total equity  | \$                    | 441,748   | \$          | 339,969   | \$          | 346,811 | \$          | 328,010 | \$          | 287,301 |

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## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with Item 6 Selected Financial Data and Item 8 Financial Statements and Supplementary Data. In addition to historical consolidated financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. See Item 1A Risk Factors and Forward Looking Statements.

### **Overview**

We are a leading provider of payment solutions and transaction processing services across multiple industries and in a number of emerging economies.

We have developed and market a comprehensive transaction processing solution that encompasses our smart card-based alternative payment system for the unbanked and under-banked populations of developing economies and for mobile transaction channels. Our market-leading system can enable the billions of people globally who generally have limited or no access to a bank account to enter affordably into electronic transactions with each other, government agencies, employers, merchants and other financial service providers. Our universal electronic payment system, or UEPS, uses biometrically secure smart cards that operate in real-time but offline, unlike traditional payment systems offered by major banking institutions that require immediate access through a communications network to a centralized computer. This offline capability means that users of our system can conduct transactions at any time with other card holders in even the most remote areas so long as a smart card reader, which is often portable and battery powered, is available. Our off-line systems also offer the highest level of availability and affordability by removing any elements that are costly and are prone to outages. Our latest version of the UEPS technology has now been certified by EMV, which facilitates our traditionally proprietary UEPS system to interoperate with the global EMV standard and allows card holders to transact at any EMV-enabled point of sale terminal or ATM. The new UEPS/EMV technology has been deployed on an extensive scale in South Africa through the issuance of MasterCard-branded UEPS/EMV cards to our social welfare grant customers. In addition to effecting purchases, cash-backs and any form of payment, our system can be used for banking, healthcare management, international money transfers, voting and identification.

We also provide secure transaction technology solutions and services, by offering transaction processing, financial and clinical risk management solutions to various industries. We have extensive expertise in secure online transaction processing, cryptography, mobile telephony and integrated circuit card (chip/smart card) technologies.

Our technology is widely used in South Africa today, where we distribute pension and welfare payments, using our UEPS/EMV technology, to over nine million recipient cardholders across the entire country, process debit and credit card payment transactions on behalf of a wide range of retailers through our EasyPay system, process value-added services such as bill payments and prepaid airtime and electricity for the major bill issuers and local councils in South Africa, and provide mobile telephone top-up transactions for all of the South African mobile carriers. We are the largest provider of third-party and associated payroll payments in South Africa through our FIHRST service. Our XeoHealth service provides funders and providers of healthcare in United States with an on-line real-time management system for healthcare transactions.

Internationally, through KSNET, we are one of the top three VAN processors in South Korea, and we offer card processing, payment gateway and banking value-added services in that country.

Our NIMS business unit is responsible for the worldwide technical development and commercialization of our array of web and mobile applications and payment technologies, such as MVC, Chip and GSM licensing and VTU and has deployed solutions in many countries, including South Africa, Namibia, Nigeria, Cameroon, the Philippines and Colombia.

**Sources of Revenue**

We generate our revenues by charging transaction fees to government agencies, merchants, financial service providers, utility providers, bill issuers, employers and healthcare providers; by providing loans and insurance products and by selling hardware, licensing software and providing related technology services.

We have structured our business and our business development efforts around four related but separate approaches to deploying our technology. In our most basic approach, we act as a supplier, selling our equipment, software, and related technology to a customer. The revenue and costs associated with this approach are reflected in our Financial inclusion and applied technologies segment.

We have found that we have greater revenue and profit opportunities, however, by acting as a service provider instead of a supplier. In this approach we own and operate the UEPS ourselves, charging one-time and on-going fees for the use of the system either on a fixed or ad valorem basis. This is the case in South Africa, where we distribute welfare grants on behalf of the South African government on a fixed fee basis, but charge a fee on an ad valorem basis for goods and services purchased using our smart card. The revenue and costs associated with this approach are reflected in our South African transaction processing and Financial inclusion and applied technologies segments.

Because our smart cards are designed to enable the delivery of more advanced services and products, we are also willing to supply those services and products directly where the business case is compelling. For instance, we provide short-term UEPS-based loans to our smart card holders. This is an example of the third approach that we have taken. Here we can act as the principal in operating a business that can be better delivered through our UEPS. We can also act as an agent, for instance, in the provision of insurance policies. In both cases, the revenue and costs associated with this approach are reflected in our Financial inclusion and applied technologies segment.

In South Africa, we also generate fees from debit and credit card transaction processing, the provision of value-added services such as bill payments, mobile top-up and pre-paid utility sales, transaction processing for both funders and providers of healthcare and from providing a payroll transaction management service. The revenue and costs associated with these services are reflected in our South African transaction processing and Financial inclusion and applied technologies segments.

Through KSNET, we earn most of our revenue from payment processing services we provide to approximately 225,000 merchants and to card issuers in South Korea through our value-added-network. In the US, we earn transaction fees from our customers utilizing our XeoRules on-line real-time management system for healthcare transactions. We also generate fees from our customers who utilize our VCPay technology to generate a unique, one-time use prepaid virtual card number to securely purchase goods and services or perform bill payments in any card-not-present environment. The revenue and costs at KSNET, XeoHealth and VCPay as well as those from our expired Iraqi contracts to February 2013, are reflected in our International transaction processing segment.

Finally, we have entered into business partnerships or joint ventures to introduce our UEPS and VTU solutions to markets such as Namibia. In these situations, we take an equity position in the business while also acting as a supplier of technology. In evaluating these types of opportunities, we seek to maintain a highly disciplined approach, carefully selecting partners, participating closely in the development of the business plan and remaining actively engaged in the management of the new business. In most instances, the joint venture or partnership has a license to use the UEPS in the specific territory, including the back-end system. We account for our equity investments using the equity method. When we equity-account these investments, we are required under US GAAP to eliminate our share of the net income generated from sales of hardware and software to the investee. We recognize this net income from these equity-accounted investments during the period in which the hardware and software is utilized in the investee's operations, or has been sold to third-party customers, as the case may be.

We believe that this flexible approach enables us to drive adoption of our solution while capturing the value created by the implementation of our technology.

#### **Developments during Fiscal 2014**

##### ***Constitutional Court pronounces remedy for SASSA tender award***

On April 17, 2014, the South African Constitutional Court, or Constitutional Court, ruled on the appropriate remedy following its declaration on November 29, 2013, that the tender process followed by the South African Social Security Agency, or SASSA, in awarding a contract to Net1's wholly-owned subsidiary, Cash Paymaster Services, or CPS, was constitutionally invalid. The declaration of invalidity of the contract between SASSA and CPS was upheld, but suspended until a new tender is awarded, or for the remainder of the existing contract period if no tender is

awarded. SASSA is required to initiate a new tender process within 30 days of the Constitutional Court's ruling and any award must be for a period of five years.

See Part I, Item 3 Legal Proceedings, for additional details.

***December 2013 BEE transactions and buy back of shares from BEE partners***

During fiscal 2014, we signed two BEE Relationship Agreements pursuant to which we issued, in April 2014, an aggregate of 4,400,000 shares of our common stock to our BEE partners for ZAR 60.00 per share. Our share price exceeded ZAR 120.00 on June 4, 2014 and all outstanding amounts under the Relationship Agreements became due and payable. The BEE partners were unable to pay all outstanding amounts due on June 5, 2014, and accordingly a trigger event occurred. In June 2014, we repurchased a total of 2,428,122 shares of our common stock, at the determined volume weighted average price of ZAR109.98, from the BEE partners. Accordingly, the BEE partners owned 1,971,878 shares of our common stock as of June 30, 2014. Refer to notes 14 and 17 to our consolidated financial statements for a full description of and accounting for the BEE transactions.



### ***Recovery of additional implementation costs from SASSA***

In the fourth quarter of fiscal 2014, we received ZAR 277 million (or \$26.6 million) from SASSA related to the recovery of additional implementation costs incurred during the beneficiary re-registration process in fiscal 2012 and 2013. At the time, SASSA requested us to biometrically register all social grant beneficiaries (including all child beneficiaries), in addition to the grant recipients who were issued with the SASSA-branded UEPS/EMV smart cards. As a result, we performed approximately 11 million additional registrations that did not form part of its monthly service fee. After an independent verification process, SASSA agreed to pay the ZAR 277 million as full settlement of the additional costs incurred.

### ***Growth in mobile value-added services***

Our N1MS business unit introduced a new suite of mobile value-added services, commencing with a prepaid airtime product during the first quarter of fiscal 2014 and experienced strong adoption throughout fiscal 2014. This product allows our customers in South Africa to electronically purchase prepaid airtime without having to visit a physical prepaid airtime vendor. N1MS also introduced a similar service under the brand *Pasavute* in partnership with Telecom Networks Malawi in the second half of fiscal 2014.

Traditional prepaid airtime procurement is usually time consuming for the customer and results in them having to pay additional costs. Our product allows our customers, many of whom do not have their own means of transport or ready access to transport, to purchase prepaid airtime without having to travel. We also believe that our product is substantially cheaper than traditional prepaid airtime channels, which often require customers to pay a substantial premium to obtain airtime.

At June 30, 2014, we had approximately 3.0 million registered users, effecting more than one million transactions per day during peak periods. N1MS has also launched additional mobile value-added services, including prepaid electricity, and adoption rates of these products could be similar to its prepaid airtime offering. We believe that these new products are also cheaper than existing offerings and will make a meaningful difference in the lives of users of these new products.

### ***Financial services***

During fiscal 2014, we commenced the national rollout of our financial services offering in the six provinces in which we did not offer our product during fiscal 2013. The rollout has required us to employ and train additional staff and incur set up costs, and rent additional premises in order to establish a physical presence in these six provinces. We experienced significant growth in our lending book during fiscal 2014 compared with 2013.

### ***Disposal of non-core businesses***

During fiscal 2014, we concluded a number of corporate transactions as we continue to restructure and re-focus our business on key long-term growth opportunities. We sold *MediKredit*, our medical claims processing business in South Africa, and *NUETS* business, which consisted primarily of customer contracts in Africa except for Namibia and Botswana. We have also substantially liquidated our *Net1 UTA* business. Refer to notes 18 to our consolidated financial statements for a full description of these transactions.

### **Change to internal reporting structure and restatement of previously reported information**

During June 2014, we simplified our operating and internal reporting structures from five reportable segments to three. Previously reported information has been restated. Refer to Note 23 to our consolidated financial statements and see *Presentation of quarterly revenue and operating income by segment for fiscal 2012 to 2014* below for more information.

## **Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with US GAAP, which requires management to make estimates and assumptions about future events that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities. As future events and their effects cannot be determined with absolute certainty, the determination of estimates requires management's judgment based on a variety of assumptions and other determinants such as historical experience, current and expected market conditions and certain scientific evaluation techniques. Management believes that the following accounting policies are critical due to the degree of estimation required and the impact of these policies on the understanding of the results of our operations and financial condition.

### ***Business Combinations and the Recoverability of Goodwill***

A component of our growth strategy has been to acquire and integrate businesses that complement our existing operations. The purchase price of an acquired business is allocated to the tangible and intangible assets acquired and liabilities assumed based upon their estimated fair value at the date of purchase.

The difference between the purchase price and the fair value of the net assets acquired is recorded as goodwill. In determining the fair value of assets acquired and liabilities assumed in a business combination, we use various recognized valuation methods, including present value modeling. Further, we make assumptions using certain valuation techniques, including discount rates and timing of future cash flows.

We review the carrying value of goodwill annually or more frequently if circumstances indicate impairment may have occurred. In performing this review, we are required to estimate the fair value of goodwill that is implied from a valuation of the reporting unit to which the goodwill has been allocated after deducting the fair values of all the identifiable assets and liabilities that form part of the reporting unit.

The determination of the fair value of a reporting unit requires us to make significant judgments and estimates. In determining the fair value of reporting units, we consider the earnings before interest, taxation, depreciation and amortization, or EBITDA, and the EBITDA multiples applicable to peer and industry comparables of the reporting units. We base our estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. In addition, we make judgments and assumptions in allocating assets and liabilities to each of our reporting units. The results of our impairment tests during fiscal 2014 indicated that the fair value of our reporting units exceeded their carrying values and therefore our reporting units were not at risk of potential impairment.

### ***Intangible Assets Acquired Through Acquisitions***

The fair values of the identifiable intangible assets acquired through acquisitions were determined by management using the purchase method of accounting. We completed acquisitions during fiscal 2013 and 2012, where we identified and recognized intangible assets. We have used the relief from royalty method, the multi-period excess earnings method, the income approach and the cost approach to value acquisition-related intangible assets. In so doing, we made assumptions regarding expected future revenues and expenses to develop the underlying forecasts, applied contributory asset charges, discount rates, exchange rates, cash tax charges and useful lives.

The valuations were based on information available at the time of the acquisition and the expectations and assumptions that have been deemed reasonable by us. No assurance can be given, however, that the underlying assumptions or events associated with such assets will occur as projected. For these reasons, among others, the actual cash flows may vary from forecasts of future cash flows. To the extent actual cash flows vary, revisions to the useful life or impairment of intangible assets may be necessary.

### ***Deferred Taxation***

We estimate our tax liability through the calculations done for the determination of our current tax liability, together with assessing temporary differences resulting from the different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities which are disclosed on our balance sheet. Management then has to assess the likelihood that deferred tax assets are more likely than not to be realized in future periods. In the event it is determined that the deferred tax assets to be realized in the future would be in excess of the net recorded amount, an adjustment to the deferred tax asset valuation allowance would be recorded. This adjustment would increase income in the period such determination was made. Likewise, should it be determined that all or part of the net deferred tax asset would not be realized in the future, an adjustment to increase the deferred tax asset valuation allowance would be charged to income in the period such determination is made. In assessing the need for a valuation allowance, historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and practicable tax planning strategies are considered. During fiscal 2014, we recorded a decrease of \$29.0 million, and in fiscal 2013, and 2012, we recorded an increase of \$6.6 million and \$1.6 million, respectively, to our valuation allowance.

### ***Stock-based Compensation and Equity Instrument issued pursuant to BEE transactions***

*Stock-based compensation*

Management is required to make estimates and assumptions related to our valuation and recording of stock-based compensation charges under current accounting standards. These standards require all share-based compensation to employees to be recognized in the statement of operations based on their respective grant date fair values over the requisite service periods and also requires an estimation of forfeitures when calculating compensation expense.

We utilize the Cox Ross Rubinstein binomial model to measure the fair value of stock options granted to employees and directors and recognize compensation cost on a straight line basis. Option-pricing models require estimates of a number of key valuation inputs including expected volatility, expected dividend yield, expected term and risk-free interest rate. Our management has estimated forfeitures based on historic employee behavior under similar compensation plans. The fair value of stock options is affected by the assumptions selected. Net stock-based compensation expense from continuing operations was \$3.7 million, \$3.9 million and \$2.8 million for fiscal 2014, 2013 and 2012, respectively.

### ***Equity instruments***

We recorded non-cash charges of \$11.3 million and \$14.2 million associated with the issuance of equity instruments as part of the BEE transactions during fiscal 2014 and fiscal 2012, respectively, as these awards were fully vested during those periods. The option granted in fiscal 2012 expired unexercised in fiscal 2013, however, the expense recorded during fiscal 2012 was not reversed during fiscal 2013 because the option had vested in full on the grant date in 2012.

### ***Accounts Receivable and Allowance for Doubtful Accounts Receivable***

We maintain an allowance for doubtful accounts receivable related to our Financial inclusion and applied technologies and international transaction-based activities segments as a result of sales or rental of hardware, support and maintenance services provided; or sale of licenses to customers; or the provision of transaction processing services to our customers.

Our policy is to regularly review the aging of outstanding amounts due from customers and adjust the provision based on management's estimate of the recoverability of the amounts outstanding.

Management considers factors including period outstanding, creditworthiness of the customers, past payment history and the results of discussions by our credit department with the customer. We consider this policy to be appropriate taking into account factors such as historical bad debts, current economic trends and changes in our customer payment patterns. Additional provisions may be required should the ability of our customers to make payments when due deteriorate in the future. A significant amount of judgment is required to assess the ultimate recoverability of these receivables, including on-going evaluation of the creditworthiness of each customer.

### ***UEPS-based lending***

We created an allowance for doubtful finance loans receivable related to our Financial inclusion and applied technologies segment as a result of UEPS-based loans provided to our customers. Our policy is to regularly review the ageing of outstanding amounts due from borrowers and adjust the provision based on management's estimate of the recoverability of finance loans receivable. We write off UEPS-based loans and related service fees if a borrower is in arrears with repayments for more than three months or dies.

Management considers factors including the period of the UEPS-loan outstanding, creditworthiness of the customers and the past payment history and trends of its established UEPS-based lending book. We consider this policy to be appropriate taking into account factors such as historical bad debts, current economic trends and changes in our customer payment patterns. Additional allowances may be required should the ability of our customers to make payments when due deteriorate in the future. A significant amount of judgment is required to assess the ultimate recoverability of these finance loan receivables, including on-going evaluation of the creditworthiness of each customer.

### ***Research and Development***

Accounting standards require product development costs to be charged to expenses as incurred until technological feasibility is attained. Technological feasibility is attained when our software has completed system testing and has been determined viable for its intended use. The time between the attainment of technological feasibility and completion of software development has been short. Accordingly, we did not capitalize any development costs during the years ended June 30, 2014, 2013 or 2012, particularly because the main part of our development is the enhancement and upgrading of existing products.

Costs to develop software for our internal use is expensed as incurred, except to the extent that these costs are incurred during the application development stage. All other costs including those incurred in the project development and post-implementation stages are expensed as incurred.

A significant amount of judgment is required to separate research costs, new development costs and ongoing development costs based as the transition between these stages. A multitude of factors need to be considered by management, including an assessment of the state of readiness of the software and the existence of markets for the software. The possibility of capitalizing development costs in the future may have a material impact on the group's profitability in the period when the costs are capitalized, and in subsequent periods when the capitalized costs are amortized.

## **Recent Accounting Pronouncements**

### *Recent accounting pronouncements adopted*

Refer to Note 2 of our consolidated financial statements for a full description of recent accounting pronouncements, including the expected dates of adoption and effects on financial condition, results of operations and cash flows.

***Recent accounting pronouncements not yet adopted as of June 30, 2014***

Refer to Note 2 of our consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of June 30, 2014, including the expected dates of adoption and effects on financial condition, results of operations and cash flows.

**Currency Exchange Rate Information*****Actual exchange rates***

The actual exchange rates for and at the end of the periods presented were as follows:

| <b>Table 1</b>                      | <b>Year ended June 30,</b> |             |             |
|-------------------------------------|----------------------------|-------------|-------------|
|                                     | <b>2014</b>                | <b>2013</b> | <b>2012</b> |
| ZAR : \$ average exchange rate      | 10.3798                    | 8.8462      | 7.7920      |
| Highest ZAR : \$ rate during period | 11.2579                    | 10.3587     | 8.6987      |
| Lowest ZAR : \$ rate during period  | 9.6259                     | 8.0444      | 6.6096      |
| Rate at end of period               | 10.5887                    | 9.8925      | 8.2881      |
| KRW : \$ average exchange rate      | 1,068                      | 1,112       | 1,130       |
| Highest KRW : \$ rate during period | 1,147                      | 1,162       | 1,202       |
| Lowest KRW : \$ rate during period  | 1,014                      | 1,019       | 1,029       |
| Rate at end of period               | 1,014                      | 1,144       | 1,159       |





***Translation Exchange Rates***

We are required to translate our results of operations from ZAR to US dollars on a monthly basis. Thus, the average rates used to translate this data for the years ended June 30, 2014, 2013 and 2012, vary slightly from the averages shown in the table above. The translation rates we use in presenting our results of operations are the rates shown in the following table:

| <b>Table 2</b>                      | <b>Year ended</b> |                          |             |
|-------------------------------------|-------------------|--------------------------|-------------|
|                                     | <b>2014</b>       | <b>June 30,<br/>2013</b> | <b>2012</b> |
| Income and expense items: \$1 = ZAR | 10.3966           | 8.7105                   | 7.7186      |
| Income and expense items: \$1 = KRW | 1,049             | 1,072                    | 1,104       |
| Balance sheet items: \$1 = ZAR      | 10.5887           | 9.8925                   | 8.2881      |
| Balance sheet items: \$1 = KRW      | 1,014             | 1,144                    | 1,159       |

**Results of Operations**

The discussion of our consolidated overall results of operations is based on amounts as reflected in our audited consolidated financial statements which are prepared in accordance with US GAAP. We analyze our results of operations both in US dollars, as presented in the consolidated financial statements, and supplementally in ZAR, because ZAR is the functional currency of the entities which contribute the majority of our profits and is the currency in which the majority of our transactions are initially incurred and measured. Due to the significant impact of currency fluctuations between the US dollar and ZAR on our reported results and because we use the US dollar as our reporting currency, we believe that the supplemental presentation of our results of operations in ZAR is useful to investors to understand the changes in the underlying trends of our business.

Our operating segment revenue presented in Results of operations by operating segment represents total revenue per operating segment before intercompany eliminations. A reconciliation between total operating segment revenue and revenue presented in our consolidated financial statements is included in Note 23 to those statements.

Fiscal 2013 results include SmartSwitch Botswana from December 1, 2012 and NIMS from September 1, 2012. Fiscal 2012 results include Smart Life from July 1, 2011 and Eason from October 1, 2011. Refer also to Note 3 to the consolidated financial statements.

The discussion below gives effect to the reallocation of certain activities among our various operating segments as discussed above.

### *Fiscal 2014 Compared to Fiscal 2013*

The following factors had an influence on our results of operations during fiscal 2014 as compared with the same period in the prior year:

- **Unfavorable impact from the strengthening of the US dollar against the ZAR:** The US dollar appreciated by 19% against the ZAR during fiscal 2014 which negatively impacted our reported results;
- **\$26.6 million recovery of expenses and 2013 implementation costs:** Our SASSA contract implementation is complete. During fiscal 2014 we received approximately \$26.6 million, or approximately \$19.1 million, net of tax, from SASSA related to the recovery of additional implementation costs incurred during the beneficiary re-registration process in fiscal 2012 and 2013. Fiscal 2013 results include implementation-related expenditure, including smart card costs, of approximately \$66.5 million;
- **Fair value charge resulting from issue of equity instruments pursuant to BEE transactions:** The fair value non-cash charge of \$11.3 million related to our BEE transactions adversely impacted our reported results during fiscal 2014;
- **Increased contribution by KSNET:** Our results were positively impacted by growth in our South Korean operations;
- **Higher revenue resulting from an increase in low-margin prepaid airtime sales:** Our revenue has increased as a result of the growth of our prepaid airtime offering during fiscal 2014, which has lower margins compared with our other South African businesses;
- **National rollout of our financial services offering:** We continued the national rollout of our financial services offering during fiscal 2014, which resulted in higher revenue from UEPS-based lending. Profitability in the Financial inclusion and applied technologies segment however was lower due to rollout costs, including hiring and training of additional staff and infrastructure deployment as well as the creation of an allowance for doubtful finance loans receivable;
- **Ad hoc hardware sales in fiscal 2014:** We sold more terminals and cards during fiscal 2014 as a result of ad hoc orders received from our customers;
- **Lower DOJ and SEC investigation-related expenses:** We incurred DOJ and SEC investigation-related expenses of \$3.9 million during fiscal 2014 compared to \$5.9 million during 2013; and
- **Fiscal 2013 bad debt provision:** In fiscal 2013 we provided \$2.3 million related to the expired NUETS Iraqi customer contracts.

### **Consolidated overall results of operations**

This discussion is based on the amounts which were prepared in accordance with US GAAP.

The following tables show the changes in the items comprising our statements of operations, both in US dollars and in ZAR:

|  | <b>In United States Dollars</b> |               |               |
|--|---------------------------------|---------------|---------------|
|  | <b>(US GAAP)</b>                |               |               |
|  | <b>Year ended June 30,</b>      |               |               |
|  | <b>2014</b>                     | <b>2013</b>   | <b>%</b>      |
|  | <b>\$ 000</b>                   | <b>\$ 000</b> | <b>change</b> |
| Revenue  | 581,656                         | 452,147       | 29%           |
| Cost of goods sold, IT processing, servicing and support | 260,232                         | 196,834       | 32%           |
| Selling, general and administration                      | 168,072                         | 191,552       | (12%)         |
| Equity instruments issued pursuant to BEE transactions   | 11,268                          | -             | nm            |

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|  |         |        |       |
|--|---------|--------|-------|
| Depreciation and amortization                              | 40,286  | 40,599 | (1%)  |
| Operating income   | 101,798 | 23,162 | 340%  |
| Interest income  | 14,817  | 12,083 | 23%   |
| Interest expense   | 7,473   | 7,966  | (6%)  |
| Income before income taxes                                 | 109,142 | 27,279 | 300%  |
| Income tax expense   | 39,379  | 14,656 | 169%  |
| Net income before income from equity-accounted investments | 69,763  | 12,623 | 453%  |
| Income from equity-accounted investments                   | 298     | 351    | (15%) |
| Net income   | 70,061  | 12,974 | 440%  |
| Add net loss attributable to non-controlling interest      | (50)    | (3)    | nm    |
| Net income attributable to Net1                            | 70,111  | 12,977 | 440%  |

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**Table 4**

|  | <b>In South African Rand<br/>(US GAAP)</b> |                             |                     |
|--|--|-----------------------------|---------------------|
|  | <b>Year ended June 30,</b>                 |                             |                     |
|  | <b>2014<br/>ZAR<br/>000</b>                | <b>2013<br/>ZAR<br/>000</b> | <b>%<br/>change</b> |
| Revenue  | 6,047,244                                  | 3,938,426                   | 54%                 |
| Cost of goods sold, IT processing, servicing and support   | 2,705,528                                  | 1,714,523                   | 58%                 |
| Selling, general and administration                        | 1,745,784                                  | 1,668,514                   | 5%                  |
| Equity instruments issued pursuant to BEE transactions     | 118,740                                    | -                           | nm                  |
| Depreciation and amortization                              | 418,838                                    | 353,637                     | 18%                 |
| Operating income   | 1,058,354                                  | 201,752                     | 425%                |
| Interest income  | 154,046                                    | 105,249                     | 46%                 |
| Interest expense   | 77,694                                     | 69,388                      | 12%                 |
| Income before income taxes                                 | 1,134,706                                  | 237,613                     | 378%                |
| Income tax expense   | 409,408                                    | 127,661                     | 221%                |
| Net income before income from equity-accounted investments | 725,298                                    | 109,952                     | 560%                |
| Income from equity-accounted investments                   | 3,098                                      | 3,057                       | 1%                  |
| Net income   | 728,396                                    | 113,009                     | 545%                |
| Add net loss attributable to non-controlling interest      | (520)                                      | (26)                        | nm                  |
| Net income attributable to Net1                            | 728,916                                    | 113,035                     | 545%                |

The increase in revenue was primarily due to the recovery of implementation costs related to our SASSA contract, a higher contribution from KSNET, more low-margin transaction fees generated from beneficiaries using the South African National Payment System, higher prepaid airtime sales driven by the rollout of our prepaid airtime product, an increase in the number of UEPS-based loans and more ad hoc terminal and card sales.

The increase in cost of goods sold, IT processing, servicing and support was primarily due to higher expenses incurred from increased usage of the South African National Payment System by beneficiaries and higher prepaid airtime, terminal and card sales. These increases were offset by the substantial elimination of expenses related to our SASSA contract implementation, which we completed in the fourth quarter of fiscal 2013.

In USD, our selling, general and administration expense decreased due to the substantial elimination of SASSA contract implementation costs and lower legal fees in connection with the US government investigations in the current year, which was offset by increases in goods and services purchased from third parties.

Our operating income margin for fiscal 2014 and 2013 was 18% and 5%, respectively. We discuss the components of operating income margin under Results of operations by operating segment. The increase is primarily attributable to the recovery of implementation costs related to our SASSA contract and the substantial elimination of implementation costs in fiscal 2014, and was partially offset by the non-cash charge related to the equity instruments issued pursuant to our BEE transactions.

The grant date fair value of the equity instruments issued pursuant to our December 2013 BEE transactions was \$11.3 million (ZAR 118.7 million) and was expensed in full in fiscal 2014.

In ZAR, depreciation and amortization were higher primarily as a result of an increase in depreciation related to assets used to service our obligations under our SASSA contract, which was partially offset by no MediKredit and FIHRST intangible asset amortization as these intangible assets were fully amortized at the end of June 2013.

Interest on surplus cash increased to \$14.8 million (ZAR 154.0 million) from \$12.1 million (ZAR 105.2 million), due primarily to higher average daily ZAR cash balances.

In US dollars, interest expense decreased to \$7.5 million (ZAR 77.7 million) from \$8.0 million (ZAR 69.4 million), due to a lower average long-term debt balance on our South Korean debt as well as lower interest rate resulting from our refinancing concluded in October 2013.

Fiscal 2014 tax expense was \$39.4 million (ZAR 409.4 million) compared to \$14.7 million (ZAR 127.7 million) in fiscal 2013. Our effective tax rate for fiscal 2014, was 36.1% and was higher than the South African statutory rate as a result of non-deductible expenses (including the expense related to the equity instruments issued pursuant to our BEE transactions, interest expense related to our long-term South Korean borrowings and stock-based compensation charges).

Our effective tax rate for the fiscal 2013, was 53.7% and was higher than the South African statutory rate primarily as a result of non-deductible expenses (including interest expense related to our long-term South Korean borrowings and stock-based compensation charges) and South African dividend withholding taxes.

### Results of operations by operating segment

The composition of revenue and the contributions of our business activities to operating income are illustrated below

**Table 5**

*In United States Dollars (US GAAP)*  
Year ended June 30,

| Operating Segment                            | 2014<br>\$ 000 | % of<br>total | 2013<br>\$ 000 | % of<br>total | %<br>change |
|--|----------------|---------------|----------------|---------------|-------------|
| Revenue:                                     |                |               |                |               |             |
| South African transaction processing         | 261,577        | 45%           | 242,739        | 54%           | 8%          |
| International transaction processing         | 152,725        | 26%           | 135,954        | 30%           | 12%         |
| Financial inclusion and applied technologies | 207,595        | 36%           | 108,001        | 24%           | 92%         |
| Subtotal: Operating segments                 | 621,897        | 107%          | 486,694        | 108%          | 28%         |
| Intersegment eliminations                    | (40,241)       | (7%)          | (34,547)       | (8%)          | 16%         |
| <b>Consolidated revenue</b>                  | <b>581,656</b> | <b>100%</b>   | <b>452,147</b> | <b>100%</b>   | <b>29%</b>  |
| Operating income (loss):                     |                |               |                |               |             |
| South African transaction processing         | 61,401         | 60%           | (21,316)       | (92%)         | nm          |
| International transaction processing         | 21,952         | 22%           | 14,208         | 61%           | 55%         |
| Financial inclusion and applied technologies | 60,685         | 60%           | 57,491         | 248%          | 6%          |
| Subtotal: Operating segments                 | 144,038        | 142%          | 50,383         | 217%          | 186%        |
| Corporate/Eliminations                       | (42,240)       | (42%)         | (27,221)       | (117%)        | 55%         |
| <b>Consolidated operating income</b>         | <b>101,798</b> | <b>100%</b>   | <b>23,162</b>  | <b>100%</b>   | <b>340%</b> |

**Table 6**

*In South African Rand (US GAAP)*  
Year ended June 30,

| Operating Segment                            | 2014<br>ZAR<br>000 | % of<br>total | 2013<br>ZAR<br>000 | % of<br>total | %<br>change |
|--|--------------------|---------------|--------------------|---------------|-------------|
| Revenue:                                     |                    |               |                    |               |             |
| South African transaction processing         | 2,719,511          | 45%           | 2,114,378          | 54%           | 29%         |
| International transaction processing         | 1,587,821          | 26%           | 1,184,227          | 30%           | 34%         |
| Financial inclusion and applied technologies | 2,158,282          | 36%           | 940,743            | 24%           | 129%        |
| Subtotal: Operating segments                 | 6,465,614          | 107%          | 4,239,348          | 108%          | 53%         |
| Intersegment eliminations                    | 418,370            | (7%)          | 300,922            | (8%)          | 39%         |
| <b>Consolidated revenue</b>                  | <b>6,047,244</b>   | <b>100%</b>   | <b>3,938,426</b>   | <b>100%</b>   | <b>54%</b>  |
| Operating income (loss):                     |                    |               |                    |               |             |
| South African transaction processing         | 638,362            | 60%           | (185,673)          | (92%)         | nm          |
| International transaction processing         | 228,226            | 22%           | 123,759            | 61%           | 84%         |
| Financial inclusion and applied technologies | 630,918            | 60%           | 500,775            | 248%          | 26%         |
| Subtotal: Operating segments                 | 1,497,506          | 142%          | 438,861            | 217%          | 241%        |
| Corporate/Eliminations                       | (439,152)          | (42%)         | (237,109)          | (117%)        | 85%         |

|   |           |      |         |      |      |
|---|-----------|------|---------|------|------|
| <b>Consolidated operating</b>               | 1,058,354 | 100% | 201,752 | 100% | 425% |
| <b>income</b>                               |           |      |         |      |      |
| <b>South African transaction processing</b> |           |      |         |      |      |

In ZAR, the increase in segment revenues was primarily due the recovery of implementation costs related to our SASSA contract and more low-margin transaction fees generated from beneficiaries using the South African National Payment System. In addition, revenue from the distribution of social welfare grants grew modestly during the year and was in-line with the increase in unique welfare cardholder recipients, net of removal of invalid and fraudulent beneficiaries.

Our operating income (loss) margin for fiscal 2014 and 2013 was 23% and (9)%, respectively, and has increased primarily due to the recovery of implementation costs related to our SASSA contract and the substantial elimination of SASSA implementation costs in fiscal 2014.



### **International transaction-based activities**

Revenue increased primarily due to higher transaction volume at KSNET during fiscal 2014 but was partially offset by the expiration and non-renewal of NUETS contract with its Iraqi customer in the third quarter of fiscal 2013. Operating income during fiscal 2014 was higher due to increase in revenue contribution from KSNET, but partially offset by the loss of the NUETS Iraqi contract as well as ongoing losses related to our XeoHealth launch in the United States.

Operating income margin for the segment is lower than for most of our South African transaction processing businesses. Operating income margin for the year to date fiscal 2014 and 2013 was 14% and 10%, respectively.

### **Financial inclusion and applied technologies**

Financial inclusion and applied technologies revenue and operating income increased primarily due to higher prepaid airtime sales driven by the rollout of our prepaid airtime product, an increase in the number of UEPS-based loans as we rolled out our product nationally, an increase in intersegment revenues and more ad hoc terminal and smart card sales. The increase in operating income was partially offset by UEPS-based lending national roll-out expenses and the establishment of the allowance for doubtful finance loans. Smart Life did not contribute to operating income in fiscal 2014 due to the FSB suspension of our license.

Operating income margin for the Financial inclusion and applied technologies segment decreased to 29% from 53%, primarily as a result of more low-margin prepaid airtime and hardware sales.

### **Corporate/ Eliminations**

The increase in our corporate expenses resulted primarily from the non-cash charge related to the equity instruments issued pursuant to our BEE transactions, increases in general corporate audit fees, executive emoluments and other corporate head office-related expenses purchased from third parties, partially offset by lower US government investigation expenses.

Our corporate expenses also include acquisition-related intangible asset amortization; expenditure related to compliance with Sarbanes; non-employee directors fees; employee and executive bonuses; stock-based compensation; audit fees; directors and officers insurance premiums; telecommunications expenses; property-related expenditures including utilities, rental, security and maintenance; and elimination entries.

### ***Fiscal 2013 Compared to Fiscal 2012***

The following factors had an influence on our results of operations during fiscal 2013 as compared with the same period in the prior year:

- ***Unfavorable impact from the strengthening of the US dollar:*** The US dollar appreciated by 14% against the ZAR during fiscal 2013 which negatively impacted our reported results;
- ***SASSA implementation costs:*** We completed the bulk enrollment of recipient cardholders and beneficiaries under our SASSA contract during fiscal 2013 and incurred implementation and staff costs of \$66.5 million, including the cost of UEPS/EMV smart cards issued, compared with \$10.9 million in fiscal 2012;
- ***DOJ and SEC investigation-related expenses:*** We incurred DOJ and SEC investigation-related expenses of \$5.9 million in fiscal 2013;
- ***Allowance for doubtful accounts receivable relating to expired Iraqi contracts:*** We have provided \$2.3 million related to expired NUETS Iraqi customer contracts;
- ***Fair value charge resulting from issue of equity instrument pursuant to BEE transaction:*** The fair value charge of \$14.2 million related to our BEE transaction negatively impacted our reported results during fiscal

2012;

- ***Fiscal 2012 impacted by change in South African tax law:*** As a result of the change in South African tax law that replaced STC with a dividends withholding tax, fiscal 2012 tax expense included a net taxation benefit of \$10.1 million, as we recorded a \$18.3 million deferred tax benefit which was offset by an \$8.2 million foreign tax credit valuation allowance; and
- ***Profit on liquidation of SmartSwitch Nigeria:*** In fiscal 2012, we recorded a non-cash profit of \$4.0 million on the liquidation of SmartSwitch Nigeria.

**Consolidated overall results of operations**

This discussion is based on the amounts which were prepared in accordance with US GAAP.

The following tables show the changes in the items comprising our statements of operations, both in US dollars and in ZAR:

**Table 7**

**In United States Dollars  
(US GAAP)  
Year ended June 30,**

|   | <b>2013</b>   | <b>2012</b>   | <b>%</b>      |
|---|---------------|---------------|---------------|
|   | <b>\$ 000</b> | <b>\$ 000</b> | <b>change</b> |
| Revenue   | 452,147       | 390,264       | 16%           |
| Cost of goods sold, IT processing, servicing and support              | 196,834       | 141,000       | 40%           |
| Selling, general and administration                                   | 191,552       | 137,404       | 39%           |
| Equity instrument issued pursuant to BEE transaction                  | -             | 14,211        | nm            |
| Depreciation and amortization   | 40,599        | 36,499        | 11%           |
| Operating income  | 23,162        | 61,150        | (62%)         |
| Interest income   | 12,083        | 8,576         | 41%           |
| Interest expense  | 7,966         | 9,345         | (15%)         |
| Income before income taxes  | 27,279        | 60,381        | (55%)         |
| Income tax expense  | 14,656        | 15,936        | (8%)          |
| Net income before income from equity-accounted investments            | 12,623        | 44,445        | (72%)         |
| Income from equity-accounted investments                              | 351           | 220           | 60%           |
| Net income  | 12,974        | 44,665        | (71%)         |
| (Add) Less net (loss) income attributable to non-controlling interest | (3)           | 14            | nm            |
| Net income attributable to Net1                                       | 12,977        | 44,651        | (71%)         |

**Table 8**

**In South African Rand  
(US GAAP)  
Year ended June 30,**

|   | <b>2013</b> | <b>2012</b> | <b>%</b>      |
|---|-------------|-------------|---------------|
|   | <b>ZAR</b>  | <b>ZAR</b>  | <b>change</b> |
|   | <b>000</b>  | <b>000</b>  |               |
| Revenue   | 3,938,426   | 3,012,292   | 31%           |
| Cost of goods sold, IT processing, servicing and support              | 1,714,523   | 1,088,322   | 58%           |
| Selling, general and administration                                   | 1,668,514   | 1,058,190   | 58%           |
| Equity instrument issued pursuant to BEE transaction                  | -           | 112,066     | nm            |
| Depreciation and amortization   | 353,637     | 281,722     | 26%           |
| Operating income  | 201,752     | 471,992     | (57%)         |
| Interest income   | 105,249     | 66,195      | 59%           |
| Interest expense  | 69,388      | 72,130      | (4%)          |
| Income before income taxes  | 237,613     | 466,057     | (49%)         |
| Income tax expense  | 127,661     | 123,004     | 4%            |
| Net income before income from equity-accounted investments            | 109,952     | 343,053     | (68%)         |
| Income from equity-accounted investments                              | 3,057       | 1,698       | 80%           |
| Net income  | 113,009     | 344,751     | (67%)         |
| (Add) Less net (loss) income attributable to non-controlling interest | (26)        | 108         | nm            |
| Net income attributable to Net1                                       | 113,035     | 344,643     | (67%)         |

The increase in revenue was primarily due to incremental revenue resulting from our new SASSA contract and a higher contribution from KSNET.

The increase in cost of goods sold, IT processing, servicing and support was primarily due to higher expenses related to the implementation of our new SASSA contract which includes the UEPS/EMV smart cards issued during fiscal 2013.

Our selling, general and administration expense increased primarily due to the SASSA contract implementation costs described above, legal fees of approximately \$5.9 million (ZAR 51.7 million) in connection with the government investigations and the allowance for doubtful accounts receivable for expired NUETS contracts. Our selling, general and administration expense for fiscal 2012 included SASSA contract implementation costs of \$10.9 million (ZAR 83.9 million) and cash bonuses of \$5.4 million (ZAR 41.8 million) related to our SASSA tender award and a non-cash profit related to the liquidation of SmartSwitch Nigeria of \$4.0 million.

The grant date fair value of the equity instrument issued pursuant to our January 2012 BEE transaction was \$14.2 million (ZAR 112.1 million) and was expensed in full in fiscal 2012. The option expired unexercised in fiscal 2013.

Our operating income margin for fiscal 2013 and 2012 was 5% and 16%, respectively. We discuss the components of the operating income margin under Results of operations by operating segment. The decrease is primarily attributable to higher implementation costs related to the SASSA contract, DOJ and SEC investigation costs and the NUETS allowance for doubtful accounts receivable in fiscal 2013.

Depreciation and amortization increased primarily as a result of an increase in depreciation related to assets used to service our obligations under our SASSA contract.

Interest on surplus cash increased to \$12.1 million (ZAR 105.2 million) from \$8.6 million (ZAR 66.2 million). The increase resulted primarily from higher average daily ZAR cash balances offset by lower deposit rates resulting from the decrease in the South African prime interest rate from an average of approximately 9.0% to 8.5% per annum.

Interest expense decreased to \$8.0 million (ZAR 69.4 million) from \$9.3 million (ZAR 72.1 million) due to a lower average long-term debt balance.

Total fiscal 2013 tax expense was \$14.7 million (ZAR 127.7 million) compared to \$16.0 million (ZAR 123.0 million) in fiscal 2012. Our fiscal 2012 tax expense includes \$18.3 million related to a change in South African tax law and the creation of a valuation allowance of \$8.2 million related to foreign tax credits. Our effective tax rate for fiscal 2013, was 53.7% and was higher than the South African statutory rate primarily as a result of non-deductible expenses (including interest expense related to our long-term South Korean borrowings and stock-based compensation charges) and South African dividend withholding taxes. Our effective tax rate for fiscal 2012, was 26.4% and was lower than the South African statutory rate as a result of a change in South African tax law which resulted in a net deferred taxation benefit and a non-taxable profit on liquidation of SmartSwitch Nigeria, which was partially offset by an equity instrument issued pursuant to our BEE transaction and non-deductible expenses (including interest expense related to our long-term South Korean borrowings and stock-based compensation charges) and the creation of a valuation allowance.

### Results of operations by operating segment

The composition of revenue and the contributions of our business activities to operating income are illustrated below

| Operating Segment                            | <i>In United States Dollars (US GAAP)</i> |             |                |             |            |
|--|---|-------------|----------------|-------------|------------|
|  | Year ended June 30,                       |             |                |             |            |
|  | 2013                                      | % of        | 2012           | % of        | %          |
|  | \$ 000                                    | total       | \$ 000         | total       | change     |
| Revenue:                                     |   |             |                |             |            |
| South African transaction processing         | 242,739                                   | 54%         | 194,630        | 50%         | 25%        |
| International transaction processing         | 135,954                                   | 30%         | 120,625        | 27%         | 13%        |
| Financial inclusion and applied technologies | 108,001                                   | 24%         | 90,792         | 20%         | 19%        |
| Subtotal: Operating segments                 | 486,694                                   | 108%        | 406,047        | 97%         | 20%        |
| Intersegment eliminations                    | (34,547)                                  | (8%)        | (15,783)       | 3%          | 119%       |
| <b>Consolidated revenue</b>                  | <b>452,147</b>                            | <b>100%</b> | <b>390,264</b> | <b>100%</b> | <b>16%</b> |
| Operating income (loss):                     |   |             |                |             |            |
| South African transaction processing         | (21,316)                                  | (92%)       | 33,906         | 55%         | nm         |
| International transaction processing         | 14,208                                    | 61%         | 14,649         | 24%         | (3%)       |

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|  |          |        |          |       |       |
|--|----------|--------|----------|-------|-------|
| Financial inclusion and applied technologies | 57,491   | 248%   | 45,884   | 75%   | 25%   |
| Subtotal: Operating segments                 | 50,383   | 217%   | 94,439   | 154%  | (47%) |
| Corporate/Eliminations                       | (27,221) | (117%) | (33,289) | (54%) | (18%) |
| <b>Consolidated operating income</b>         | 23,162   | 100%   | 61,150   | 100%  | (62%) |

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**Table 10***In South African Rand (US GAAP)*  
Year ended June 30,

| Operating Segment                            | 2013             | % of total  | 2012             | % of total  | % change     |
|--|------------------|-------------|------------------|-------------|--------------|
|  | ZAR<br>000       |             | ZAR<br>000       |             |              |
| Revenue:                                     |                  |             |                  |             |              |
| South African transaction processing         | 2,114,378        | 54%         | 1,502,271        | 50%         | 41%          |
| International transaction processing         | 1,184,227        | 30%         | 931,056          | 31%         | 27%          |
| Financial inclusion and applied technologies | 940,743          | 24%         | 700,787          | 23%         | 34%          |
| Subtotal: Operating segments                 | 4,239,348        | 108%        | 3,134,114        | 104%        | 35%          |
| Intersegment eliminations                    | (300,922)        | (8%)        | (121,822)        | (4%)        | 147%         |
| <b>Consolidated revenue</b>                  | <b>3,938,426</b> | <b>100%</b> | <b>3,012,292</b> | <b>100%</b> | <b>31%</b>   |
| Operating (loss) income:                     |                  |             |                  |             |              |
| South African transaction processing         | (185,673)        | (92%)       | 261,706          | 55%         | nm           |
| International transaction processing         | 123,759          | 61%         | 113,070          | 24%         | 9%           |
| Financial inclusion and applied technologies | 500,775          | 248%        | 354,160          | 75%         | 41%          |
| Subtotal: Operating segments                 | 438,861          | 217%        | 728,936          | 154%        | (40%)        |
| Corporate/Eliminations                       | (237,109)        | (117%)      | (256,944)        | (54%)       | (8%)         |
| <b>Consolidated operating income</b>         | <b>201,752</b>   | <b>100%</b> | <b>471,992</b>   | <b>100%</b> | <b>(57%)</b> |

**South African transaction processing**

In ZAR, the increases in segment revenue were primarily due to higher revenues earned for a full year under our new SASSA contract and low-margin transaction fees generated from beneficiaries using the South African National Payment System.

Our operating (loss) income margin for fiscal 2013 and 2012 was (9%) and 17%, respectively, and has declined primarily due to the higher SASSA implementation costs.

**International transaction-based activities**

KSNET continues to contribute the majority of our revenues and operating income in this operating segment. Revenue increased primarily due to KSNET's revenue growth during fiscal 2013 and was offset by the expiration and non-renewal of NUETS' contract with its Iraqi customer. Operating income was negatively impacted by this expiration and non-renewal and the related allowance for doubtful accounts receivable, ongoing start-up expenditures related to our XeoHealth launch in the United States, ongoing losses at Net1 Virtual Card and Net1 UTA as well as ongoing competition in the South Korean marketplace, but was partially offset by increased revenue contributions from KSNET.

Operating margin for the segment is lower than most of our South African transaction processing businesses. Operating income margin for fiscal 2013 and 2012 was 10% and 12%, respectively.

**Financial inclusion and applied technologies**

Our revenue from this operating segment increased because of higher intersegment fees and ad hoc hardware sales to external customers and an increase in the number of smart card-based accounts as a result of the new SASSA contract, offset lower UEPS-based lending revenue as a result of a decrease in the number of loans granted. Our revenue per smart card account decreased in fiscal 2013, as a result of a change in our pricing for these accounts after

taking into consideration the lower price and higher volumes under the new SASSA contract. The new pricing was effective from April 1, 2012, and reduced the average monthly revenue per smart card from ZAR5.50 to ZAR4.00 and the operating income margin from 45.45% to 28.50% .

Segment operating income increased due to the higher intersegment fees and ad hoc hardware sales to external customers, offset by a lower smart-card account operating margin, on-going start-up expenditure incurred to establish our Smart Life insurance business and lower UEPS-based lending activity. Smart Life did not contribute to operating income in fiscal 2013 or 2012.

Operating income margin for the Financial inclusion and applied technologies segment increased to 53% from 51%, primarily as a result of higher intersegment fees, offset by increased start-up expenditures related to Smart Life and other financial services offerings.



**Corporate/ Eliminations**

Our fiscal 2013 corporate expenses include increased legal and other fees we incurred in connection with the US government investigations and higher stock-based compensation charges. Our fiscal 2012 corporate expenses include a charge related to our equity instrument issued pursuant to our BEE transaction and a \$4.0 million profit related to the liquidation of SmartSwitch Nigeria.

Our corporate expenses also include acquisition-related intangible asset amortization; expenditure related to compliance with Sarbanes; non-executive directors fees; employee and executive bonuses; stock-based compensation; legal and audit fees; directors and officers insurance premiums; telecommunications expenses; property-related expenditures including utilities, rental, security and maintenance; and elimination entries.

**Presentation of quarterly revenue and operating income by segment for fiscal 2012 to 2014**

The tables below present quarterly revenue and operating income generated by our three reportable segments for the fiscal 2014, 2013 and 2012, and reconciliations to consolidated revenue and operating income (loss), as well as the US dollar/ ZAR exchange rates applicable per fiscal quarter and year:

**Table 11***In United States Dollars (US GAAP)*

|  | <b>Fiscal 2014</b>   |                      |                      |                      |                      |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
|  | <b>Quarter<br/>1</b> | <b>Quarter<br/>2</b> | <b>Quarter<br/>3</b> | <b>Quarter<br/>4</b> | <b>Full<br/>Year</b> |
| <b>Operating Segment</b>                     | <b>\$ 000</b>        | <b>\$ 000</b>        | <b>\$ 000</b>        | <b>\$ 000</b>        | <b>\$ 000</b>        |
| <b>Revenue:</b>                              |                      |                      |                      |                      |                      |
| South African transaction processing         | 57,161               | 58,754               | 57,397               | 88,265               | 261,577              |
| International transaction processing         | 37,541               | 37,738               | 35,245               | 42,201               | 152,725              |
| Financial inclusion and applied technologies | 36,796               | 50,480               | 56,226               | 64,093               | 207,595              |
| Subtotal: Operating segments                 | 131,498              | 146,972              | 148,868              | 194,559              | 621,897              |
| Intersegment eliminations                    | (8,004)              | (9,689)              | (10,742)             | (11,806)             | (40,241)             |
| <b>Consolidated revenue</b>                  | <b>123,494</b>       | <b>137,283</b>       | <b>138,126</b>       | <b>182,753</b>       | <b>581,656</b>       |
| <b>Operating (loss) income:</b>              |                      |                      |                      |                      |                      |
| South African transaction processing         | 6,461                | 7,128                | 9,137                | 38,675               | 61,401               |
| International transaction processing         | 5,524                | 5,139                | 4,642                | 6,647                | 21,952               |
| Financial inclusion and applied technologies | 12,835               | 13,265               | 16,459               | 18,126               | 60,685               |
| Subtotal: Operating segments                 | 24,820               | 25,532               | 30,238               | 63,448               | 144,038              |
| Corporate/ Eliminations                      | (8,420)              | (6,730)              | (6,289)              | (20,801)             | (42,240)             |
| <b>Consolidated operating income</b>         | <b>16,400</b>        | <b>18,802</b>        | <b>23,949</b>        | <b>42,647</b>        | <b>101,798</b>       |
|  | 10.0001              | 10.1592              | 10.8743              | 10.4218              | 10.3966              |

Income and expense  
items: \$1 = ZAR

**Table 12***In United States Dollars (US GAAP)*

| Operating Segment                                 | Fiscal 2013            |                        |                        |                        | Full<br>Year<br>\$ 000 |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
|   | Quarter<br>1<br>\$ 000 | Quarter<br>2<br>\$ 000 | Quarter<br>3<br>\$ 000 | Quarter<br>4<br>\$ 000 |                        |
| Revenue:  |                        |                        |                        |                        |                        |
| South African transaction processing              | 62,420                 | 61,708                 | 60,415                 | 58,196                 | 242,739                |
| International transaction processing              | 32,397                 | 33,664                 | 33,700                 | 36,193                 | 135,954                |
| Financial inclusion and applied<br>technologies   | 26,615                 | 25,563                 | 26,214                 | 29,609                 | 108,001                |
| Subtotal: Operating segments                      | 121,432                | 120,935                | 120,329                | 123,998                | 486,694                |
| Intersegment eliminations                         | (9,750)                | (9,493)                | (9,188)                | (6,116)                | (34,547)               |
| <b>Consolidated revenue</b>                       | 111,682                | 111,442                | 111,141                | 117,882                | 452,147                |
| Operating (loss) income:                          |                        |                        |                        |                        |                        |
| South African transaction processing              | (3,299)                | (6,233)                | (11,587)               | (197)                  | (21,316)               |
| International transaction-based activities        | 3,329                  | 3,583                  | 2,033                  | 5,263                  | 14,208                 |
| Financial inclusion and applied<br>technologies   | 14,913                 | 14,286                 | 14,038                 | 14,254                 | 57,491                 |
| Subtotal: Operating segments                      | 14,943                 | 11,636                 | 4,484                  | 19,320                 | 50,383                 |
| Corporate/Eliminations                            | (5,618)                | (6,664)                | (9,210)                | (5,729)                | (27,221)               |
| <b>Consolidated operating<br/>income (loss) .</b> | 9,325                  | 4,972                  | (4,726)                | 13,591                 | 23,162                 |
| Income and expense items: \$1 = ZAR               | 8.2606                 | 8.7405                 | 8.4662                 | 9.1863                 | 8.7105                 |

Table 13

*In United States Dollars (US GAAP)*

| Operating Segment                             | Fiscal 2012 |           |           |           | Full Year |
|---|-------------|-----------|-----------|-----------|-----------|
|   | Quarter 1   | Quarter 2 | Quarter 3 | Quarter 4 |           |
|   | \$ 000      | \$ 000    | \$ 000    | \$ 000    | \$ 000    |
| Revenue:                                      |             |           |           |           |           |
| South African transaction processing          | 45,632      | 43,985    | 43,753    | 61,260    | 194,630   |
| International transaction processing          | 31,053      | 29,446    | 28,635    | 31,491    | 120,625   |
| Financial inclusion and applied technologies  | 24,454      | 19,771    | 19,591    | 26,976    | 90,792    |
| Subtotal: Operating segments                  | 101,139     | 93,202    | 91,979    | 119,727   | 406,047   |
| Intersegment eliminations                     | (1,213)     | (1,144)   | (1,315)   | (12,111)  | (15,783)  |
| <b>Consolidated revenue</b>                   | 99,926      | 92,058    | 90,664    | 107,616   | 390,264   |
| Operating (loss) income:                      |             |           |           |           |           |
| South African transaction processing          | 17,001      | 13,549    | 5,590     | (2,234)   | 33,906    |
| International transaction processing          | 4,346       | 3,519     | 3,295     | 3,489     | 14,649    |
| Financial inclusion and applied technologies  | 11,968      | 9,479     | 9,078     | 15,359    | 45,884    |
| Subtotal: Operating segments                  | 33,315      | 26,547    | 17,963    | 16,614    | 94,439    |
| Corporate/Eliminations                        | (2,469)     | (6,319)   | (5,485)   | (19,016)  | (33,289)  |
| <b>Consolidated operating income (loss) .</b> | 30,846      | 20,228    | 12,478    | (2,402)   | 61,150    |
| Income and expense items: \$1 = ZAR           | 7.0939      | 8.1752    | 7.8521    | 8.0329    | 7.7186    |

**Liquidity and Capital Resources**

At June 30, 2014, our cash balances were \$58.7 million, which comprised mainly ZAR-denominated balances of ZAR 411.9 million (\$38.9 million), KRW-denominated balances of KRW 14.9 billion (\$14.7 million) and US dollar-denominated balances of \$3.7 million and other currency deposits, primarily euro, of \$1.4 million. The increase in our cash balances from June 30, 2013, was primarily due to higher cash generated from our core business and the recovery of implementation costs from SASSA, which increase was partially offset by higher corporate tax payments, the expansion of our UEPS-based lending business, acquisition of terminals to maintain and expand our South Korean business activities, the repayment of a portion of our South Korean debt and acquisition of substantially all of the remaining shares of KSNET that we did not already own.

We currently believe that our cash and credit facilities are sufficient to fund our future operations for at least the next four quarters.

We generally invest the surplus cash held by our South African operations in overnight call accounts that we maintain at South African banking institutions, and surplus cash held by our non-South African companies in the US and European money markets. We have invested surplus cash in South Korea in short-term investment accounts at South Korean banking institutions. In addition, we are required to invest the interest payable under our South Korean debt facilities due in the next six months in an interest reserve account in South Korea.

Historically, we have financed most of our operations, research and development, working capital, capital expenditures and acquisitions through our internally generated cash. When considering whether to borrow under our financing facilities, we consider the cost of capital, cost of financing, opportunity cost of utilizing surplus cash and availability of tax efficient structures to moderate financing costs.

During December 2013, we increased our short-term South African credit facility with Nedbank Limited to ZAR 400 million (\$37.8 million). The short-term facility comprises of an overdraft facility of up to ZAR 250 million and indirect and derivative facilities of up to ZAR 150 million, which includes letters of guarantee, letters of credit and forward exchange contracts. As of June 30, 2014, we have used none of the overdraft and ZAR 139.0 million (\$13.1 million) of the indirect and derivative facilities to obtain foreign exchange contracts and to support guarantees issued by Nedbank to various third parties on our behalf. Refer to Note 12 to the consolidated financial statements for more information about the terms of this facility.

As of June 30, 2014, we had outstanding long-term debt of KRW 78.3 billion (approximately \$77.2 million translated at exchange rates applicable as of June 30, 2014) under credit facilities with a group of South Korean banks. The loans bear interest at the South Korean CD rate in effect from time to time (2.65% as of June 30, 2014) plus a margin of 3.10% for one of the term loan facilities and the revolver and a margin of 2.90% for the other term loan facility. Scheduled repayments of the term loans and loan under the revolving credit facility are as follows: October 2014 (KRW 15 billion), April 2016, 2017 and 2018 (KRW 10 billion each) and October 2018 (KRW 30 billion plus all outstanding loans under our revolving credit facility). Refer to Note 13 to the consolidated financial statements for more information about the terms of this facility.

We have a unique cash flow cycle due to the funding mechanism under our SASSA contract and our pre-funding of certain merchants. We generally receive the grant funds 48 hours prior to the provision of the service in a trust account and any interest we earn on these amounts is for the benefit of SASSA. We are required to initiate payments before the start of the pay cycle month in order to have cash, merchant and interbank funds available when the payment cycle commences and this process requires that we have access to the grant funds to be paid. These funds are recorded as settlement assets and liabilities. Historically, we opened the pay cycle at certain participating merchants a few days before the payment of grants at pay sites, however, currently we do not commence the payment cycle at participating merchants before the start of the pay cycle month.

We use our funds to pre-fund certain merchants for grants paid through our merchant acquiring system on our behalf a day or two before the pay cycle opens. We typically reimburse merchants that are not pre-funded within 48 hours after they distribute the grants to the social welfare recipient cardholders.

In addition, as a transaction processor, and in certain instances as a claims adjudicator, we receive cash from:  
customers on whose behalf we process off-payroll payments that we will disburse to customer employees, payroll-related payees and other payees designated by the customer; and

credit card companies (as well as other types of payment services) which have business relationships with merchants selling goods and services via the internet in South Korea that are our customers and on whose behalf we process the transactions between various parties and settle the funds from the credit card companies to our merchant customers.

These funds do not represent cash that is available to us and we present these funds, and the associated liability, outside of our current assets and liabilities on our consolidated balance sheet. Movements in these cash balances are presented in investing activities and movements in the obligations are presented in financing activities in our consolidated statement of cash flows.

### ***Cash flows from operating activities***

Cash flows from operating activities for fiscal 2014 decreased to \$37.1 million (ZAR 386.2 million) from \$55.9 million (ZAR 513.7 million) for fiscal 2013. Excluding the impact of interest paid under our South Korean debt facility and taxes presented in the table below, the decrease in cash from operating activities resulted from the expansion of our UEPS-based lending book, offset by cash inflows from improved trading activity, the recovery of implementation costs from SASSA and the substantial elimination of implementation costs related to our SASSA contract in fiscal 2014. During fiscal 2014, we paid interest of \$5.2 million under our South Korean debt facility.

Cash flows from operating activities for fiscal 2013 increased to \$55.9 million (ZAR 513.7 million) from \$20.4 million (ZAR 157.5 million) for fiscal 2012. Excluding the impact of interest paid under our South Korean debt facility and taxes presented in the table below, the increase in cash provided by operating activities resulted from a more favorable trading environment, notwithstanding the significant implementation costs paid in fiscal 2013, an increase in accounts payable and a decrease in prefunding to merchants participating in our merchant acquiring system. These increases to operating cash flows were offset by a moderate increase in accounts receivable and

inventory and lower other payables and taxes which all decrease operating cash flow. During fiscal 2013, we paid interest of \$7.1 million under our South Korean debt facility.

During fiscal 2014, we made a first provisional tax payment of \$13.3 million (ZAR 137.8 million) and a second provisional tax payment of \$25.0 million (ZAR 266.6 million) related to our 2014 tax year in South Africa. We also paid taxes totaling \$3.9 million in other tax jurisdictions, primarily South Korea.

During fiscal 2013, we made a first provisional tax payment of \$6.8 million (ZAR 58.7 million), a second provisional tax payment of \$7.2 million (ZAR 72.5 million) related to our 2013 tax year in South Africa and paid dividend withholding taxes of \$1.6 million (ZAR 14.9 million) related to cross-border intercompany dividends paid. We made an additional second provisional tax payments of \$3.1 million (ZAR 25.5 million) related to our 2012 tax year in South Africa. We also paid taxes totaling \$3.3 million in other tax jurisdictions, primarily South Korea.

Taxes paid during fiscal 2014, 2013 and 2012 were as follows:

**Table 14**

|  | <b>Year ended June 30,</b> |               |               |                |                |                |
|--|----------------------------|---------------|---------------|----------------|----------------|----------------|
|  | <b>2014</b>                | <b>2013</b>   | <b>2012</b>   | <b>2014</b>    | <b>2013</b>    | <b>2012</b>    |
|  | <b>\$</b>                  | <b>\$</b>     | <b>\$</b>     | <b>ZAR</b>     | <b>ZAR</b>     | <b>ZAR</b>     |
|  | <b>000</b>                 | <b>000</b>    | <b>000</b>    | <b>000</b>     | <b>000</b>     | <b>000</b>     |
| First provisional payments                         | 13,292                     | 6,757         | 15,014        | 137,773        | 58,693         | 123,271        |
| Second provisional payments                        | 25,004                     | 7,228         | 8,485         | 266,573        | 72,451         | 71,458         |
| Taxation paid related to prior years               | 228                        | 3,072         | 3,326         | 2,360          | 25,517         | 24,803         |
| Taxation refunds received                          | (36)                       | (65)          | (287)         | (400)          | (480)          | (2,121)        |
| Dividend withholding taxation                      | -                          | 1,610         | -             | -              | 14,916         | -              |
| Secondary taxation on companies                    | -                          | -             | 1,811         | -              | -              | 14,615         |
| <b>Total South African taxes paid</b>              | <b>38,488</b>              | <b>18,602</b> | <b>28,349</b> | <b>406,306</b> | <b>171,097</b> | <b>232,026</b> |
| Foreign taxes paid, primarily South                |                            |               |               |                |                |                |
| Korea  | 3,929                      | 3,298         | 2,355         | 41,506         | 29,468         | 18,288         |
| <b>Total tax paid</b>                              | <b>42,417</b>              | <b>21,900</b> | <b>30,704</b> | <b>447,812</b> | <b>200,565</b> | <b>250,314</b> |
| <b><i>Cash flows from investing activities</i></b> |                            |               |               |                |                |                |

Cash used in investing activities for fiscal 2014 includes capital expenditure of \$23.9 million (ZAR 248.5 million), primarily for the acquisition of payment processing terminals in South Korea.

Cash used in investing activities for fiscal 2013 includes capital expenditure of \$22.7 million (ZAR 198.1 million), primarily for payment vehicles and related equipment for our SASSA contract and acquisition of payment processing terminals in South Korea.

Cash used in investing activities for fiscal 2012 includes capital expenditure of \$39.2 million (ZAR 302.2 million), primarily for payment vehicles for our SASSA contract, acquisition of payment processing terminals in South Korea and POS devices to service our merchant acquiring system in South Africa.

During fiscal 2013 we paid, net of cash acquired, \$1.9 million (ZAR 16.8 million) for NIMS and \$0.2 million for SmartSwitch Botswana. During fiscal 2012, we received a net settlement of \$4.9 million from the former shareholders of KSNET. We also paid \$4.5 million (ZAR 34.8 million) for the Eason prepaid electricity and airtime business during fiscal 2012.

#### ***Cash flows from financing activities***

During the fiscal 2014, we refinanced our South Korean debt and used \$70.6 million of these new borrowings and \$16.4 million of our surplus cash to repay the \$87.0 million due under our old facility. In addition, we paid the facility fees related to our new South Korean borrowings of approximately \$0.9 million. During fiscal 2014, we utilized approximately \$2.1 million of these new borrowings to pay quarterly interest due in South Korea.

During fiscal 2014, we paid approximately \$2.0 million for substantially all of the shares of KSNET we did not already own. We utilized our South African short-term facility during fiscal 2014 and have repaid the full amount outstanding as of June 30, 2014.

During fiscal 2013, we made a scheduled \$14.5 million long-term debt repayment.

During fiscal 2012, we made long-term debt repayments of \$19.2 million and acquired 180,656 shares of our common stock for \$1.1 million.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.



**Capital Expenditures**

Capital expenditures for the years ended June 30, 2014, 2013 and 2012 were as follows:

**Table 15**

| Operating Segment                            | Year ended June 30, |                   |                   |                    |                    |                    |
|--|---------------------|-------------------|-------------------|--------------------|--------------------|--------------------|
|  | 2014<br>\$<br>000   | 2013<br>\$<br>000 | 2012<br>\$<br>000 | 2014<br>ZAR<br>000 | 2013<br>ZAR<br>000 | 2012<br>ZAR<br>000 |
| South African transaction processing         | 3,425               | 9,400             | 23,332            | 35,608             | 81,879             | 180,090            |
| International transaction processing         | 19,393              | 12,490            | 14,994            | 201,621            | 108,794            | 115,733            |
| Financial inclusion and applied technologies | 1,088               | 857               | 841               | 11,312             | 7,465              | 6,491              |
| <b>Consolidated total</b>                    | <b>23,906</b>       | <b>22,747</b>     | <b>39,167</b>     | <b>248,541</b>     | <b>198,138</b>     | <b>302,314</b>     |

Our capital expenditures for fiscal 2014, 2013 and 2012, are discussed under Liquidity and Capital Resources Cash flows from investing activities.

All of our capital expenditures for the past three fiscal years were funded through internally-generated funds. We had outstanding capital commitments as of June 30, 2014, of \$0.2 million related mainly to computer equipment required to maintain and expand operations. We expect to fund these expenditures through internally-generated funds. In addition to these capital expenditures, we expect that capital spending for fiscal 2015 will also relate to expanding our operations in South Korea and South Africa.

**Contractual Obligations**

The following table sets forth our contractual obligations as of June 30, 2014:

**Table 16**

|                                 | Payments due by Period, as of June 30, 2014 (in \$ 000s) |                  |           |           |                   |
|---------------------------------|--|------------------|-----------|-----------|-------------------|
|                                 | Total  | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Long-term debt obligations (A)  | 88,049   | 18,605           | 26,024    | 43,420    | -                 |
| Operating lease obligations     | 7,587  | 3,490            | 3,734     | 363       | -                 |
| Purchase obligations            | 5,541  | 5,541            | -         | -         | -                 |
| Capital commitments             | 190  | 190              | -         | -         | -                 |
| Other long-term obligations (B) | 23,477   | -                | -         | -         | 23,477            |
| Total                           | 124,844  | 27,826           | 29,758    | 43,783    | 23,477            |

(A) Includes \$77.2 million of long-term debt discussed under Liquidity and capital resources and includes interest payable at the rate applicable as of June 30, 2014.

(B) Includes policy holder liabilities of \$22.2 million related to our insurance business.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We seek to reduce our exposure to currencies other than the South African rand, or ZAR, through a policy of matching, to the extent possible, assets and liabilities denominated in those currencies. In addition, we use financial instruments to economically hedge our exposure to exchange rate and interest rate fluctuations arising from our operations. We are also exposed to equity price and liquidity risks as well as credit risks.

**Currency Exchange Risk**

We are subject to currency exchange risk because we purchase inventories that we are required to settle in other currencies, primarily the euro and US dollar. We have used forward contracts to limit our exposure in these transactions to fluctuations in exchange rates between the ZAR, on the one hand, and the US dollar and the euro, on the other hand. As of June 30, 2014, and 2013, our outstanding foreign exchange contracts were as follows:

**As of June 30, 2014**

| <b>Notional amount</b> | <b>Strike price</b> | <b>Fair market value price</b> | <b>Maturity</b>    |
|------------------------|---------------------|--------------------------------|--------------------|
| EUR 182,272.50         | ZAR 15.2077         | ZAR 14.5803                    | July 21, 2014      |
| EUR 182,272.50         | ZAR 15.3488         | ZAR 14.5803                    | July 21, 2014      |
| EUR 180,022.50         | ZAR 15.4228         | ZAR 14.6542                    | August 20, 2014    |
| EUR 180,022.50         | ZAR 15.2819         | ZAR 14.6542                    | August 20, 2014    |
| EUR 180,022.50         | ZAR 15.3623         | ZAR 14.7367                    | September 22, 2014 |
| EUR 180,022.50         | ZAR 15.5041         | ZAR 14.7367                    | September 22, 2014 |
| EUR 181,570.50         | ZAR 15.5739         | ZAR 14.8119                    | October 20, 2014   |
| EUR 181,570.50         | ZAR 15.4316         | ZAR 14.8119                    | October 20, 2014   |
| EUR 180,022.50         | ZAR 15.6552         | ZAR 14.8982                    | November 20, 2014  |
| EUR 180,022.50         | ZAR 15.5136         | ZAR 14.8982                    | November 20, 2014  |
| EUR 180,022.50         | ZAR 15.5970         | ZAR 14.9874                    | December 22, 2014  |
| EUR 180,022.50         | ZAR 15.7391         | ZAR 14.9874                    | December 22, 2014  |
| EUR 174,424.50         | ZAR 15.8119         | ZAR 15.0671                    | January 20, 2015   |
| EUR 174,424.50         | ZAR 15.6729         | ZAR 15.0671                    | January 20, 2015   |

**As of June 30, 2013**

| <b>Notional amount</b> | <b>Strike price</b> | <b>Fair market value price</b> | <b>Maturity</b>    |
|------------------------|---------------------|--------------------------------|--------------------|
| EUR 4,000,000          | ZAR 9.06            | ZAR 10.1397                    | September 30, 2013 |

**Translation Risk**

Translation risk relates to the risk that our results of operations will vary significantly as the US dollar is our reporting currency, but we earn most of our revenues and incur most of our expenses in ZAR. The US dollar to ZAR exchange rate has fluctuated significantly over the past three years. As exchange rates are outside our control, there can be no assurance that future fluctuations will not adversely affect our results of operations and financial condition.

**Interest Rate Risk**

As a result of our normal borrowing and leasing activities, our operating results are exposed to fluctuations in interest rates, which we manage primarily through our regular financing activities. In addition, outstanding indebtedness under our long-term South Korean debt facilities bear interest at the South Korean CD rate plus 3.10% and 2.90%, respectively. As interest rates, and specifically the South Korean CD rate, are outside our control, there can be no assurance that future increases in interest rates, specifically the South Korean CD rate, will not adversely

affect our results of operations and financial condition. As of June 30, 2014, the South Korean CD rate was 2.65% .

The following table illustrates the effect on our annual expected interest charge, translated at exchange rates applicable as of June 30, 2014, as a result of a change in the South Korean CD rate. The effects of a hypothetical 1% increase and a 1% decrease in the South Korean CD rate as of June 30, 2014, is shown. The selected 1% hypothetical change does not reflect what could be considered the best or worst case scenarios.

| <b>As of June 30, 2014</b> |   |  |  |
|----------------------------|---|--|--|
| <b>Table 17</b>            | <b>Annual<br/>expected<br/>interest<br/>charge<br/>(\$ 000)</b> | <b>Hypothetical<br/>change in<br/>South<br/>Korean CD<br/>rate</b> | <b>Estimated<br/>annual<br/>expected<br/>interest charge<br/>after change in<br/>South Korean<br/>CD rate<br/>(\$ 000)</b> |
| Interest on debt facility  | 4,408   | 1%   | 5,189  |
|                            |   | (1%)   | 3,645  |

We generally maintain limited investment in cash equivalents and have occasionally invested in marketable securities. The interest earned on our bank balances and short term cash investments is dependent on the prevailing interest rates in the jurisdictions where our cash reserves are invested.

### **Credit Risk**

Credit risk relates to the risk of loss that we would incur as a result of non-performance by counterparties. We maintain credit risk policies with regard to our counterparties to minimize overall credit risk. These policies include an evaluation of a potential counterparty's financial condition, credit rating, and other credit criteria and risk mitigation tools as our management deems appropriate.

With respect to credit risk on financial instruments, we maintain a policy of entering into such transactions only with South African and European financial institutions that have a credit rating of BBB or better, as determined by credit rating agencies such as Standard & Poor's, Moody's and Fitch Ratings.

### **UEPS-based microlending credit risk**

We are exposed to credit risk in our UEPS-based microlending activities, which provides unsecured short-term loans to qualifying customers. We manage this risk by performing an affordability test for each prospective customer and assign a creditworthiness score, which takes into account a variety of factors such as other debts and total expenditures on normal household and lifestyle expenses.

### **Equity Price and Liquidity Risk**

Equity price risk relates to the risk of loss that we would incur as a result of the volatility in the exchange-traded price of equity securities that we hold and the risk that we may not be able to liquidate these securities. We have invested in approximately 26% of the issued share capital of Finbond Group Limited which are exchange-traded equity securities. The fair value of these securities as of June 30, 2014, represented approximately 1% of our total assets, including these securities. We expect to hold these securities for an extended period of time and we are not concerned with short-term equity price volatility with respect to these securities provided that the underlying business, economic and management characteristics of the company remain sound.

The market price of these securities may fluctuate for a variety of reasons, consequently, the amount we may obtain in a subsequent sale of these securities may significantly differ from the reported market value.

Liquidity risk relates to the risk of loss that we would incur as a result of the lack of liquidity on the exchange on which these securities are listed. We may not be able to sell some or all of these securities at one time, or over an extended period of time without influencing the exchange traded price, or at all.

The following table summarizes our exchange-traded equity securities with equity price risk as of June 30, 2014. The effects of a hypothetical 10% increase and a 10% decrease in market prices as of June 30, 2014, is also shown. The selected 10% hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due both to the nature of equity markets and the aforementioned liquidity risk.

**As of June 30, 2014**

**Table 18**

|                                     | <b>Fair<br/>value<br/>(\$ 000)</b> | <b>Hypothetical<br/>price change</b> | <b>Estimated fair<br/>value after<br/>hypothetical<br/>change in price<br/>(\$ 000)</b> | <b>Hypothetical<br/>Percentage<br/>Increase<br/>(Decrease) in<br/>Shareholders<br/>Equity</b> |
|-------------------------------------|------------------------------------|--------------------------------------|---|---|
| Exchange-traded equity securities . | 8,068                              | 10%                                  | 8,875   | 0.21%   |
|                                     |                                    | (10%)                                | 7,261   | (0.21%)   |

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our consolidated financial statements, together with the report of our independent registered public accounting firm, appear on pages F-1 through F-55 of this Annual Report on Form 10-K.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

## ITEM 9A. CONTROLS AND PROCEDURES

### *Evaluation of disclosure controls and procedures*

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on this evaluation, the chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2014.

### *Internal Control over Financial Reporting*

Internal control over financial reporting is a process designed by, or under the supervision of, the company's chief executive officer and chief financial officer, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP.

Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the consolidated financial statements.

### *Inherent Limitations in Internal Control over Financial Reporting*

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

### *Management's Report on Internal Control Over Financial Reporting*

Management, including our chief executive officer and our chief financial officer, is responsible for establishing and maintaining adequate internal control over our financial reporting. Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of June 30, 2014. Deloitte & Touche (South Africa), our independent registered public accounting firm, has issued an audit report on our internal control over financial reporting.

### *Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting during the most recent fiscal quarter ended June 30, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control

over financial reporting.



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Shareholders of Net 1 UEPS Technologies, Inc.**

We have audited the internal control over financial reporting of Net 1 UEPS Technologies, Inc. and subsidiaries (the Company) as of June 30, 2014, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2014, based on the criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended June 30, 2014 of the Company and our report dated August 28, 2014, expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche (South Africa)  
Registered Auditors

**28 August 2014**

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National Executive: LL Bam Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit  
DL Kennedy Risk Advisory NB Kader Tax TP Pillay Consulting K Black Clients & Industries  
JK Mazzocco Talent & Transformation MJ Jarvis Finance M Jordan Strategy S Gwala Managed Services  
TJ Brown Chairman of the Board MJ Comber Deputy Chairman of the Board

A full list of partners and directors is available on request

**ITEM 9B. OTHER INFORMATION**

None.

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**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information about our executive officers is set out in Part I, Item 1 under the caption Executive Officers and Significant Employees of the Registrant. The other information required by this Item is incorporated by reference to the sections of our definitive proxy statement for our 2014 annual meeting of shareholders entitled Board of Directors and Corporate Governance and Additional Information.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated by reference to the sections of our definitive proxy statement for our 2014 annual meeting of shareholders entitled Executive Compensation, Board of Directors and Corporate Governance Compensation of Directors and Remuneration Committee Interlocks and Insider Participation.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item is incorporated by reference to the sections of our definitive proxy statement for our 2014 annual meeting of shareholders entitled Security Ownership of Certain Beneficial Owners and Management and Equity Compensation Plan Information.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item is incorporated by reference to the sections of our definitive proxy statement for our 2014 annual meeting of shareholders entitled Certain Relationships and Related Transactions and Board of Directors and Corporate Governance.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item is incorporated by reference to the sections of our definitive proxy statement for our 2014 annual meeting of shareholders entitled Audit and Non-Audit Fees.

**PART IV****ITEM 15. EXHIBITS and FINANCIAL STATEMENT SCHEDULES**

a) The following documents are filed as part of this report

1. Financial Statements

The following financial statements are included on pages F-1 through [F-55].

|   |             |
|---|-------------|
| <u>Report of the Independent Registered Public Accounting Firm Deloitte &amp; Touche (South Africa)</u> | <u>F-2</u>  |
| <u>Consolidated balance sheets as of June 30, 2014 and 2013</u>   | <u>F-3</u>  |
| <u>Consolidated statements of operations for the years ended June 30, 2014, 2013 and 2012</u>           | <u>F-4</u>  |
| <u>Consolidated statements of comprehensive income for the years ended June 30, 2014, 2013 and 2012</u> | <u>F-5</u>  |
| <u>Consolidated statements of changes in equity for the years ended June 30, 2014, 2013 and 2012</u>    | <u>F-6</u>  |
| <u>Consolidated statements of cash flows for the years ended June 30, 2014, 2013 and 2012</u>           | <u>F-9</u>  |
| <u>Notes to the consolidated financial statements</u>   | <u>F-10</u> |

2. Financial Statement Schedules

Financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

(b) Exhibits

| Exhibit No. | Description of Exhibit  | Included Herewith | Incorporated by Reference Herein |         |                  |
|-------------|---|-------------------|----------------------------------|---------|------------------|
|             |   |                   | Form                             | Exhibit | Filing Date      |
| 3.1         | Amended and Restated Articles of Incorporation  |                   | 8-K                              | 3.1     | December 1, 2008 |
| 3.2         | Amended and Restated By-Laws of Net 1 UEPS Technologies, Inc.   |                   | 8-K                              | 3.2     | November 5, 2009 |
| 4.1         | Form of common stock certificate  |                   | S-1                              | 4.1     | June 20, 2005    |
| 10.1        | Distribution Agreement, dated July 1, 2002, between Net 1 UEPS Technologies, Inc. and Net 1 Investment Holdings (Pty) Limited   |                   | S-4                              | 10.1    | February 3, 2004 |
| 10.2        | Patent and Technology Agreement, dated June 19, 2000, by and between Net 1 Holdings S.a.r.l. and Net 1 UEPS Technologies, Inc.  |                   | S-4                              | 10.2    | February 3, 2004 |
| 10.3        | Technology License Agreement between Net 1 Investment Holdings (Proprietary) Limited and Visa International Service Association |                   | S-1                              | 10.12   | May 26, 2005     |

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|      |  |       |       |                |
|------|--|-------|-------|----------------|
| 10.4 | Product License Agreement between Net 1 Holdings S.a.r.l. and Net 1 Operations S.a.r.l.  | S-4/A | 10.8  | April 21, 2004 |
| 10.5 | Non Exclusive UEPS License Agreement between Net 1 Investment Holdings (Proprietary) Limited and SIA Netcards  | S-4/A | 10.10 | April 21, 2004 |
| 10.6 | Assignment of Copyright and License of Patents and Trade Marks between MetroLink (Proprietary) Limited and Net 1 Products (Proprietary) Limited                | S-1   | 10.18 | May 26, 2005   |
| 10.7 | Agreement between Nedcor Bank Limited and Net 1 Products (Proprietary) Limited   | S-1/A | 10.16 | July 19, 2005  |
| 10.8 | Patent and Technology Agreement by and among Net 1 Investment Holdings (Proprietary) Limited, Net 1 Applied Technology Holding Limited and Nedcor Bank Limited | S-1   | 10.19 | May 26, 2005   |

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|  |       |       |                   |
|--|-------|-------|-------------------|
| 10.9 Patent and Technology Agreement by and among Net 1 Holdings S.a.r.l., Net 1 Applied Technology Holdings Limited and Nedcor Bank Limited   | S-1/A | 10.19 | July 19, 2005     |
| 10.10 Agreement by and among Nedbank Limited, Net 1 UEPS Technologies, Inc., and Net 1 Applied Technologies South Africa Limited   | S-1/A | 10.20 | July 19, 2005     |
| 10.11* Amended and Restated Stock Incentive Plan of Net 1 UEPS Technologies, Inc.  | 14A   | A     | October 28, 2009  |
| 10.12* Form of Restricted Stock Agreement  | 10-K  | 10.13 | August 23, 2012   |
| 10.13* Form of Stock Option Agreement  | 10-K  | 10.14 | August 23, 2012   |
| 10.14* Form of Restricted Stock Agreement (non- employee directors)  | 10-K  | 10.15 | August 23, 2012   |
| 10.15 Form of Option issued by the Company to Business Venture Investments No 1567 (Proprietary) Limited (RF)  | 8-K   | 99.2  | January 26, 2012  |
| 10.16 Contract for the Payment of Social Grants dated February 3, 2012 between CPS and SASSA   | 8-K   | 99.1  | February 6, 2012  |
| 10.17 Service Level Agreement dated February 3, 2012 between CPS and SASSA   | 8-K   | 99.2  | February 6, 2012  |
| 10.18 Agreement of Lease, Memorandum of an agreement entered into by and between Buzz Trading 199 (Pty) Ltd and Net 1 Applied Technologies South Africa (Pty) Ltd dated May 7, 2013  | 10-Q  | 10.25 | May 9, 2013       |
| 10.19 KRW 85,000,000,000 Senior Facilities Agreement dated October 28, 2013, between Net 1 Applied Technologies Korea, as borrower, Hana Bank, as agent and security agent, financial institutions listed therein as original lenders and Hana Daetoo Securities Co., Ltd., as mandated lead arranger. | 8-K   | 10.24 | October 31, 2013  |
| 10.20 Relationship Agreement dated December 10, 2013 between Net 1 UEPS Technologies, Inc., Net 1 Applied Technologies South Africa (Proprietary) Limited, Business Venture Investments No 1567 (Proprietary) Limited (RF) and Mosomo Investment Holdings (Proprietary) Limited.                       | 8-K   | 10.25 | December 10, 2013 |
| 10.21 Relationship Agreement dated December 10, 2013 between Net 1 UEPS Technologies, Inc., Net 1 Applied Technologies South Africa (Proprietary) Limited, Born Free Investments 272 (Pty) Ltd and Mazwi Yako.   | 8-K   | 10.26 | December 10, 2013 |
| 10.22 Facility Letter between Nedbank Limited and Net1 Applied Technologies South Africa Limited and certain of its subsidiaries dated as of December 13, 2013 and First Addendum thereto dated  | 8-K   | 10.27 | December 19, 2013 |

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as of December 18, 2013

10.23 Addendum dated January 31, 2014, to the Relationship Agreement between Net 1 UEPS Technologies, Inc., Net 1 Applied Technologies South Africa (Proprietary) Limited, Business Venture Investments No 1567 (Proprietary) Limited (RF) and Mosomo Investment Holdings (Proprietary) Limited.

10-Q 10.28 February 6, 2014

10.24 Addendum dated January 31, 2014, to the Relationship Agreement between Net 1 UEPS Technologies, Inc., Net 1 Applied Technologies South Africa (Proprietary) Limited, Born Free Investments 272 (Pty) Ltd and Mazwi Yako.

10-Q 10.29 February 6, 2014



|                |   |          |       |                |
|----------------|---|----------|-------|----------------|
| 10.25          | Second Addendum dated March 14, 2014, to the Relationship Agreement between Net 1 UEPS Technologies, Inc., Net 1 Applied Technologies South Africa (Proprietary) Limited, Business Venture Investments No 1567 (Proprietary) Limited (RF) and Mosomo Investment Holdings (Proprietary) Limited. | 8-K      | 10.30 | March 18, 2014 |
| 10.26          | Second Addendum dated March 14, 2014, to the Relationship Agreement between Net 1 UEPS Technologies, Inc., Net 1 Applied Technologies South Africa (Proprietary) Limited, Born Free Investments 272 (Pty) Ltd and Mazwi Yako.   | 8-K      | 10.31 | March 18, 2014 |
| 10.27*         | Service Agreement between KSNET, Inc. and Phil- Hyun Oh dated June 30, 2014   | 8-K      | 10.1  | July 2, 2014   |
| 10.28*         | Service Agreement between Net1 Applied Technologies Korea and Phil-Hyun Oh dated June 30, 2014  | 8-K      | 10.2  | July 2, 2014   |
| <u>12</u>      | <u>Statement of Ratio of Earnings to Fixed Charges</u>  | <u>X</u> |       |                |
| <u>14</u>      | <u>Amended and Restated Code of Ethics</u>  | <u>X</u> |       |                |
| <u>21</u>      | <u>Subsidiaries of Registrant</u>   | <u>X</u> |       |                |
| <u>23</u>      | <u>Consent of Independent Registered Public Accounting Firm</u>   | <u>X</u> |       |                |
| <u>31.1</u>    | <u>Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended</u>   | <u>X</u> |       |                |
| <u>31.2</u>    | <u>Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended</u>   | <u>X</u> |       |                |
| <u>32</u>      | <u>Certification pursuant to 18 USC Section 1350</u>  | <u>X</u> |       |                |
| <u>101.INS</u> | <u>XBRL Instance Document</u>   | <u>X</u> |       |                |
| <u>101.SCH</u> | <u>XBRL Taxonomy Extension Schema</u>   | <u>X</u> |       |                |
| <u>101.CAL</u> | <u>XBRL Taxonomy Extension Calculation Linkbase</u>   | <u>X</u> |       |                |
| <u>101.DEF</u> | <u>XBRL Taxonomy Extension Definition Linkbase</u>  | <u>X</u> |       |                |
| <u>101.LAB</u> | <u>XBRL Taxonomy Extension Label Linkbase</u>   | <u>X</u> |       |                |
| <u>101.PRE</u> | <u>XBRL Taxonomy Extension Presentation Linkbase</u>  | <u>X</u> |       |                |

\* Indicates a management contract or compensatory plan or arrangement.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NET 1 UEPS TECHNOLOGIES, INC.

By: /s/ Serge C.P. Belamant

Serge C.P. Belamant  
Chief Executive Officer, Chairman of the Board and Director

Date: August 28, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Net 1 UEPS Technologies, Inc. - Form 10-K

| <u>NAME</u>   | <u>TITLE</u>   | <u>DATE</u>     |
|---|--|-----------------|
| <u>/s/ Serge C.P. Belamant</u><br>Serge C.P. Belamant                       | Chief Executive Officer, Chairman of the Board and Director (Principal Executive Officer)                  | August 28, 2014 |
| <u>/s/ Herman Gideon Kotzé</u><br>Herman Gideon Kotzé                       | Chief Financial Officer, Treasurer and Secretary and Director (Principal Financial and Accounting Officer) | August 28, 2014 |
| <u>/s/ Paul Edwards</u><br>Paul Edwards                                     | Director   | August 28, 2014 |
| <u>/s/ Alasdair Jonathan Kemsley Pein</u><br>Alasdair Jonathan Kemsley Pein | Director   | August 28, 2014 |
| <u>/s/ Christopher Stefan Seabrooke</u><br>Christopher Stefan Seabrooke     | Director   | August 28, 2014 |

**NET 1 UEPS TECHNOLOGIES, INC.**

**LIST OF CONSOLIDATED FINANCIAL STATEMENTS**

|   |             |
|---|-------------|
| <u>Report of the Independent Registered Public Accounting Firm – Deloitte &amp; Touche (South Africa)</u> | <u>F-2</u>  |
| <u>Consolidated balance sheets as of June 30, 2014 and 2013</u>   | <u>F-3</u>  |
| <u>Consolidated statements of operations for the years ended June 30, 2014, 2013 and 2012</u>             | <u>F-4</u>  |
| <u>Consolidated statements of comprehensive income for the years ended June 30, 2014, 2013 and 2012</u>   | <u>F-5</u>  |
| <u>Consolidated statements of changes in equity for the years ended June 30, 2014, 2013 and 2012</u>      | <u>F-6</u>  |
| <u>Consolidated statements of cash flows for the years ended June 30, 2014, 2013 and 2012</u>             | <u>F-9</u>  |
| <u>Notes to the consolidated financial statements</u>   | <u>F-10</u> |

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Shareholders of Net 1 UEPS Technologies, Inc.**

We have audited the accompanying consolidated balance sheets of Net 1 UEPS Technologies, Inc. and subsidiaries (the Company) as of June 30, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended June 30, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Net 1 UEPS Technologies, Inc. and subsidiaries as of June 30, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2014 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2014, based on the criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 28, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche (South Africa)  
Registered Auditors

**28 August 2014**

National Executive: LL Bam Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit  
DL Kennedy Risk Advisory NB Kader Tax TP Pillay Consulting K Black Clients & Industries  
JK Mazzocco Talent & Transformation MJ Jarvis Finance M Jordan Strategy S Gwala Managed Services  
TJ Brown Chairman of the Board MJ Comber Deputy Chairman of the Board

A full list of partners and directors is available on request

**NET 1 UEPS TECHNOLOGIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**as of June 30, 2014 and 2013**

|  | 2014                              | 2013             |
|--|-----------------------------------|------------------|
|  | (In thousands, except share data) |                  |
| <b>ASSETS</b>  |                                   |                  |
| <b>CURRENT ASSETS</b>  |                                   |                  |
| Cash and cash equivalents  | \$ 58,672                         | \$ 53,665        |
| Pre-funded social welfare grants receivable (Note 4)                     | 4,809                             | 2,934            |
| Accounts receivable, net (Note 5)  | 148,067                           | 102,614          |
| Finance loans receivable, net (Note 5)                                   | 53,124                            | 8,350            |
| Inventory (Note 6)   | 10,785                            | 12,222           |
| Deferred income taxes (Note 20)  | 7,451                             | 4,938            |
| Total current assets before settlement assets                            | 282,908                           | 184,723          |
| Settlement assets  | 725,987                           | 752,476          |
| Total current assets   | 1,008,895                         | 937,199          |
| PROPERTY, PLANT AND EQUIPMENT, net (Note 8)                              | 47,797                            | 48,301           |
| EQUITY-ACCOUNTED INVESTMENTS   | 878                               | 1,183            |
| GOODWILL (Note 9)  | 186,576                           | 175,806          |
| INTANGIBLE ASSETS, net (Note 9)  | 68,514                            | 77,257           |
| OTHER LONG-TERM ASSETS (Note 7 and Note 10)                              | 38,285                            | 36,576           |
| <b>TOTAL ASSETS</b>  | <b>1,350,945</b>                  | <b>1,276,322</b> |
| <b>LIABILITIES</b>   |                                   |                  |
| <b>CURRENT LIABILITIES</b>   |                                   |                  |
| Accounts payable   | 17,101                            | 26,567           |
| Other payables (Note 11)   | 42,257                            | 33,808           |
| Current portion of long-term borrowings (Note 13)                        | 14,789                            | 14,209           |
| Income taxes payable   | 7,676                             | 2,275            |
| Total current liabilities before settlement obligations                  | 81,823                            | 76,859           |
| Settlement obligations   | 725,987                           | 752,476          |
| Total current liabilities  | 807,810                           | 829,335          |
| DEFERRED INCOME TAXES (Note 20)  | 15,522                            | 18,727           |
| LONG-TERM BORROWINGS (Note 13)   | 62,388                            | 66,632           |
| OTHER LONG-TERM LIABILITIES (Note 10)                                    | 23,477                            | 21,659           |
| <b>TOTAL LIABILITIES</b>   | <b>909,197</b>                    | <b>936,353</b>   |
| <b>COMMITMENTS AND CONTINGENCIES (Note 24)</b>                           |                                   |                  |
| <b>EQUITY</b>  |                                   |                  |
| <b>COMMON STOCK (Note 14)</b>  |                                   |                  |
| Authorized: 200,000,000 with \$0.001 par value;                          |                                   |                  |
| Issued and outstanding shares, net of treasury - 2014: 47,819,299; 2013: |                                   |                  |
| 45,592,550   | 63                                | 59               |
| <b>PREFERRED STOCK</b>   |                                   |                  |
| Authorized shares: 50,000,000 with \$0.001 par value;                    |                                   |                  |
| Issued and outstanding shares, net of treasury: 2014: -; 2013: -         | -                                 | -                |
| ADDITIONAL PAID-IN CAPITAL   | 202,401                           | 160,670          |
| TREASURY SHARES, AT COST: 2014: 15,883,212; 2013: 13,455,090 (Note 14)   | (200,681)                         | (175,823)        |
| ACCUMULATED OTHER COMPREHENSIVE LOSS (Note 15)                           | (82,741)                          | (100,858)        |
| RETAINED EARNINGS  | 522,729                           | 452,618          |
| <b>TOTAL NET1 EQUITY</b>   | <b>441,771</b>                    | <b>336,666</b>   |

|  |              |              |
|--|--------------|--------------|
| NON-CONTROLLING INTEREST                         | (23)         | 3,303        |
| <b>TOTAL EQUITY</b>                              | 441,748      | 339,969      |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b> | \$ 1,350,945 | \$ 1,276,322 |

See accompanying notes to consolidated financial statements.

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**NET 1 UEPS TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**for the years ended June 30, 2014, 2013 and 2012**

|  | <b>2014</b>                           | <b>2013</b> | <b>2012</b> |
|--|---------------------------------------|-------------|-------------|
|  | (In thousands, except per share data) |             |             |
| REVENUE (Note 16)  | \$ 581,656                            | \$ 452,147  | \$ 390,264  |
| Services rendered  | 518,297                               | 430,268     | 362,679     |
| Loan-based fees received   | 33,560                                | 6,613       | 8,433       |
| Sale of goods  | 29,799                                | 15,266      | 19,152      |
| <b>EXPENSE</b>   |                                       |             |             |
| Cost of goods sold, IT processing, servicing and support               | 260,232                               | 196,834     | 141,000     |
| Selling, general and administration                                    | 168,072                               | 191,552     | 137,404     |
| Equity instruments issued pursuant to BEE transactions (Note 17)       | 11,268                                | -           | 14,211      |
| Depreciation and amortization  | 40,286                                | 40,599      | 36,499      |
| OPERATING INCOME   | 101,798                               | 23,162      | 61,150      |
| INTEREST INCOME  | 14,817                                | 12,083      | 8,576       |
| INTEREST EXPENSE   | 7,473                                 | 7,966       | 9,345       |
| INCOME BEFORE INCOME TAXES   | 109,142                               | 27,279      | 60,381      |
| INCOME TAX EXPENSE (Note 20)   | 39,379                                | 14,656      | 15,936      |
| NET INCOME BEFORE EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS           | 69,763                                | 12,623      | 44,445      |
| EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS                             | 298                                   | 351         | 220         |
| NET INCOME   | 70,061                                | 12,974      | 44,665      |
| (ADD) LESS: NET (LOSS) INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST | (50)                                  | (3)         | 14          |
| NET INCOME ATTRIBUTABLE TO NET1  | \$ 70,111                             | \$ 12,977   | \$ 44,651   |
| <b>Net income per share, in United States dollars: (Note 21)</b>       |                                       |             |             |
| Basic earnings attributable to Net1 shareholders                       | 1.51                                  | 0.28        | 0.99        |
| Diluted earnings attributable to Net1 shareholders                     | 1.50                                  | 0.28        | 0.99        |



See accompanying notes to consolidated financial statements.

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**NET 1 UEPS TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**for the years ended June 30, 2014, 2013 and 2012**

|   | <b>2014</b>      | <b>2013</b>        | <b>2012</b>     |
|---|------------------|--------------------|-----------------|
|   |                  | (In<br>thousands)  |                 |
| NET INCOME  | \$ 70,061        | \$ 12,974          | \$ 44,665       |
| <b>OTHER COMPREHENSIVE INCOME (LOSS):</b>   |                  |                    |                 |
| Net unrealized income on asset available for sale, net of tax                                       | 288              | 915                | 1,547           |
| Release of foreign currency translation reserve related to sale/liquidation of businesses (Note 19) | 4,277            | -                  | -               |
| Movement in foreign currency translation reserve  | 13,730           | (26,051)           | (43,617)        |
| <b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>  | <b>18,295</b>    | <b>(25,136)</b>    | <b>(42,070)</b> |
| <b>COMPREHENSIVE INCOME (LOSS)</b>  | <b>88,356</b>    | <b>(12,162)</b>    | <b>2,595</b>    |
| Add comprehensive loss attributable to non-controlling interest                                     | 50               | 3                  | 113             |
| <b>COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO NET1</b>   | <b>\$ 88,406</b> | <b>\$ (12,159)</b> | <b>\$ 2,708</b> |

See accompanying notes to consolidated financial statements.

**NET 1 UEPS TECHNOLOGIES, INC.****Consolidated Statement of Changes in Equity for the year ended June 30, 2012 (dollar amounts in thousands)**

|   | Net 1 UEPS Technologies, Inc. Shareholders |        |                           |                 |                                   |                            |                   |   |
|---|--|--------|---------------------------|-----------------|-----------------------------------|----------------------------|-------------------|---|
|   | Number of Shares                           | Amount | Number of Treasury Shares | Treasury Shares | Number of shares, net of treasury | Additional Paid-In Capital | Retained Earnings | Accumulated other comprehensive (loss) income |
| Balance July 1, 2011  | 58,427,239                                 | \$ 59  | (13,274,434)              | \$ (174,694)    | 45,152,805                        | \$ 138,420                 | \$ 394,990        | \$ (33,779)                                   |
| Restricted stock granted (Note 18)                          | 582,729                                    |        |                           |                 | 582,729                           |                            |                   |   |
| Stock-based compensation charge (Note 18)                   |  |        |                           |                 |                                   | 2,909                      |                   |   |
| Reversal of stock-based compensation charge (Note 18)       | (5,976)                                    |        |                           |                 | (5,976)                           | (134)                      |                   |   |
| Equity instrument charge (Note 17)                          |  |        |                           |                 |                                   | 14,211                     |                   |   |
| Treasury shares acquired (Note 14)                          |  |        | (180,656)                 | (1,129)         | (180,656)                         |                            |                   |   |
| Utilization of APIC pool related to vested restricted stock |  |        |                           |                 |                                   | (56)                       |                   |   |
| Liquidation of SmartSwitch Nigeria (Note 19)                |  |        |                           |                 |                                   |                            |                   |   |
| Sale of 10% of Smart Life (Note 3)                          |  |        |                           |                 |                                   |                            |                   |   |

KSNET  
purchase  
accounting  
adjustment  
(Note 3)

Net income 44,651

Other  
comprehensive  
loss (Note 15) (41,943)

Balance June  
30, 2012 59,003,992 \$ 59 (13,455,090)\$ (175,823) 45,548,902 \$ 155,350 \$ 439,641 \$ (75,722)\$

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**NET 1 UEPS TECHNOLOGIES, INC.****Consolidated Statement of Changes in Equity for the year ended June 30, 2013 (dollar amounts in thousands)**

|   |                        | Net 1 UEPS Technologies, Inc. Shareholders |                                    |                    |  |                                  |                      |  |
|---|------------------------|--|------------------------------------|--------------------|--|----------------------------------|----------------------|--|
|   | Number<br>of<br>Shares | Amount                                     | Number<br>of<br>Treasury<br>Shares | Treasury<br>Shares | Number<br>of shares,<br>net of<br>treasury | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>other<br>comprehensive<br>(loss) income |
| Balance July 1,<br>2012   | 59,003,992             | \$ 59                                      | (13,455,090)                       | \$ (175,823)       | 45,548,902                                 | \$ 155,350                       | \$ 439,641           | \$ (75,722)  |
| Restricted<br>stock granted<br>(Note 18)                                | 21,569                 |  |                                    |                    | 21,569                                     |                                  |                      |  |
| Exercise of<br>stock option<br>(Note 18)                                | 30,000                 | -  |                                    |                    | 30,000                                     | 240                              |                      |  |
| Stock-based<br>compensation<br>charge (Note<br>18)                      |                        |  |                                    |                    |  | 4,387                            |                      |  |
| Reversal of<br>stock-based<br>compensation<br>charge (Note<br>18)       | (55,333)               |  |                                    |                    | (55,333)                                   | (480)                            |                      |  |
| Utilization of<br>APIC pool<br>related to<br>vested<br>restricted stock |                        |  |                                    |                    |  | (11)                             |                      |  |
| NIMs<br>acquisition<br>(Note 3)   | 47,412                 |  |                                    |                    | 47,412                                     | 1,184                            |                      |  |
| Net income  |                        |  |                                    |                    |  |                                  | 12,977               |  |
| Other<br>comprehensive<br>loss (Note 15)                                |                        |  |                                    |                    |  |                                  |                      | (25,136)   |
| Balance June<br>30, 2013  | 59,047,640             | \$ 59                                      | (13,455,090)                       | \$ (175,823)       | 45,592,550                                 | \$ 160,670                       | \$ 452,618           | \$ (100,858)   |

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**NET 1 UEPS TECHNOLOGIES, INC.****Consolidated Statement of Changes in Equity for the year ended June 30, 2014 (dollar amounts in thousands)**

|   |                        | Net 1 UEPS Technologies, Inc. Shareholders |                                    |                    |  |                                  |                      |  |
|---|------------------------|--|------------------------------------|--------------------|--|----------------------------------|----------------------|--|
|   | Number<br>of<br>Shares | Amount                                     | Number<br>of<br>Treasury<br>Shares | Treasury<br>Shares | Number<br>of shares,<br>net of<br>treasury | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>other<br>comprehensive<br>(loss) income |
| Balance July 1,<br>2013   | 59,047,640             | \$ 59                                      | (13,455,090)                       | \$ (175,823)       | 45,592,550                                 | \$ 160,670                       | \$ 452,618           | \$ (100,858)   |
| Issue of<br>common stock<br>(Note 14)                             | 4,400,000              | 4  |                                    |                    | 4,400,000                                  | 25,050                           |                      |  |
| Repurchase of<br>common stock<br>(Note 14)                        |                        |  | (2,428,122)                        | (24,858)           | (2,428,122)                                |                                  |                      |  |
| Restricted stock<br>granted (Note<br>18)                          | 187,963                |  |                                    |                    | 187,963                                    |                                  |                      |  |
| Exercise of<br>stock option<br>(Note 18)                          | 26,667                 | -  |                                    |                    | 26,667                                     | 198                              |                      |  |
| Equity<br>instruments<br>charge (Note<br>17)                      |                        |  |                                    |                    |  | 11,268                           |                      |  |
| Stock-based<br>compensation<br>charge (Note<br>18)                |                        |  |                                    |                    |  | 3,724                            |                      |  |
| Reversal of<br>stock-based<br>compensation<br>charge (Note<br>18) | (7,171)                |  |                                    |                    | (7,171)                                    | (6)                              |                      |  |
| Income tax<br>benefit from<br>vested stock<br>awards              |                        |  |                                    |                    |  | 5                                |                      |  |
| Acquisition of<br>KSNET   |                        |  |                                    |                    |  | 1,492                            |                      | (178)  |

non-controlling  
interest (Note  
14)

NIMSS  
acquisition  
(Note 3)

47,412

47,412

Net income

70,111

Other  
comprehensive  
income (Note  
15)

18,295

Balance June

30, 2014

63,702,511 \$

63

(15,883,212)\$

(200,681)

47,819,299 \$

202,401 \$

522,729 \$

(82,741)\$

See accompanying notes to consolidated financial statements.



**NET 1 UEPS TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**for the years ended June 30, 2014, 2013 and 2012**

|   | 2014            | 2013<br>(In<br>thousands) | 2012             |
|---|-----------------|---------------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                 |                           |                  |
| NET INCOME  | \$ 70,061       | \$ 12,974                 | \$ 44,665        |
| ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:   |                 |                           |                  |
| Depreciation and amortization   | 40,286          | 40,599                    | 36,499           |
| Earnings from equity-accounted investments  | (298)           | (351)                     | (220)            |
| Fair value adjustment   | (55)            | 631                       | (3,375)          |
| Interest payable  | 2,100           | 4,313                     | 8,823            |
| Facility fee amortized  | 738             | 302                       | 389              |
| (Profit) Loss on disposal of property, plant and equipment                          | (434)           | 110                       | (64)             |
| Net loss on sale of 10% of Smart Life   | -               | -                         | 81               |
| Loss (Profit) on deconsolidation of subsidiaries and business (Note 19)             | 55              | -                         | (3,994)          |
| Realized loss on sale of Smart Life investments                                     | -               | -                         | 25               |
| Stock compensation charge, net of forfeitures (Note 18)                             | 3,718           | 3,907                     | 2,775            |
| Fair value of BEE equity instruments granted (Note 17)                              | 11,268          | -                         | 14,211           |
| Increase in accounts and finance loans receivable, and pre-funded grants receivable | (101,447)       | (5,726)                   | (31,974)         |
| Decrease (Increase) in inventory  | 780             | (2,890)                   | (5,271)          |
| Increase (Decrease) in accounts payable and other payables                          | 12,671          | 8,113                     | (18,496)         |
| Increase (Decrease) in taxes payable  | 5,523           | (2,748)                   | (7,483)          |
| Decrease in deferred taxes  | (7,821)         | (3,317)                   | (16,185)         |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                    | <b>37,145</b>   | <b>55,917</b>             | <b>20,406</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                 |                           |                  |
| Capital expenditures  | (23,906)        | (22,747)                  | (39,167)         |
| Proceeds from disposal of property, plant and equipment                             | 2,990           | 510                       | 764              |
| Net cash outflow from sale of MediKredit (Note 19)                                  | (669)           | -                         | -                |
| Proceeds from sale of business (Note 19)  | 186             | -                         | -                |
| Capital reduction/ repayment of loan by equity-accounted investment                 | 539             | 3                         | 122              |
| Acquisitions, net of cash acquired (Note 3)   | -               | (2,143)                   | (6,154)          |
| Settlement from former shareholders of KSNET (Note 3)                               | -               | -                         | 4,945            |
| Acquisition of available-for-sale securities (Note 7)                               | -               | -                         | (948)            |
| Purchase of investments related to Smart Life                                       | -               | -                         | (2,320)          |
| Proceeds from maturity of investments related to Smart Life                         | -               | -                         | 2,321            |
| Other investing activities, net   | 570             | 545                       | (1)              |
| Net change in settlement assets   | (1,350)         | (423,984)                 | (252,101)        |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>  | <b>(21,640)</b> | <b>(447,816)</b>          | <b>(292,539)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                 |                           |                  |
| Repayment of long-term borrowings (Note 13)   | (87,008)        | (14,508)                  | (19,172)         |
| Long-term borrowings obtained (Note 13)   | 73,677          | -                         | -                |
| Proceeds from bank overdraft  | 24,580          | -                         | -                |
| Repayment of bank overdraft   | (23,335)        | -                         | -                |

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|   |                  |                  |                  |
|---|------------------|------------------|------------------|
| Acquisition of interests in KSNET (Note 14)                 | (1,968)          | -                | -                |
| Payment of facility fee (Note 13)                           | (872)            | -                | -                |
| Proceeds from issue of common stock (Note 18)               | 198              | 240              | -                |
| Acquisition of treasury stock (Note 14)                     | -                | -                | (1,129)          |
| Proceeds on sale of 10% of Smart Life (Note 3)              | -                | -                | 107              |
| Net change in settlement obligations                        | 1,350            | 423,984          | 252,101          |
| <b>NET CASH (USED IN) PROVIDED BY</b>                       | <b>(13,378)</b>  | <b>409,716</b>   | <b>231,907</b>   |
| <b>FINANCING ACTIVITIES</b>                                 |                  |                  |                  |
| Effect of exchange rate changes on cash                     | 2,880            | (3,275)          | (15,914)         |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>5,007</b>     | <b>14,542</b>    | <b>(56,140)</b>  |
| <b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR</b>          |                  |                  |                  |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>             | <b>\$ 58,672</b> | <b>\$ 53,665</b> | <b>\$ 39,123</b> |

See accompanying notes to consolidated financial statements.

## **NET 1 UEPS TECHNOLOGIES, INC.**

### **Notes to the consolidated financial statements**

**for the years ended June 30, 2014, 2013 and 2012**

**(All amounts stated in thousands of United States Dollars, unless otherwise stated)**

#### **1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

##### **Description of Business**

Net 1 UEPS Technologies, Inc. ( Net1 and collectively with its consolidated subsidiaries, the Company ) was incorporated in the State of Florida on May 8, 1997. The Company provides payment solutions and transaction processing services across a wide range of industries and in various geographies. It has developed and markets a smart-card based alternative payment system for the unbanked and underbanked populations of developing economies. Its universal electronic payment system ( UEPS ) uses biometrically secure smart cards that operate in real-time but offline, which allows users to enter into transactions at any time with other card holders in even the most remote areas. The Company also develops and provides secure transaction technology solutions and services, and offers transaction processing, financial and on-line real-time healthcare management solutions in the United States. The Company s technology is widely used in South Africa today, where it distributes pension and welfare payments to recipient cardholders in South Africa, provides financial services, processes debit and credit card payment transactions on behalf of retailers through its EasyPay system, processes value-added services such as bill payments and prepaid electricity for the major bill issuers and local councils in South Africa, processes third-party and associated payroll payments for employees and provides mobile telephone top-up transactions for the major South African mobile carriers. Through KSNET, the Company offers card processing, payment gateway ( PG ) and banking value-added network services ( VAN ) in South Korea.

##### **Basis of presentation**

The accompanying consolidated financial statements include subsidiaries over which Net1 exercises control and have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ).

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

##### **Principles of consolidation**

The financial statements of entities which are controlled by Net1, referred to as subsidiaries, are consolidated. Inter-company accounts and transactions are eliminated upon consolidation.

The Company, if it is the primary beneficiary, consolidates entities which are considered to be variable interest entities ( VIE ). The primary beneficiary is considered to be the entity that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. No entities were required to be consolidated in terms of these requirements during the years ended June 30, 2014, 2013 and 2012.

##### **Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Translation of foreign currencies**

The primary functional currency of the Company is the South African Rand ( ZAR ) and its reporting currency is the US dollar. The Company also has consolidated entities which have other currencies, primarily South Korean won ( KRW ), as their functional currency. Assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average rates for the period. Translation gains and losses are reported in accumulated other comprehensive income in total equity.

Foreign exchange transactions are translated at the spot rate ruling at the date of the transaction. Monetary items are translated at the closing spot rate at the balance sheet date. Transactional gains and losses are recognized in selling, general and administration expense on the Company's consolidated statement of operations for the period.

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## **NET 1 UEPS TECHNOLOGIES, INC.**

### **Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Allowance for doubtful accounts receivable**

###### *Allowance for doubtful finance loans receivable*

The Company regularly reviews the ageing of outstanding amounts due from borrowers and adjusts the allowance based on management's estimate of the recoverability of the finance loans receivable. The Company writes off finance loans receivable and related service fees if a borrower is in arrears with repayments for more than three months or dies.

###### *Allowance for doubtful accounts receivable*

A specific provision is established where it is considered likely that all or a portion of the amount due from customers renting point of sale ( POS ) equipment, receiving support and maintenance or transaction services or purchasing licenses from the Company will not be recovered. Non-recoverability is assessed based on a review by management of the ageing of outstanding amounts, the location of the customer and the payment history in relation to those specific amounts.

##### **Inventory**

Inventory is valued at the lower of cost and market value. Cost is determined on a first-in, first-out basis and includes transport and handling costs.

##### **Equity-accounted investments**

The Company uses the equity method to account for investments in companies when it has significant influence but not control over the operations of the equity-accounted company. Under the equity method, the Company initially records the investment at cost and then adjusts the carrying value of the investment to recognize the proportional share of the equity-accounted company's net income or loss. The Company does not recognize cumulative losses in excess of its investment or loans in an equity-accounted investment except if it has an obligation to provide additional financial support. Dividends received from an equity-accounted investment reduce the carrying value of the Company's investment.

##### **Leasehold improvement costs**

Costs incurred in the adaptation of leased properties to serve the requirements of the Company are capitalized and amortized over the shorter of the estimated useful life of the asset and the remaining term of the lease.

##### **Property, plant and equipment**

Property, plant and equipment are shown at cost less accumulated depreciation. Property, plant and equipment are depreciated on the straight-line basis at rates which are estimated to amortize the assets to their anticipated residual values over their useful lives. Within the following asset classifications, the expected economic lives are approximately:

|                        |               |
|------------------------|---------------|
| Computer equipment     | 3 to 5 years  |
| Office equipment       | 2 to 10 years |
| Vehicles               | 4 to 8 years  |
| Furniture and fittings | 5 to 10 years |
| Plant and equipment    | 5 to 10 years |

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Goodwill**

Goodwill represents the excess of the purchase price of an acquired enterprise over the fair values of the identifiable assets acquired and liabilities assumed. The Company tests for impairment of goodwill on an annual basis and at any other time if events or circumstances change that would more likely than not reduce the fair value of the reporting unit goodwill below its carrying amount.

Circumstances that could trigger an impairment test include but are not limited to: a significant adverse change in the business climate or legal factors; an adverse action or assessment by a regulator; unanticipated competition; loss of key personnel; the likelihood that a reporting unit or significant portion of a reporting unit will be sold or otherwise disposed; and results of testing for recoverability of a significant asset group within a reporting unit.

If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recorded in the statement of operations. Measurement of the fair value of a reporting unit is based on one or more of the following fair value measures: the amount at which the unit as a whole could be bought or sold in a current transaction between willing parties; present value techniques of estimated future cash flows; or valuation techniques based on multiples of earnings or revenue, or a similar performance measure.

**Intangible assets**

Intangible assets are shown at cost less accumulated amortization. Intangible assets are amortized over the following useful lives:

|                                    |               |
|------------------------------------|---------------|
| Customer relationships             | 1 to 15 years |
| Software and unpatented technology | 3 to 5 years  |
| FTS patent                         | 10 years      |
| Exclusive licenses                 | 7 years       |
| Trademarks                         | 3 to 20 years |
| Customer databases                 | 3 years       |

Intangible assets are periodically evaluated for recoverability, and those evaluations take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists.

**Policy reserves and liabilities*****Reserves for future policy benefits and claims payable***

The Company determines its reserves for future policy benefits under its life insurance products using the financial soundness valuation method and assumptions as of the issue date as to mortality, interest, persistency and expenses plus provisions for adverse deviations.

***Deposits on investment contracts***

For the Company's interest-sensitive life contracts, liabilities approximate the policyholder's account value. For deferred annuities, the fixed option on variable annuities, guaranteed investment contracts and other investment contracts, the liability is the policyholder's account value.

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## **NET 1 UEPS TECHNOLOGIES, INC.**

### **Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Reinsurance contracts held**

The Company enters into reinsurance contracts with reinsurers under which the Company is compensated for the entire amount or a portion of losses arising on one or more of the insurance contracts it issues.

The expected benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within accounts receivable, net) as well as long-term receivables (classified within other long-term assets) that are dependent on the present value of expected claims and benefits arising net of expected premiums payable under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts and in accordance with the terms of each reinsurance contract.

Reinsurance assets are assessed for impairment at each balance sheet date. If there is reliable objective evidence that amounts due may not be recoverable, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in its condensed consolidated statement of operations.

Reinsurance premiums are recognized when due for payment under each reinsurance contract.

##### **Sales taxes**

Revenue and expenses are presented net of sales, use and value added taxes, as the case may be.

##### **Revenue recognition**

The Company recognizes revenue when:

there is persuasive evidence of an agreement or arrangement;  
delivery of products has occurred or services have been rendered;  
the seller's price to the buyer is fixed or determinable; and  
collectability is reasonably assured.

The Company's principal revenue streams and their respective accounting treatments are discussed below:

##### ***Fees***

##### ***Pension and welfare and South African participating merchants***

The Company provides a welfare benefit distribution service to the South Africa Social Security Agency. Fee income received for these services is recognized in the statement of operations when distributions have been made to the recipient cardholders.

Recipient cardholders are able to load their welfare grants at merchants enrolled in the Company's participating merchant system in certain provinces. There is no charge to the recipient cardholder to load the grant onto a smart card at the merchant location, however, a fee is charged to the merchant for purchases made at the merchant using the

smart card. A fee is also charged to the merchant when the recipient cardholder makes a cash withdrawal. Fee income received for these services is recognized in the statement of operations when the transaction occurs.

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## **NET 1 UEPS TECHNOLOGIES, INC.**

### **Notes to the consolidated financial statements**

**for the years ended June 30, 2014, 2013 and 2012**

**(All amounts stated in thousands of United States Dollars, unless otherwise stated)**

#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Revenue recognition (continued)**

###### *Fees (continued)*

###### *Card VAN, banking VAN and payment gateway*

Card VAN services consist of services relating to authorization of credit card transactions including transmission of transaction details ( authorization service ), and collection of receipts associated with the credit card transactions ( collection service ). With its authorization service, the Company connects credit card companies with merchants online when a customer uses his/her credit card via terminals installed at merchants' sites and the Company's central processing server for approval of credit card transactions. Immediately after approval of credit card transactions, the Company transmits details of the transactions to credit card companies online for processing payments. Collection service captures the transaction data and gathers receipts as documented evidence and provides them to credit card companies upon request. The Company earns service fees based on the number of transactions processed for credit card companies when services are rendered in accordance with the contracts entered into between credit card companies and the Company. The Company bills for its service charges to credit card companies each month. Each service could be provided either individually or collectively, based on terms of contracts.

The Company charges commission fees to credit card companies for the authorization service provided based on the number of approvals transferred. The right to receive a service fee is due once a credit card transaction has been approved and details of the transaction are transmitted by the Company. Therefore, revenues from the authorization service are recognized when the credit card transactions are authorized and details of the transactions are transmitted. The Company earns a collection service fee once it has provided settled funds to the credit card companies. Therefore, revenue from the collection service is recognized when the Company collects the receipts and provides them to the card companies.

For multiple-element arrangements, the Company has identified two deliverables. The first deliverable is the authorization service, and the second deliverable is the collection service. The Company evaluates each deliverable in an arrangement to determine whether it represents a separate unit of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value and there are no customer-negotiated refunds or return rights for the delivered elements. If the arrangement includes a customer-negotiated refund or return right relative to the delivered item and the delivery and performance of the undelivered item is considered probable and substantially in the Company's control, the delivered element constitutes a separate unit of accounting. In instances when the aforementioned criteria are not met, the deliverable is combined with the undelivered elements and the allocation of the arrangement consideration and revenue recognition is determined for the combined unit as a single unit. Allocation of the consideration is determined at arrangement inception on the basis of each unit's relative selling price. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value ( VSOE ), (ii) third-party evidence of selling price ( TPE ), and (iii) best estimate of the selling price ( ESP ).

VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company's best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis. Because the Company has neither VSOE nor

TPE for the two deliverables, the allocation of revenue has been based on the Company's ESPs. Amounts allocated to the authorization and the collection service are recognized at the time of service, provided the other conditions for revenue recognition have been met.

The Company's process for determining its ESP for deliverables without VSOE or TPE considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable. Key factors considered by the Company in developing the ESPs include prices charged by the Company, historical pricing practices and controls, range of prices for various customers and the nature of the services. Consideration is also given to market conditions such as competitor pricing strategies and market perception.

## **NET 1 UEPS TECHNOLOGIES, INC.**

### **Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Revenue recognition (continued)**

###### *Fees (continued)*

###### *Card VAN, banking VAN and payment gateway (continued)*

Banking VAN is a division supporting a company's fund management business (large payment transfers, collections, etc.) by relaying financial transactions between client companies and financial institutions. Financial transactions between two or more business enterprises, or between business enterprises and their customers, are conducted through the transaction-processing network established between the Company and the banks. Revenue from the banking VAN service is recognized when the service is rendered by the Company.

With its PG service, the Company provides the Internet-based settlement service between an on-line shopping mall and a credit card company when a customer uses his/her credit card, debit card or on-line payment to pay for goods or services. The Company receives fees for carrying out settlements for electronic transactions. Revenue from the PG service is recognized when the service is rendered by the Company.

###### *Microlending service fee*

The Company provides short-term loans to customers in South Africa and charges and recognizes monthly service fee revenue over the term of the loan. The monthly service fee amount is fixed upon initiation and does not change over the term of the loan.

###### *Other fees and commissions*

The Company provides an automated payment collection service to third parties, for which it charges monthly fees. These fees are recognized in the statement of operations as the underlying services are performed. The Company provides medical-related claims adjudication, reconciliation and settlement services ( medical-related claim service ) to customers, for which it charges fees. These fees are recognized in the statement of operations as the underlying services are performed. The Company sells prepaid electricity and recognizes a commission in its statement of operations once the prepaid electricity token has been delivered to the customer.

###### *Contract variations fees*

The Company records additional revenue from variations to contracts for the provision of welfare benefits, if:

- there is persuasive evidence of an agreement;
- collectability is reasonably assured; and
- all material terms and conditions of the agreement have been adhered to.

###### *Hardware and prepaid airtime voucher sales*

Revenue from hardware and airtime voucher sales is recognized when risk of loss has transferred to the customer and there are no unfulfilled Company obligations that affect the customer's final acceptance of the

arrangement. Any cost of warranties and remaining obligations that are inconsequential or perfunctory are accrued when the corresponding revenue is recognized.

The Company buys terminals from manufacturers, and subsequently sells them through its agencies. Revenue is recognized when significant risks and rewards of ownership of terminals have passed to the buyer, usually on delivery of the terminals to the buyer.

To the extent that sales of hardware are made in an arrangement that includes software that is more than incidental, the Company considers post-contract maintenance and technical support or other future obligations which could impact the timing and amount of revenue recognized.

## **NET 1 UEPS TECHNOLOGIES, INC.**

### **Notes to the consolidated financial statements**

**for the years ended June 30, 2014, 2013 and 2012**

**(All amounts stated in thousands of United States Dollars, unless otherwise stated)**

#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Revenue recognition (continued)**

###### *Software*

Revenue from licensed software is recognized on a subscription basis over the period that the client is entitled to use the license. Revenue from the sale of software is recognized if all revenue recognition criteria have been met. Post-contract maintenance and technical support in respect of software is generally negotiated and sold as a separate service and is recognized over the period such items are delivered.

###### *Systems implementation projects*

The Company undertakes smart card system implementation projects. The hardware and software installed in these projects are in the form of customized systems, which ordinarily involve modification to meet the customer's specifications. Software delivered under such arrangements is available to the customer permanently, subject to the payment of annual license fees. Revenue for such arrangements is recognized under the percentage of completion method, save for annual license fees, which are recognized in the period to which they relate. Up-front and interim payments received are recorded as client deposits until customer acceptance.

The Company's customer arrangements may have multiple deliverables. Generally, the Company's multiple element arrangements fall within the scope of specific accounting standards that provide guidance regarding the separation of elements in multiple-deliverable arrangements and the allocation of consideration among those elements. If not, the Company unbundles multiple element arrangements into separate units of accounting when the delivered element(s) has stand-alone value and fair value of the undelivered element(s) exists.

###### *Terminal rental income*

The Company leases terminals to merchants participating in its merchant acquiring system. Operating rental income is recognized monthly on a straight-line basis in accordance with the lease agreement.

###### *Other income*

Revenue from service and maintenance activities is charged to customers on a time-and-materials basis and is recognized in the statement of operations as services are delivered to customers.

##### **Research and development expenditure**

Research and development expenditures is charged to net income in the period in which it is incurred. During the years ended June 30, 2014, 2013 and 2012, the Company incurred research and development expenditures of \$2.2 million, \$1.3 million and \$3.9 million, respectively.

##### **Computer software development**

Product development costs in respect of software intended for sale to licensees are expensed as incurred until technological feasibility is attained. Technological feasibility is attained when the Company's software has completed system testing and has been determined to be viable for its intended use. The time between the attainment of technological feasibility and completion of software development is generally short with immaterial amounts of development costs incurred during this period.

Costs in respect of the development of software for the Company's internal use are expensed as incurred, except to the extent that these costs are incurred during the application development stage. All other costs including those incurred in the project development and post-implementation stages are expensed as incurred.

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## **NET 1 UEPS TECHNOLOGIES, INC.**

### **Notes to the consolidated financial statements**

**for the years ended June 30, 2014, 2013 and 2012**

**(All amounts stated in thousands of United States Dollars, unless otherwise stated)**

#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Income taxes**

The Company provides for income taxes using the asset and liability method. This approach recognizes the amount of taxes payable or refundable for the current year, as well as deferred tax assets and liabilities for the future tax consequence of events recognized in the financial statements and tax returns. Deferred income taxes are adjusted to reflect the effects of changes in tax laws or enacted tax rates.

The Company measured its South African income taxes and deferred income taxes for the years ended June 30, 2014, 2013 and 2012, using the enacted statutory tax rate in South Africa of 28%. On December 20, 2011, there was a change in South African tax law to impose a dividends withholding tax (a tax levied and withheld by a company on distributions to its shareholders) to replace the Secondary Taxation on Companies (a tax levied directly on a company on dividend distributions) ( STC ). The change was effective on April 1, 2012.

As of June 30, 2014, the Company intends to permanently reinvest its non-US undistributed earnings of \$356.5 million in those non-US jurisdictions. Accordingly, the Company has not recognized a deferred tax liability related to future distributions of these undistributed earnings. It is not practicable for the Company to estimate the amount of unrecognized deferred tax liability because of the complexities of the calculations involved. The Company will be required to record a tax charge if it is no longer able to permanently reinvest its undistributed earnings. This may result in an increase in the Company's effective tax rate in future periods.

In establishing the appropriate deferred tax asset valuation allowances, the Company assesses the realizability of its deferred tax assets, and based on all available evidence, both positive and negative, determines whether it is more likely than not that the deferred tax assets or a portion thereof will be realized.

Reserves for uncertain tax positions are recognized in the financial statements for positions which are not considered more likely than not of being sustained based on the technical merits of the position on audit by the tax authorities. For positions that meet the more likely than not standard, the measurement of the tax benefit recognized in the financial statements is based upon the largest amount of tax benefit that, in management's judgement, is greater than 50% likely of being realized based on a cumulative probability assessment of the possible outcomes.

The Company's policy is to include interest related to unrecognized tax benefits in interest expense and penalties in selling, general and administration in the consolidated statements of operations.

##### **Stock-based compensation**

Stock-based compensation represents the cost related to stock-based awards granted. The Company measures equity-based stock-based compensation cost at the grant date, based on the estimated fair value of the award, and recognizes the cost as an expense on a straight-line basis (net of estimated forfeitures) over the requisite service period. In respect of awards with only service conditions that have a graded vesting schedule, the Company recognizes compensation cost on a straight-line basis over the requisite service period for the entire award. The forfeiture rate is estimated using historical trends of the number of awards forfeited prior to vesting. The expense is recorded in the statement of operations and classified based on the recipients' respective functions.

The Company records deferred tax assets for awards that result in deductions on the Company's income tax returns, based on the amount of compensation cost recognized and the Company's statutory tax rate in the jurisdiction in which it will receive a deduction. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on the Company's income tax return are recorded in additional paid-in capital (if the tax deduction exceeds the deferred tax asset) or in the statement of operations (if the deferred tax asset exceeds the tax deduction and no additional paid-in capital exists from previous awards).

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## **NET 1 UEPS TECHNOLOGIES, INC.**

### **Notes to the consolidated financial statements**

**for the years ended June 30, 2014, 2013 and 2012**

**(All amounts stated in thousands of United States Dollars, unless otherwise stated)**

#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Equity instruments issued to third parties**

Equity instruments issued to third parties represents the cost related to equity instruments granted. The Company measures this cost at the grant date, based on the estimated fair value of the award, and recognizes the cost as an expense on a straight-line basis (net of estimated forfeitures) over the requisite service period. The forfeiture rate is estimated based on the Company's expectation of the number of awards that will be forfeited prior to vesting.

The Company records deferred tax assets for equity instrument awards that result in deductions on the Company's income tax returns, based on the amount of equity instrument cost recognized and the Company's statutory tax rate in the jurisdiction in which it will receive a deduction. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on the Company's income tax return are recorded in the statement of operations.

##### **Settlement assets and settlement obligations**

Settlement assets comprise (1) cash received from the South African government that the Company holds pending disbursement to recipient cardholders of social welfare grants, (2) cash received from customers on whose behalf the Company processes payroll payments that the Company will disburse to customer employees, payroll-related payees and other payees designated by the customer and (3) as of June 30, 2013, cash received from healthcare plans which the Company disburses to healthcare service providers once it adjudicates claims.

Settlement obligations comprise (1) amounts that the Company is obligated to disburse to recipient cardholders of social welfare grants, (2) amounts that the Company is obligated to pay to customer employees, payroll-related payees and other payees designated by the customer and (3) as of June 30, 2013, amounts which are due to healthcare service providers after claims have been adjudicated and reconciled, provided that the Company shall have previously received such funds from healthcare plan customers.

The balances at each reporting date may vary widely depending on the timing of the receipts and payments of these assets and obligations.

##### **Recent accounting pronouncements adopted**

The following summary of recent accounting pronouncements reflects only the new authoritative accounting guidance issued that is relevant and applicable to the Company.

In February 2013, the FASB issued guidance regarding *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This guidance requires entities to present (either on the face of the statement of operations or in the notes) the effects on the line items of the statement of operations for amounts reclassified out of accumulated other comprehensive income. The guidance is effective for the Company beginning July 1, 2013 and is applied prospectively. The adoption of this guidance did not have a material impact on the Company's financial statements.

##### **Recent accounting pronouncements not yet adopted as of June 30, 2014**

In March 2013, the FASB issued guidance regarding *Parent's Accounting for the Cumulative Translation Adjustment Upon Derecognition of Certain Subsidiaries or Groups of Assets Within a Foreign Entity or of an Investment in a Foreign Entity*. This guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The guidance is effective for the Company beginning July 1, 2014. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its financial statements on adoption.

**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Recent accounting pronouncements not yet adopted as of June 30, 2014 (continued)**

In May 2014, the FASB issued guidance regarding *Revenue from Contracts with Customers*. This guidance requires an entity to recognize revenue when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is effective for the Company beginning July 1, 2017. Early adoption is not permitted. The Company expects that this guidance will have a material impact on its financial statements and is currently evaluating the impact of this guidance on its financial statements on adoption.

**3. ACQUISITIONS**

The cash paid, net of cash received related to the Company's various acquisitions during the years ended June 30, 2014, 2013 and 2012 are summarized in the table below:

|  | 2014 | 2013     | 2012     |
|--|------|----------|----------|
| Net1 Mobile Solutions Proprietary Limited ( NIMS )<br>(formerly Pbel)  | \$ - | \$ 1,913 | \$ -     |
| SmartSwitch Botswana (Proprietary) Limited<br>( SmartSwitch Botswana ) | -    | 230      | -        |
| The Smart Life Insurance Company Limited ( Smart Life )                | -    | -        | 1,673    |
| Prepaid business   | -    | -        | 4,481    |
| Total cash paid, net of cash received                                  | \$ - | \$ 2,143 | \$ 6,154 |

**2014 acquisitions**

None.

**2013 acquisitions*****SmartSwitch Botswana (Proprietary) Limited***

On December 7, 2012, the Company acquired 50% of the outstanding and issued ordinary shares in SmartSwitch Botswana, a Botswana private company, for BWP 6.3 million (approximately \$0.8 million) in cash. As a result of this transaction, SmartSwitch Botswana is now a wholly-owned subsidiary and is consolidated in the Company's financial statements. SmartSwitch Botswana had previously been recorded as an equity-accounted investment. SmartSwitch Botswana has been allocated to the Company's International transaction processing operating segment.

***NIMS (formerly Pbel)***

On September 14, 2012, the Company acquired all of the outstanding and issued ordinary shares in NIMS, a South African private company, for ZAR 33 million (approximately \$3.8 million). ZAR 23 million of the purchase price was paid in cash and the remaining ZAR 10 million was paid by issuing 142,236 shares of the Company's

common stock, which are earned by the sellers to the extent that NIMS achieves certain pre-defined financial performance milestones over a three-year measurement period. The 142,236 shares are divided into three equal tranches of 47,412 shares and the sellers earn the shares for each tranche only if the milestones for that particular tranche are achieved. However, the sellers will be entitled to earn all 142,236 shares if the cumulative pre-defined NIMS projected profit over the measurement period is achieved or if the Company decides to abandon its Mobile Virtual Card initiative. During the years ended June 30, 2014 and 2013, NIMS achieved its pre-defined financial performance milestones and the sellers earned 47,412 shares of the Company's common stock in each year.

The Company had historically engaged the services of NIMS to perform software development services, primarily software utilized on mobile phones and by cash-accepting kiosks. All software developed was the Company's property. Prior to the acquisition, NIMS was jointly owned by the Company's chief executive officer, Dr. Serge Belamant and his son, Mr. Philip Marc Belamant. Dr. Belamant is a non-employee director of NIMS and Mr. Philip Marc Belamant is its chief executive officer. Prior to the acquisition, Mr. Philip Marc Belamant was not employed by the Company. See also Note 25.

**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**3. ACQUISITIONS (continued)****2013 acquisitions (continued)***NIMS (continued)*

The Company believes that the acquisition of NIMS is important in the execution of its strategy to commercialize and develop its world-wide virtual card patents and to supply secure, leading-edge technological solutions to the global payments market with particular focus on mobile-based payment solutions. NIMS has been allocated to the Company's South African transaction processing operating segment.

The final purchase price allocation of SmartSwitch Botswana and NIMS acquisitions, translated at the foreign exchange rates applicable on the date of acquisition, is provided in the table below:

|   | <b>SmartSwitch</b> |             |              |
|---|--------------------|-------------|--------------|
|   | <b>Botswana</b>    | <b>NIMS</b> | <b>Total</b> |
| Cash and cash equivalents   | \$ 584             | \$ 660      | \$ 1,244     |
| Accounts receivable, net  | -                  | 234         | 234          |
| Inventory   | 150                | -           | 150          |
| Other current assets  | -                  | -           | -            |
| Property, plant and equipment, net  | 472                | 92          | 564          |
| Intangible assets (Note 9)  | -                  | 1,785       | 1,785        |
| Goodwill (Note 9)   | 657                | 1,710       | 2,367        |
| Other payables  | (218)              | (65)        | (283)        |
| Income taxes payable  | -                  | (93)        | (93)         |
| Deferred tax liabilities  | (17)               | (494)       | (511)        |
| Fair value of assets and liabilities on acquisition   | 1,628              | 3,829       | 5,457        |
| Less: gain on re-measurement of previously held interest in SmartSwitch Botswana                      | (328)              | -           | (328)        |
| Less: carrying value of SmartSwitch Botswana, an equity accounted investment, at the acquisition date | (486)              | -           | (486)        |
| Total purchase price  | \$ 814             | \$ 3,829    | \$ 4,643     |

Pro forma results of operations have not been presented because the effect of the SmartSwitch and NIMS acquisitions, individually and in the aggregate, were not material to the Company. During the year ended June 30, 2013, the Company incurred acquisition-related expenditure of \$0.1 million related to these acquisitions. Since the closing of the SmartSwitch Botswana acquisition, it has contributed revenue and net income of \$0.7 million and \$0.02 million, respectively, for the year ended June 30, 2013. Since the closing of the NIMS acquisition, it has contributed revenue and incurred a net loss, after acquired intangible asset amortization, net of taxation, of \$1.1 million and \$0.5 million, respectively, for the year ended June 30, 2013.

**2012 acquisitions***Acquisition of prepaid airtime and electricity business*

On October 3, 2011, the Company acquired the South African prepaid airtime and electricity businesses of Eason & Son, Ltd ( Eason ), an Irish private limited company, for approximately \$4.5 million in cash. The principal assets acquired comprise prepaid airtime and electricity businesses customer list, accounts receivable books, inventory and a perpetual license to utilize Eason s internally developed transaction-based system software ( EBOS ).

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**3. ACQUISITIONS (continued)****2012 acquisitions (continued)***Acquisition of prepaid airtime and electricity business (continued)*

The business has been integrated with EasyPay and allocated to the Company's South African transaction processing operating segment.

*Smart Life*

On July 1, 2011, the Company acquired Smart Life (formerly known as Saambou Life Assurers Limited), a South African long-term insurance company, for ZAR 13.0 million (approximately \$1.8 million) in cash. Prior to its acquisition by the Company, Smart Life had been administered as a ring-fenced life-insurance license by a large South African insurance company, had not written any new insurance business for a number of years and had reinsured all of its risk exposure under its life insurance products. Smart Life has been allocated to the Company's Financial inclusion and applied technologies operating segment. In November 2011, the Company sold 10% of Smart Life to a strategic partner for \$0.1 million and recognized a loss on sale of \$0.08 million.

The acquisition of Smart Life provides the Company with an opportunity to offer relevant insurance products directly to its existing customer and employee base in South Africa.

The final purchase price allocation of the prepaid business and Smart Life acquisitions, translated at the foreign exchange rates applicable on the date of acquisition, are provided in the table below:

|  | <b>Prepaid<br/>business</b> | <b>Smart Life</b> | <b>Total</b> |
|--|-----------------------------|-------------------|--------------|
| Accounts receivable, net   | \$ 1,083                    | \$ 152            | \$ 1,235     |
| Inventory  | 305                         | -                 | 305          |
| Customer relationships   | 895                         | -                 | 895          |
| Software and unpatented technology                                   | 2,449                       | -                 | 2,449        |
| Deferred tax liability   | (251)                       | -                 | (251)        |
| Cash and cash equivalents  | -                           | 169               | 169          |
| Financial investments (allocated to other long-term assets)          | -                           | 3,059             | 3,059        |
| Reinsurance assets (allocated to other long-term assets)             | -                           | 28,492            | 28,492       |
| Other payables   | -                           | (185)             | (185)        |
| Policy holder liabilities (allocated to other long-term liabilities) | -                           | (29,845)          | (29,845)     |
| Total purchase price   | \$ 4,481                    | \$ 1,842          | \$ 6,323     |

During the year ended June 30, 2012, the Company did not incur transaction-related expenditures related to these acquisitions.

*KSNET Inc. ( KSNET ) - final settlement in December 2011*

On October 29, 2010, the Company acquired KSNET for KRW 270 billion (approximately \$240 million based on exchange rates on October 29, 2010), and a post-closing working capital adjustment. In December 2011, the Company received \$4.9 million, in cash, in final settlement of any and all claims and contractual adjustments between the Company and the former shareholders of KSNET. This amount was applied against the goodwill recognized on the acquisition of KSNET and has reduced the goodwill balance. As required by the Company's South Korean debt agreement, the Company used the settlement proceeds to prepay a portion of its outstanding debt thereunder. The prepayment was made on January 30, 2012.

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**4. PRE-FUNDED SOCIAL WELFARE GRANTS RECEIVABLE**

Pre-funded social welfare grants receivable represents amounts pre-funded by the Company to certain merchants participating in the merchant acquiring system. The July 2014 payment service commenced on July 1, 2014, but the Company pre-funded certain merchants participating in the merchant acquiring systems in the last two days of June 2014. The July 2013 payment service commenced on July 1, 2013, but the Company pre-funded certain merchants participating in the merchant acquiring systems in the last two days of June 2013.

**5. ACCOUNTS RECEIVABLE, net and FINANCE LOANS RECEIVABLE, net****Accounts receivable, net**

|  | <b>2014</b> | <b>2013</b> |
|--|-------------|-------------|
| Accounts receivable, trade, net  | \$ 64,885   | \$ 41,225   |
| Accounts receivable, trade, gross  | 66,198      | 45,926      |
| Allowance for doubtful accounts receivable, end of year                            | 1,313       | 4,701       |
| Beginning of year  | 4,701       | 788         |
| Deconsolidation  | (32)        | -           |
| Reversed to statement of operations  | (1,455)     | (93)        |
| Charged to statement of operations   | 714         | 4,622       |
| Utilized   | (2,451)     | (5)         |
| Foreign currency adjustment  | (164)       | (611)       |
| Cash payments to agents in South Korea that are amortized over the contract period | 46,591      | 32,412      |
| Other receivables  | 36,591      | 28,977      |
| Total accounts receivable, net   | \$ 148,067  | \$ 102,614  |

Receivables from customers renting POS equipment from the Company are included in accounts receivable, trade, and are stated net of an allowance for certain amounts that the Company's management has identified may be unrecoverable. Accounts receivable, trade, also includes amounts due from customers from the sale of hardware, software licenses and SIM cards and provision of transaction processing services. During the year ended June 30, 2014, 2013 and 2012, respectively, the Company recorded a bad debt expense of \$0.6 million, \$0.4 million and \$0.2 million.

**Finance loans receivable, net**

|  | <b>2014</b> | <b>2013</b> |
|--|-------------|-------------|
| Finance loans receivable, gross                              | \$ 56,207   | \$ 8,350    |
| Allowance for doubtful finance loans receivable, end of year | 3,083       | -           |
| Beginning of year  | -           | -           |
| Charged to statement of operations                           | 3,652       | -           |
| Utilized   | (513)       | -           |
| Foreign currency adjustment                                  | (56)        | -           |
| Total finance loans receivable, net                          | \$ 53,124   | \$ 8,350    |

The Company updated its accounting policy for the allowance for doubtful finance loans receivable during the year ended June 30, 2014, as a result of the increase in its UEPS-based lending book which is included in finance loans receivable in its consolidated balance sheet. The Company does not believe that an allowance for doubtful finance loans receivable is required for finance loans receivable as of June 30, 2013, because this was an established book and has been recovered. The Company did not expense any unrecoverable finance loans receivable during the year ended June 30, 2014, because these loans were written off directly against the allowance for doubtful finance loans receivable. The Company recorded an unrecoverable finance loans receivable expense of \$0.2 million during each of the years ended June 30, 2013 and 2012, respectively.

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**6. INVENTORY**

The Company's inventory as of June 30, 2014 and 2013, is presented in the table below:

|                | <b>2014</b> | <b>2013</b> |
|----------------|-------------|-------------|
| Finished goods | \$ 10,785   | \$ 12,222   |
|                | \$ 10,785   | \$ 12,222   |

**7. FAIR VALUE OF FINANCIAL INSTRUMENTS****Fair value of financial instruments***Initial recognition and measurement*

Financial instruments are recognized when the Company becomes a party to the transaction. Initial measurements are at cost, which includes transaction costs.

*Risk management*

The Company seeks to reduce its exposure to currencies other than the South African rand through a policy of matching, to the extent possible, assets and liabilities denominated in those currencies. In addition, the Company uses financial instruments in order to economically hedge its exposure to exchange rate and interest rate fluctuations arising from its operations. The Company is also exposed to equity price and liquidity risks as well as credit risks.

*Currency exchange risk*

The Company is subject to currency exchange risk because it purchases inventories that it is required to settle in other currencies, primarily the euro and US dollar. The Company has used forward contracts in order to limit its exposure in these transactions to fluctuations in exchange rates between the South African rand, on the one hand, and the US dollar and the euro, on the other hand.

*Translation risk*

Translation risk relates to the risk that the Company's results of operations will vary significantly as the US dollar is its reporting currency, but it earns most of its revenues and incurs most of its expenses in ZAR. The US dollar to ZAR exchange rate has fluctuated significantly over the past three years. As exchange rates are outside the Company's control, there can be no assurance that future fluctuations will not adversely affect the Company's results of operations and financial condition.

*Interest rate risk*

As a result of its normal borrowing and leasing activities, the Company's operating results are exposed to fluctuations in interest rates, which it manages primarily through regular financing activities. The Company generally maintains limited investment in cash equivalents and has occasionally invested in marketable securities.

*Credit risk*

Credit risk relates to the risk of loss that the Company would incur as a result of non-performance by counterparties. The Company maintains credit risk policies with regard to its counterparties to minimize overall credit risk. These policies include an evaluation of a potential counterparty's financial condition, credit rating, and other credit criteria and risk mitigation tools as the Company's management deems appropriate.

With respect to credit risk on financial instruments, the Company maintains a policy of entering into such transactions only with South African and European financial institutions that have a credit rating of BBB or better, as determined by credit rating agencies such as Standard & Poor's, Moody's and Fitch Ratings.

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## **NET 1 UEPS TECHNOLOGIES, INC.**

### **Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

#### **7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

##### **Fair value of financial instruments (continued)**

###### *Risk management (continued)*

###### *UEPS-based microlending credit risk*

The Company is exposed to credit risk in its UEPS-based microlending activities, which provides unsecured short-term loans to qualifying customers. The Company manages this risk by performing an affordability test for each prospective customer and assigns a creditworthiness score, which takes into account a variety of factors such as other debts and total expenditures on normal household and lifestyle expenses.

###### *Equity price and liquidity risk*

Equity price risk relates to the risk of loss that the Company would incur as a result of the volatility in the exchange-traded price of equity securities that it holds and the risk that it may not be able to liquidate these securities. The market price of these securities may fluctuate for a variety of reasons, consequently, the amount the Company may obtain in a subsequent sale of these securities may significantly differ from the reported market value.

Liquidity risk relates to the risk of loss that the Company would incur as a result of the lack of liquidity on the exchange on which these securities are listed. The Company may not be able to sell some or all of these securities at one time, or over an extended period of time without influencing the exchange traded price, or at all.

##### **Financial instruments**

Fair value is defined as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including the Company's own credit risk.

Fair value measurements and inputs are categorized into a fair value hierarchy which prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety.

These levels are:

Level 1 inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following section describes the valuation methodologies the Company uses to measure financial assets and liabilities at fair value.

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## **NET 1 UEPS TECHNOLOGIES, INC.**

### **Notes to the consolidated financial statements**

**for the years ended June 30, 2014, 2013 and 2012**

**(All amounts stated in thousands of United States Dollars, unless otherwise stated)**

#### **7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

##### **Financial instruments (continued)**

###### *Investments in common stock*

In general, and where applicable, the Company uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology would apply to Level 1 investments. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then the Company uses quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable either directly or indirectly. These investments would be included in Level 2 investments. In circumstances in which inputs are generally unobservable, values typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. Investments valued using such techniques are included in Level 3 investments.

###### *Asset measured at fair value using significant unobservable inputs investment in Finbond Group Limited ( Finbond )*

The Company's Level 3 asset represents an investment of 156,788,712 shares of common stock of Finbond, which are exchange-traded equity securities. Finbond's shares are traded on the Johannesburg Stock Exchange ( JSE ) and the Company has designated such shares as available for sale investments. The Company has concluded that the market for Finbond shares is not active and consequently has employed alternative valuation techniques in order to determine the fair value of such stock. Finbond issues financial products and services under a mutual banking licence and also has a microlending offering. In determining the fair value of Finbond, the Company has considered amongst other things Finbond's historical financial information (including its most recent public accounts), press releases issued by Finbond and its published net asset value. The Company believes that the best indicator of fair value of Finbond is its published net asset value and has used this value to determine the fair value.

The fair value of these securities as of June 30, 2014, represented approximately 1% of the Company's total assets, including these securities. The Company expects to hold these securities for an extended period of time and it is not concerned with short-term equity price volatility with respect to these securities provided that the underlying business, economic and management characteristics of the company remain sound.

In March 2012, Finbond completed a rights issue and the Company acquired an additional 72,156,187 shares for approximately \$1 million. The Company's ownership interest in Finbond as of June 30, 2014, is approximately 26%. The Company has no rights to participate in the financial, operating, or governance decisions made by Finbond. The Company also has no participation on Finbond's board of directors whether through contractual agreement or otherwise. Consequently, the Company has concluded that it does not have significant influence over Finbond and therefore equity accounting is not appropriate.

###### *Derivative transactions - Foreign exchange contracts*

As part of the Company's risk management strategy, the Company enters into derivative transactions to mitigate exposures to foreign currencies using foreign exchange contracts. These foreign exchange contracts are

over-the-counter derivative transactions. Substantially all of the Company's derivative exposures are with counterparties that have long-term credit ratings of BBB or better. The Company uses quoted prices in active markets for similar assets and liabilities to determine fair value (level 2). The Company has no derivatives that require fair value measurement under level 1 or 3 of the fair value hierarchy.

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****Financial instruments (continued)***Derivative transactions - Foreign exchange contracts (continued)*

The Company's outstanding foreign exchange contracts are as follows:

As of June 30, 2014

| <b>Notional amount</b> | <b>Strike price</b> | <b>Fair market value price</b> | <b>Maturity</b>    |
|------------------------|---------------------|--------------------------------|--------------------|
| EUR 182,272.50         | ZAR 15.2077         | ZAR 14.5803                    | July 21, 2014      |
| EUR 182,272.50         | ZAR 15.3488         | ZAR 14.5803                    | July 21, 2014      |
| EUR 180,022.50         | ZAR 15.4228         | ZAR 14.6542                    | August 20, 2014    |
| EUR 180,022.50         | ZAR 15.2819         | ZAR 14.6542                    | August 20, 2014    |
| EUR 180,022.50         | ZAR 15.3623         | ZAR 14.7367                    | September 22, 2014 |
| EUR 180,022.50         | ZAR 15.5041         | ZAR 14.7367                    | September 22, 2014 |
| EUR 181,570.50         | ZAR 15.5739         | ZAR 14.8119                    | October 20, 2014   |
| EUR 181,570.50         | ZAR 15.4316         | ZAR 14.8119                    | October 20, 2014   |
| EUR 180,022.50         | ZAR 15.6552         | ZAR 14.8982                    | November 20, 2014  |
| EUR 180,022.50         | ZAR 15.5136         | ZAR 14.8982                    | November 20, 2014  |
| EUR 180,022.50         | ZAR 15.5970         | ZAR 14.9874                    | December 22, 2014  |
| EUR 180,022.50         | ZAR 15.7391         | ZAR 14.9874                    | December 22, 2014  |
| EUR 174,424.50         | ZAR 15.8119         | ZAR 15.0671                    | January 20, 2015   |
| EUR 174,424.50         | ZAR 15.6729         | ZAR 15.0671                    | January 20, 2015   |

As of June 30, 2013

| <b>Notional amount</b> | <b>Strike price</b> | <b>Fair market value price</b> | <b>Maturity</b>    |
|------------------------|---------------------|--------------------------------|--------------------|
| EUR 4,000,000          | ZAR 9.06            | ZAR 10.1397                    | September 30, 2013 |

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2014, according to the fair value hierarchy:

| <b>Quoted Price in Active Markets for</b> | <b>Significant Other</b> | <b>Significant</b> |
|---|--------------------------|--------------------|
|---|--------------------------|--------------------|

|  | <b>Identical<br/>Assets<br/>(Level 1)</b> | <b>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Total</b> |
|--|---|--|--|--------------|
| <b>Assets</b>  |   |  |  |              |
| Related to insurance business<br>(included in<br>other long-term assets):                  |   |  |  |              |
| Cash and cash equivalents  | \$ 1,800                                  | \$ -                                       | \$ -   | \$ 1,800     |
| Investment in Finbond (available for<br>sale assets<br>included in other long-term assets) | -   | -  | 8,068  | 8,068        |
| Other  | -   | 47   | -  | 47           |
| Total assets at fair value   | \$ 1,800                                  | \$ 47                                      | \$ 8,068                                     | \$ 9,915     |
| <b>Liabilities</b>   |   |  |  |              |
| Foreign exchange contracts   | \$ -                                      | \$ 164                                     | \$ -   | \$ 164       |
| Total liabilities at fair value  | \$ -                                      | \$ 164                                     | \$ -   | \$ 164       |

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****Financial instruments (continued)**

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2013, according to the fair value hierarchy:

|   | <b>Quoted<br/>Price in<br/>Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Total</b>     |
|---|--|--|--|------------------|
| <b>Assets</b>   |  |  |  |                  |
| Related to insurance business<br>(included in<br>other long-term assets):                     |  |  |  |                  |
| Cash and cash equivalents   | \$ 1,833   | \$ -   | \$ -   | \$ 1,833         |
| Investment in Finbond (available for<br>sale<br>assets included in other long-term<br>assets) | -  | -  | 8,303  | 8,303            |
| Other   | -  | 147  | -  | 147              |
| <b>Total assets at fair value</b>   | <b>\$ 1,833</b>  | <b>\$ 147</b>  | <b>\$ 8,303</b>  | <b>\$ 10,283</b> |
| <b>Liabilities</b>  |  |  |  |                  |
| Foreign exchange contracts  | \$ -   | \$ 436   | \$ -   | \$ 436           |
| <b>Total liabilities at fair value</b>  | <b>\$ -</b>  | <b>\$ 436</b>  | <b>\$ -</b>  | <b>\$ 436</b>    |

Changes in the Company's investment in Finbond (Level 3 that are measured at fair value on a recurring basis) were insignificant during the years ended June 30, 2014 and 2013, respectively. There have been no transfers in or out of Level 3 during the years ended June 30, 2014 and 2013, respectively.

***Trade, finance loans and other receivables***

Trade, finance loans and other receivables originated by the Company are stated at cost less allowance for doubtful accounts receivable. The fair value of trade, finance loans and other receivables approximate their carrying value due to their short-term nature.

***Trade and other payables***

The fair values of trade and other payables approximate their carrying amounts, due to their short-term nature.

***Assets and liabilities measured at fair value on a nonrecurring basis***

The Company measures its assets at fair value on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. The Company has no liabilities that are measured at fair value on a nonrecurring basis. The Company reviews the carrying values of its assets when events and circumstances warrant and considers all available evidence in evaluating when declines in fair value are other-than-temporary. The fair values of the Company's assets are determined using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost of the assets exceeds its fair value and the excess is determined to be other-than-temporary. The Company has not recorded any impairment charges during the reporting periods presented herein.

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**8. PROPERTY, PLANT AND EQUIPMENT, net**

Summarized below is the cost, accumulated depreciation and carrying amount of property, plant and equipment as of June 30, 2014 and 2013:

|                                | 2014      | 2013      |
|--------------------------------|-----------|-----------|
| Cost:                          |           |           |
| Land                           | \$ 967    | \$ 858    |
| Building and structures        | 530       | 471       |
| Computer equipment             | 110,393   | 101,536   |
| Furniture and office equipment | 6,686     | 7,864     |
| Motor vehicles                 | 20,575    | 22,127    |
| Plant and equipment            | 68        | 253       |
|                                | 139,219   | 133,109   |
| Accumulated depreciation:      |           |           |
| Land                           | -         | -         |
| Building and structures        | 128       | 92        |
| Computer equipment             | 73,908    | 69,573    |
| Furniture and office equipment | 4,799     | 5,627     |
| Motor vehicles                 | 12,519    | 9,263     |
| Plant and equipment            | 68        | 253       |
|                                | 91,422    | 84,808    |
| Carrying amount:               |           |           |
| Land                           | 967       | 858       |
| Building and structures        | 402       | 379       |
| Computer equipment             | 36,485    | 31,963    |
| Furniture and office equipment | 1,887     | 2,237     |
| Motor vehicles                 | 8,056     | 12,864    |
| Plant and equipment            | -         | -         |
|                                | \$ 47,797 | \$ 48,301 |

**9. GOODWILL AND INTANGIBLE ASSETS, net****Goodwill**

Summarized below is the movement in the carrying value of goodwill for the years ended June 30, 2014, 2013 and 2012:

|  | Gross<br>value | Accumulated<br>impairment | Carrying<br>value |
|--|----------------|---------------------------|-------------------|
| Balance as of July 1, 2011                           | \$ 258,084     | \$ (48,514)               | \$ 209,570        |
| Reduction in goodwill: KSNET net settlement (Note 3) | (4,239)        | -                         | (4,239)           |
| Foreign currency adjustment <sup>(1)</sup>           | (28,957)       | 6,363                     | (22,594)          |
| Balance as of June 30, 2012                          | 224,888        | (42,151)                  | 182,737           |
| Acquisition of NIMS (Note 3)                         | 1,710          | -                         | 1,710             |
| Acquisition of SmartSwitch Botswana (Note 3)         | 657            | -                         | 657               |

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|   |            |          |            |
|---|------------|----------|------------|
| Foreign currency adjustment <sup>(1)</sup>  | (8,697)    | (601)    | (9,298)    |
| Balance as of June 30, 2013   | 218,558    | (42,752) | 175,806    |
| Loss on liquidation of Net1 Universal Electronic Technologies (Austria) GmbH and associated entities ( Net1 UTA ) (Note 19) | (44,445)   | 44,445   | -          |
| Foreign currency adjustment <sup>(1)</sup>  | 12,463     | (1,693)  | 10,770     |
| Balance as of June 30, 2014   | \$ 186,576 | \$ -     | \$ 186,576 |

(1) the foreign currency adjustment represents the effects of the fluctuations between the South African rand and the South Korean won, and the US dollar on the carrying value.

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**9. GOODWILL AND INTANGIBLE ASSETS, net (continued)****Goodwill (continued)**

Goodwill associated with the acquisition of N1MS and SmartSwitch Botswana represents the excess of cost over the fair value of acquired net assets. The N1MS and SmartSwitch Botswana goodwill is not deductible for tax purposes. See Note 3 for the allocation of the purchase price to the fair value of acquired net assets. N1MS has been allocated to the Company's South African transaction processing operating segment and SmartSwitch Botswana to the International transaction processing operating segment.

The Company assesses the carrying value of goodwill for impairment annually, or more frequently, whenever events occur and circumstances change indicating potential impairment. The Company performs its annual impairment test as at June 30 of each year. The results of our impairment tests during the year ended June 30, 2014 and 2013, indicated that the fair value of the Company's reporting units exceeded their carrying values and therefore the Company's reporting units were not at risk of potential impairment.

The Company changed its reportable segments during June 2014 (refer to Note 23). Goodwill has been allocated to the Company's reportable segments as follows:

|  | <b>2014</b> |         | <b>2013</b> |         |
|--|-------------|---------|-------------|---------|
| South African transaction processing         | \$          | 28,517  | \$          | 30,525  |
| International transaction processing         |             | 128,427 |             | 113,972 |
| Financial inclusion and applied technologies |             | 29,632  |             | 31,309  |
| Total  | \$          | 186,576 | \$          | 175,806 |

**Intangible assets, net**

The Company assesses the carrying value of intangible assets for impairment whenever events occur or circumstances change indicating that the carrying amount of the intangible asset may not be recoverable. No intangible assets have been impaired during the years ended June 30, 2014, 2013 and 2012, respectively.

Summarized below is the carrying value and accumulated amortization of intangible assets as of June 30, 2014 and 2013:

|                                    | <b>As of June 30, 2014</b>  |                                 |                           | <b>As of June 30, 2013</b>  |                                 |                           |
|------------------------------------|-----------------------------|---------------------------------|---------------------------|-----------------------------|---------------------------------|---------------------------|
|                                    | <b>Gross carrying value</b> | <b>Accumulated amortization</b> | <b>Net carrying value</b> | <b>Gross carrying value</b> | <b>Accumulated amortization</b> | <b>Net carrying value</b> |
| Finite-lived intangible assets:    |                             |                                 |                           |                             |                                 |                           |
| Customer relationships             | \$ 98,676                   | \$ (41,273)                     | \$ 57,403                 | \$ 90,469                   | \$ (29,818)                     | \$ 60,651                 |
| Software and unpatented technology | 33,604                      | (26,207)                        | 7,397                     | 34,951                      | (22,151)                        | 12,800                    |

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|  |            |             |           |            |             |           |
|--|------------|-------------|-----------|------------|-------------|-----------|
| FTS patent                             | 3,619      | (3,619)     | -         | 3,873      | (3,873)     | -         |
| Exclusive licenses                     | 4,506      | (4,506)     | -         | 4,506      | (4,506)     | -         |
| Trademarks                             | 6,890      | (3,176)     | 3,714     | 6,611      | (2,805)     | 3,806     |
| Customer database                      | -          | -           | -         | 614        | (614)       | -         |
| Total finite-lived intangible assets . | \$ 147,295 | \$ (78,781) | \$ 68,514 | \$ 141,024 | \$ (63,767) | \$ 77,257 |

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**9. GOODWILL AND INTANGIBLE ASSETS, net (continued)****Intangible assets, net (continued)**

Amortization expense charged for the years to June 30, 2014, 2013 and 2012 was \$16.6 million, \$18.2 million, and \$19.4 million, respectively.

Future estimated annual amortization expense for the next five fiscal years, assuming exchange rates prevailing on June 30, 2014, is presented in the table below. Actual amortization expense in future periods could differ from this estimate as a result of acquisitions, changes in useful lives, exchange rate fluctuations and other relevant factors.

|            |    |        |
|------------|----|--------|
| 2015       | \$ | 15,831 |
| 2016       |    | 11,838 |
| 2017       |    | 9,421  |
| 2018       |    | 9,421  |
| 2019       |    | 9,074  |
| Thereafter | \$ | 12,624 |

**10. REINSURANCE ASSETS AND POLICY HOLDER LIABILITIES UNDER INSURANCE AND INVESTMENT CONTRACTS****Reinsurance assets and policy holder liabilities under insurance contracts**

Summarized below is the movement in reinsurance assets and policy holder liabilities under insurance contracts during the years ended June 30, 2014 and 2013:

|   | <b>Reinsurance<br/>assets (1)</b> | <b>Insurance<br/>contracts (2)</b> |
|---|-----------------------------------|------------------------------------|
| Balances acquired on July 1, 2012                           | \$ 23,595                         | \$ (23,701)                        |
| Claims and policyholders benefits under insurance contracts | (211)                             | 146                                |
| Foreign currency adjustment <sup>(3)</sup>                  | (3,827)                           | 3,844                              |
| Balance as of June 30, 2013                                 | 19,557                            | (19,711)                           |
| Claims and policyholders benefits under insurance contracts | 2,790                             | (3,063)                            |
| Foreign currency adjustment <sup>(3)</sup>                  | (1,285)                           | 1,296                              |
| Balance as of June 30, 2014                                 | \$ 21,062                         | \$ (21,478)                        |

(1) Included in other long-term assets;

(2) Included in other long-term liabilities;

(3) The foreign currency adjustment represents the effects of the fluctuations between the ZAR against the US dollar.

The Company has agreements with reinsurance companies in order to limit its losses from large insurance contracts, however, if the reinsurer is unable to meet its obligations, the Company retains the liability.

The value of insurance contract liabilities is based on best estimates assumptions of future experience plus prescribed margins, as required in the markets in which these products are offered, namely South Africa. The process

of deriving the best estimates assumptions plus prescribed margins includes assumptions related to future mortality and morbidity (an appropriate base table of standard mortality is chosen depending on the type of contract and class of business), withdrawals (based on recent withdrawal investigations and expected future trends), investment returns (based on government treasury rates adjusted by an applicable margin), expense inflation (based on a 10-year real return on CPI-linked government bonds from the risk-free rate and adding an allowance for salary inflation and book shrinkage of 1% per annum) and claim reporting delays (based on average industry experience).

## 10. REINSURANCE ASSETS AND POLICY HOLDER LIABILITIES UNDER INSURANCE AND INVESTMENT CONTRACTS (continued)

### Assets and policy holder liabilities under investment contracts

Summarized below is the movement in assets and policy holder liabilities under investment contracts during the years ended June 30, 2014 and 2013:

|  | Assets (1) |       | Investment contracts (2) |         |
|--|------------|-------|--------------------------|---------|
| Balances acquired on July 1, 2012          | \$         | 1,109 | \$                       | (1,109) |
| Foreign currency adjustment <sup>(3)</sup> |            | (156) |                          | 156     |
| Balance as of June 30, 2013                |            | 953   |                          | (953)   |
| Maturity claims under investment contracts |            | (202) |                          | 202     |
| Foreign currency adjustment <sup>(3)</sup> |            | (63)  |                          | 63      |
| Balance as of June 30, 2014                | \$         | 688   | \$                       | (688)   |

(1) Included in other long-term assets;

(2) Included in other long-term liabilities;

(3) The foreign currency adjustment represents the effects of the fluctuations between the ZAR against the US dollar.

The Company does not offer any investment products with guarantees related to capital or returns.

## 11. OTHER PAYABLES

Summarized below is the breakdown of other payables as of June 30, 2014 and 2013:

|   | 2014 |        | 2013 |        |
|---|------|--------|------|--------|
| Participating merchants settlement obligation | \$   | 2,118  | \$   | 2,005  |
| Payroll-related payables                      |      | 991    |      | 1,611  |
| Accruals                                      |      | 10,704 |      | 10,522 |
| Value-added tax payable                       |      | 3,477  |      | 2,560  |
| Other   |      | 7,027  |      | 7,009  |
| Provisions                                    |      | 17,940 |      | 10,101 |
|   | \$   | 42,257 | \$   | 33,808 |

## 12. SHORT-TERM FACILITIES

### South Africa

The Company's short-term South African credit facility with Nedbank Limited comprises an overdraft facility of up to ZAR 250 million and indirect and derivative facilities of up to ZAR 150 million, which include letters of guarantee, letters of credit and forward exchange contracts. As of June 30, 2014, the interest rate on the overdraft facility was 7.85%. On July 18, 2014, the interest rate on the overdraft facility was increased to 8.10% due to an increase in the South Africa repurchase rate by 0.25%. The Company has ceded its investment in Cash Paymaster Services Proprietary Limited (CPS), a wholly owned South African subsidiary, as security for its repayment obligations under the facility. A commitment fee of 0.35% per annum is payable on the monthly unutilized amount of the overdraft portion of the short-term facility. The Company is required to comply with customary non-financial covenants, including, without limitation, covenants that restrict its ability to dispose of or encumber its assets, incur additional indebtedness or engage in certain business combinations. As of June 30, 2014, the Company had not utilized any of its ZAR 250.0 million (\$23.6 million, translated at exchange rates applicable as of June 30, 2014)

overdraft facility. The Company had utilized approximately ZAR 139.0 million (\$13.1 million, translated at exchange rates applicable as of June 30, 2014) of its facility to obtain foreign exchange contracts from the bank and to enable the bank to issue guarantees, including stand-by letters of credit, in order for the Company to honor its obligations to third parties requiring such guarantees (refer to Note 24). As of June 30, 2013, the Company had utilized none of these facilities.

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## **NET 1 UEPS TECHNOLOGIES, INC.**

### **Notes to the consolidated financial statements**

**for the years ended June 30, 2014, 2013 and 2012**

**(All amounts stated in thousands of United States Dollars, unless otherwise stated)**

#### **12. SHORT-TERM FACILITIES (continued)**

##### **South Korea**

The Company obtained a KRW 10 billion short-term overdraft facility from Hana Bank, a South Korean bank, in January 2014. As of June 30, 2014, the interest rate on the overdraft facility was 4.98%. The Company has ceded the warehouse it owns in South Korea as security for its repayment obligations under the facility. As of June 30, 2014, the Company had not utilized any of its KRW 10.0 billion (\$9.9 million, translated at exchange rates applicable as of June 30, 2014) overdraft facility. The facility expires in January 2015.

#### **13. LONG-TERM BORROWINGS**

In October 2013, the Company refinanced its long-term South Korean credit facility and signed a new five-year senior secured facilities agreement (the Facilities Agreement) with a consortium of South Korean banks. The Facilities Agreement provides for three separate facilities to the Company's wholly owned subsidiary, Net1 Applied Technologies Korea (Net1 Korea): a Facility A loan of up to KRW 60.0 billion (\$59.2 million), a Facility B loan of up to KRW 15 billion (\$14.8 million) and a Facility C revolving credit facility of up to KRW 10.0 billion (\$9.9 million) (all facilities denominated in KRW and translated at exchange rates applicable as of June 30, 2014).

The Facility A and B loans were fully drawn on October 29, 2013, and used to repay KRW 75.0 billion (\$70.6 million) of the KRW 92.4 billion (\$87.0 million) loan outstanding under the Company's refinanced South Korean credit facility. The remaining outstanding KRW 17.4 billion (\$16.4 million) balance of that facility was paid from cash on hand on October 29, 2013. In addition, the Company drew KRW 1.1 billion (\$1.0 million) of the revolving credit facility on October 29, 2013, to pay fees and expenses related to the Facilities Agreement and drew approximately KRW 2.2 billion (\$2.1 million) during the last six months of the year ended June 30, 2014, to pay interest due under the Facilities Agreement. The carrying value as of June 30, 2014, was \$77.2 million. As of June 30, 2014, the carrying amount of the long-term borrowings approximated its fair value.

Interest on the loans and revolving credit facility is payable quarterly and is based on the South Korean CD rate in effect from time to time plus a margin of 3.10% for the Facility A loan and Facility C revolving credit facility; and a margin of 2.90% for the Facility B loan. The CD rate was 2.65% on June 30, 2014 and therefore the interest rate in effect as of June 30, 2014, for the Facility A loan and Facility C revolving credit facility was 5.75% and for the Facility B loan was 5.55%, respectively. A commitment fee of 0.3% is payable on any un-drawn and un-cancelled amount of the revolving credit facility.

The Company paid facilities fees of approximately KRW 0.9 billion (\$0.9 million) on October 29, 2013, and amortized approximately \$0.3 million of these fees during the year ended June 30, 2014. The Company has expensed the remaining prepaid facility fees related to the Company's refinanced South Korean credit facility of approximately \$0.4 million during the year ended June 30, 2014. Total interest expense related to the new and refinanced facilities during the year ended June 30, 2014, 2013 and 2012, was \$4.8 million, \$7.1 million and \$8.8 million, respectively.

The Facility A loan is repayable in three scheduled annual installments of KRW 10 billion in April 2016, 2017 and 2018, with a final installment of KRW 30 billion due at the maturity date (October 29, 2018). The Facility B loan is repayable in full on October 29, 2014. The Facility C revolving credit facility is repayable in full on the maturity date. Prepayment of the revolving credit facility may be withdrawn at any time up to three months before the maturity

date.

The loans under the Facilities Agreement are secured by a pledge by Net1 Korea of its entire equity interest in KSNET and a pledge by the immediate parent of Net1 Korea (also one of the Company's subsidiaries) of its entire equity interest in Net1 Korea. The Facilities Agreement contains customary covenants that require Net1 Korea to maintain agreed leverage and debt service coverage ratios and restricts Net1 Korea's ability to make certain distributions with respect to its capital stock, prepay other debt, encumber its assets, incur additional indebtedness, or engage in certain business combinations. The loans under the Facilities Agreement are without recourse to, and the covenants and other agreements contained therein do not apply to, the Company or any of the Company's subsidiaries (other than Net1 Korea).

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**14. COMMON STOCK****Common stock**

Holders of shares of Net1's common stock are entitled to receive dividends and other distributions when declared by Net1's board of directors out of legally available funds. Payment of dividends and distributions is subject to certain restrictions under the Florida Business Corporation Act, including the requirement that after making any distribution Net1 must be able to meet its debts as they become due in the usual course of its business.

Upon voluntary or involuntary liquidation, dissolution or winding up of Net1, holders of common stock share ratably in the assets remaining after payments to creditors and provision for the preference of any preferred stock according to its terms. There are no pre-emptive or other subscription rights, conversion rights or redemption or scheduled installment payment provisions relating to shares of common stock. All of the outstanding shares of common stock are fully paid and non-assessable.

Each holder of common stock is entitled to one vote per share for the election of directors and for all other matters to be voted on by shareholders. Holders of common stock may not cumulate their votes in the election of directors, and are entitled to share equally and ratably in the dividends that may be declared by the board of directors, but only after payment of dividends required to be paid on outstanding shares of preferred stock according to its terms. The shares of Net1 common stock are not subject to redemption.

The Company's number of shares, net of treasury, presented in the consolidated balance sheets and consolidated statement of changes in equity includes participating non-vested equity shares (specifically contingently returnable shares) as described in Note 18 Amended and Restated Stock Incentive Plan Restricted Stock General Terms of Awards. The following table presents reconciliation between the number of shares, net of treasury, presented in the consolidated statement of changes in equity and the number of shares, net of treasury, excluding non-vested equity shares that have not vested during the years ended June 30, 2014, 2013 and 2012:

|   | <b>2014</b> | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|-------------|
| Number of shares, net of treasury:                            |             |             |             |
| Statement of changes in equity                                | 47,819,299  | 45,592,550  | 45,548,902  |
| Less: Non-vested equity shares that have not vested as of end |             |             |             |
| of  |             |             |             |
| year (Note 18)  | 385,778     | 405,226     | 646,617     |
| Number of shares, net of treasury excluding non-vested        |             |             |             |
| equity  |             |             |             |
| shares that have not vested                                   | 47,433,521  | 45,187,324  | 44,902,285  |

**Common stock repurchases**

The Company's Board of Directors has authorized the repurchase of up to \$100 million of common stock. The authorization does not have an expiration date.

The share repurchase authorization will be used at management's discretion, subject to limitations imposed by SEC Rule 10b-18 and other legal requirements and subject to price and other internal limitations established by the

Board. Repurchases will be funded from the Company's available cash. Share repurchases may be made through open market purchases, privately negotiated transactions, or both. There can be no assurance that the Company will purchase any shares or any particular number of shares.

The authorization may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing shares, liquidity and other factors that management deems appropriate. During the year ended June 30, 2012, the Company repurchased 180,656 shares for approximately \$1.1 million. The Company did not repurchase any of its shares during the years ended June 30, 2014 and 2013, under this authorization. However, during the year ended June 30, 2014, the Company repurchased 2,428,122 shares for approximately \$24.9 million as described below under December 2013 Black Economic Empowerment transactions Salient terms of the BEE Relationship Agreements .

## **NET 1 UEPS TECHNOLOGIES, INC.**

### **Notes to the consolidated financial statements**

**for the years ended June 30, 2014, 2013 and 2012**

**(All amounts stated in thousands of United States Dollars, unless otherwise stated)**

#### **14. COMMON STOCK (continued)**

##### **December 2013 Black Economic Empowerment transactions**

On December 10, 2013, the Company entered into definitive agreements relating to two Black Economic Empowerment ( BEE ) transactions. On April 16, 2014, the Company implemented these transactions and issued 4,400,000 shares of its common stock to its BEE partners after all the agreed conditions had been satisfied. On June 6, 2014, the Company repurchased approximately 2.4 million of these shares of common stock and the BEE partners used the proceeds from the repurchase to settle their obligations due to the South African subsidiary of the Company, as described below.

##### *Salient terms of the BEE Relationship Agreements*

Pursuant to Relationship Agreements between the Company and its BEE partners, the Company sold an aggregate of 4,400,000 shares of its common stock ( BEE shares ), which are contractually restricted as to resale as described below, for a purchase price of ZAR 60.00 per share. This price represented 75% of the closing price of the Company's common stock on the JSE on December 6, 2013, the date the Company completed final negotiation of the terms of these BEE transactions.

The Relationship Agreements provided for the entire purchase price for the BEE shares to be financed through a five-year loan to be extended to each of the BEE partners by a South African subsidiary of the Company. The obligations of the BEE partners under the loans were several, and not joint. Each of the BEE partners granted the lender a security interest in all the BEE shares purchased by such BEE partner to secure the repayment of its loan. The principal amount of the loans made by the subsidiary was contributed by Net1 to the equity capital of the subsidiary. As a result of the making of the loans, the net cash position of the Company after the sale of the BEE shares remained unchanged.

The loans bore interest at a rate equal to the Johannesburg Interbank Rate plus 300 basis points. Interest on the loans was payable semi-annually in arrears on January 1 and July 1 of each year. 10% of the outstanding principal amount of the loans was payable on each of the first and second anniversaries of the date of issuance of the BEE shares, 15% of the outstanding principal amount of the loans was payable on each of the third and fourth anniversaries of the date of issuance of the BEE shares and the remaining outstanding principal amount of the loans was payable on the fifth anniversary of the date of issuance of the BEE shares. Further, the entire outstanding principal amount of the loans was payable if the price of the Company's common stock on the JSE equals or exceeds ZAR 120.00 per share at any time during term of the loans. The loans to the BEE partners did not provide that they were recourse only to the BEE shares. Nevertheless, the Company expected that the sole source of repayment of the loans will be proceeds from the sale of its shares by the BEE partners from time to time, in open market or in privately negotiated transactions.

Upon the occurrence of certain trigger events with respect to a BEE partner, the BEE shares held by that BEE partner may be repurchased by the Company or one of its designees. These trigger events include the following:

failure by the BEE partner to pay any amount due on its loan (including interest) to the lender (in this case, the Company may repurchase only that number of shares which would raise sufficient funds to settle any amount due and unpaid);

any other breach by the BEE partner (or in certain circumstances its shareholders) of any provision of the Relationship Agreement, including without limitation, its failure to maintain its BEE status;  
the Company's common stock trades at or below ZAR 60.00 on the JSE or at or below the equivalent trading price on Nasdaq;  
the occurrence of certain insolvency events or liquidation proceedings affecting the BEE partner; or  
the BEE partner fails to satisfy any judgment or arbitration award granted or made against it within 7 days.

If the trigger event involved a failure by a BEE partner to pay any amount due on its loan, then the repurchase price is the volume-weighted average price of the Company's common stock on the Nasdaq for the period of 30 trading days prior to the trigger event ( 30-day VWAP ). In the case of other trigger events, the repurchase price is the lower of the 30-day VWAP or ZAR 60.00 per share.

The Company's share price exceeded ZAR 120.00 on June 4, 2014 and all outstanding amounts then became due and payable. The BEE partners were unable to pay all outstanding amounts due on June 5, 2014, and accordingly a trigger event occurred. The Company purchased a total of 2,428,122 shares of its common stock, at the determined VWAP of ZAR109.98, from the BEE partners. The BEE partners used the proceeds from the sale of these shares in order to settle all outstanding amounts due to the South African subsidiary of the Company.

**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**14. COMMON STOCK (continued)****December 2013 Black Economic Empowerment transactions (continued)***Salient terms of the BEE Relationship Agreements (continued)*

The BEE shares are contractually restricted as to resale for a period of five years from the date of issuance, with the exception of periodic sales which would have been made to fund the repayment of principal and interest on the loans if they had not been repaid in full in June 2014. In addition, the Company may call the BEE shares then owned by the BEE partners, either in exchange for a minority interest in CPS or for a cash payment equal to the 30-day VWAP. Further, after the fifth anniversary of the date of issuance of the BEE shares, the Company will have a right of first refusal on the shares owned by the BEE partners.

**Acquisition of KSNET non-controlling interests**

During the year ended June 30, 2014, the Company acquired all of the issued share capital of KSNET, Inc. that it did not previously own for approximately \$2.0 million in cash. The Company intends to realize certain South Korean tax efficiencies in the future and is currently discussing the feasibility with its South Korean tax advisors. The transaction was accounted for as an equity transaction with a non-controlling interest and accordingly, no gain or loss was recognized in the Company's consolidated statement of operations. The carrying amount of the non-controlling interest was adjusted to reflect the change in ownership interest in KSNET. The difference between the fair value of the consideration paid and the amount by which the non-controlling interest was adjusted, of \$1.5 million, was recognized in total Net1 equity.

**15. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME**

The table below presents the change in accumulated other comprehensive (loss) income per component during years ended June 30, 2014, 2013 and 2012:

|  | <b>Accumulated<br/>Foreign<br/>currency<br/>translation<br/>reserve<br/>000</b> | <b>Accumulated<br/>Net<br/>unrealized<br/>income (loss)<br/>on asset<br/>available for<br/>sale, net of<br/>tax<br/>000</b> | <b>Total<br/>000</b> |
|--|---|---|----------------------|
| Balance as of July 1, 2011   | \$ (31,647)   | \$ (2,132)  | \$ (33,779)          |
| Movement in foreign currency translation reserve                   | (43,490)  | -   | (43,490)             |
| Unrealized loss on asset available for sale, net of tax of \$602 . | -   | 1,547   | 1,547                |
| Balance as of June 30, 2012  | (75,137)  | (585)   | (75,722)             |
| Movement in foreign currency translation reserve                   | (26,051)  | -   | (26,051)             |
|  | -   | 915   | 915                  |

Unrealized loss on asset available for sale, net of tax of \$356 .

|  |             |        |             |
|--|-------------|--------|-------------|
| Balance as of June 30, 2013  | (101,188)   | 330    | (100,858)   |
| Movement in foreign currency translation reserve   | 13,552      | -      | 13,552      |
| Release of foreign currency translation reserve related to sale/ liquidation of businesses | 4,277       | -      | 4,277       |
| Unrealized loss on asset available for sale, net of tax of \$112 .                         | -           | 288    | 288         |
| Balance as of June 30, 2014  | \$ (83,359) | \$ 618 | \$ (82,741) |

The Company released a net loss of \$4.3 million from its foreign currency translation reserve to selling, general and administration expense on its consolidated statement of operations during the year ended June 30, 2014, as a result of the sale and liquidation of certain subsidiaries (See also Note 19). There were no other reclassifications from accumulated other comprehensive loss to comprehensive (loss) income during the year ended June 30, 2014. There were no reclassifications from accumulated other comprehensive loss to comprehensive (loss) income during the year ended June 30, 2013.

**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**16. REVENUE**

|   | 2014       | 2013       | 2012       |
|---|------------|------------|------------|
| Services rendered comprising mainly fees and commissions    | \$ 518,297 | \$ 430,268 | \$ 362,679 |
| Loan-based fees received                                    | 33,560     | 6,613      | 8,433      |
| Sale of goods comprising mainly hardware and software sales | 29,799     | 15,266     | 19,152     |
|   | \$ 581,656 | \$ 452,147 | \$ 390,264 |

Services rendered comprising mainly fees and commissions for the year ended June 30, 2014, includes a once-off receipt of \$26.6 million related to the recovery of additional implementation costs incurred during the beneficiary re-registration process during the years ended June 30, 2013 and 2012. During the years ended June 30, 2014, 2013 and 2012, the Company did not recognize any revenue using the percentage of completion method.

**17. EQUITY INSTRUMENTS ISSUED PURSUANT TO BEE TRANSACTIONS****2014 transactions**

On April 16, 2014, the Company issued 4,400,000 shares of its common stock pursuant to the BEE transactions discussed in Note 14. The charge related to the equity instruments issued pursuant to the BEE transactions was determined to be approximately \$11.3 million and was expensed in full during the year ended June 30, 2014, because the BEE partners owned the shares on the issue date. This was a book entry and no cash was actually paid. The charge recorded was determined as the difference between the fair value of the loans provided to the BEE partners and the fair value of the equity instruments granted to the BEE partners.

The fair value of the loans provided to the BEE partners was determined to be their face value. The fair value of the equity instruments was calculated utilizing an adjusted Monte Carlo simulation discounted cash flow model which was developed for the purpose of the valuation of these BEE transactions. Cash flows were calculated for each simulated share price path, taking into account the bespoke features of the BEE transactions, as well as the expected interest and capital repayments (funded through the expected sales of BEE shares). The adjustment to the Monte Carlo simulation model incorporates a jump diffusion process to the standard Geometric Brownian Motion simulation, in order to capture the discontinuous share price jumps observed in the Company's share price movements on stock exchanges on which it is listed. Therefore, the simulated share price paths capture the idiosyncrasies of the observed Company share price movements. For each simulation, the resulting expected cash flows were discounted to the valuation date.

The Company used an expected volatility of 21.04%, an expected life of five years, a risk free rate of 7.90% and no future dividends in its calculation of the fair value of the equity instrument. The estimated expected volatility was calculated based on the Company's 30 day VWAP share price using the exponentially weighted moving average of returns.

**2012 transaction**

On April 19, 2012, the Company issued an option to purchase 8,955,000 shares of its common stock to a BEE consortium pursuant to a BEE transaction that it entered into on January 25, 2012. The option expired unexercised on April 19, 2013. The fair value of the option was determined as approximately \$14.2 million and was expensed in full during the year ended June 30, 2012 because the option vested immediately on the grant date. This was a book entry and no cash was actually paid. Accordingly, the expense recorded during the year ended June 30, 2012, was not reversed during the year ended June 30, 2013, because the option had vested in full on the grant date.

The fair value was determined on the date that all conditions to the BEE transaction had been fulfilled using the Cox Ross Rubinstein binomial model. The Company used an expected volatility of 47%, an expected life of one year, a risk free rate of 0.90% and no future dividends in its calculation of the fair value. The estimated expected volatility was calculated based on the Company's 250 day volatility.



**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

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(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**18. STOCK-BASED COMPENSATION****Amended and Restated Stock Incentive Plan**

The Company's Amended and Restated Stock Incentive Plan (the Plan) has been approved by its shareholders. No evergreen provisions are included in the Plan. This means that the maximum number of shares issuable under the Plan is fixed and cannot be increased without shareholder approval, the plan expires by its terms upon a specified date, and no new stock options are awarded automatically upon exercise of an outstanding stock option. Shareholder approval is required for the repricing of awards or the implementation of any award exchange program. The Plan permits Net1 to grant to its employees, directors and consultants incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, performance-based awards and other awards based on its common stock. The Remuneration Committee of the Company's Board of Directors (Remuneration Committee) administers the Plan.

The total number of shares of common stock issuable under the Plan is 8,552,580. The maximum number of shares for which awards, other than performance-based awards, may be granted in any combination during a calendar year to any participant is 569,120. The maximum limits on performance-based awards that any participant may be granted during a calendar year are 569,120 shares subject to stock option awards and \$20 million with respect to awards other than stock options. Shares that are subject to awards which terminate or lapse without the payment of consideration may be granted again under the Plan. Shares delivered to the Company as part or full payment for the exercise of an option or to satisfy withholding obligations upon the exercise of an option may be granted again under the Plan in the Remuneration Committee's discretion. No awards may be granted under the Plan after June 7, 2019, but awards granted on or before such date may extend to later dates.

*Options**General Terms of Awards*

Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant, with vesting conditioned upon the recipient's continuous service through the applicable vesting date and expire 10 years after the date of grant. The options generally become exercisable in accordance with a vesting schedule ratably over a period of five years from the date of grant. The Company issues new shares to satisfy stock option award exercises but may also use treasury shares.

*Valuation Assumptions*

The fair value of each option is estimated on the date of grant using the Cox Ross Rubinstein binomial model that uses the assumptions noted in the following table. The estimated expected volatility is calculated based on the Company's 250 day volatility. The estimated expected life of the option was determined based historical behavior of employees who were granted options with similar terms. The Company has estimated no forfeitures for options awarded in 2014, 2013 and 2012. The table below presents the range of assumptions used to value options granted during the years ended June 30, 2014, 2013 and 2012:

|                     | <b>2014</b> | <b>2013</b> | <b>2012</b> |
|---------------------|-------------|-------------|-------------|
| Expected volatility | 50%         | 49%         | 37% - 39%   |
| Expected dividends  | 0%          | 0%          | 0%          |

|                          |      |      |             |
|--------------------------|------|------|-------------|
| Expected life (in years) | 3    | 3    | 3           |
| Risk-free rate           | 0.9% | 0.3% | 1.9% - 0.9% |

***Restricted Stock****General Terms of Awards*

Shares of restricted stock are considered to be participating non-vested equity shares (specifically contingently returnable shares) for the purposes of calculating earnings per share (refer Note 21) because, as discussed in more detail below, the recipient is obligated to transfer any unvested restricted stock back to the Company for no consideration and these shares of restricted stock are eligible to receive non-forfeitable dividend equivalents at the same rate as common stock. Restricted stock generally vests ratably over a three year period, with vesting conditioned upon the recipient's continuous service through the applicable vesting date and under certain circumstances, the achievement of certain performance targets, as described below.

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## **NET 1 UEPS TECHNOLOGIES, INC.**

### **Notes to the consolidated financial statements**

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(All amounts stated in thousands of United States Dollars, unless otherwise stated)

#### **18. STOCK-BASED COMPENSATION (continued)**

##### **Amended and Restated Stock Incentive Plan (continued)**

###### *Restricted Stock (continued)*

###### *General Terms of Awards (continued)*

Restricted stock awarded to non-employee directors and employees of the Company vests ratably over a three-year period. Recipients are entitled to all rights of a stockholder of the Company except as otherwise provided in the restricted stock agreements. These rights include the right to vote and receive dividends and/or other distributions. However, the restricted stock agreements generally prohibit transfer of any nonvested and forfeitable restricted stock. If a recipient ceases to be a member of the Board of Directors or an employee for any reason, all shares of his restricted stock that are not then vested and nonforfeitable will be immediately forfeited and transferred to the Company for no consideration.

The Company issues new shares to satisfy restricted stock awards.

###### *Valuation Assumptions*

The fair value of restricted stock is based on the closing price of the Company's stock quoted on The Nasdaq Global Select Market on the date of grant.

###### *Performance Conditions - Restricted Stock Granted in October and November 2010*

In October 2010, the Remuneration Committee approved an award of 60,000 shares of restricted stock to an executive officer of the Company. Under the terms of the award, the shares would vest on June 30, 2014, conditioned upon the employee's continuous service through June 30, 2014, and on the employee receiving an incremental incentive bonus, as defined in the employee's employment agreement for each of the periods ended June 30, 2011, 2012, 2013 and 2014. Any outstanding award shares that had not become vested and nonforfeitable as of June 30, 2014, would be forfeited by the recipient on June 30, 2014, and transferred to the Company for no consideration. The October 2010 restricted stock award did not vest because the financial performance target was not met for June 30, 2011. Refer also [Stock option and restricted stock activity](#) restricted stock [below](#).

In November 2010, the Remuneration Committee approved an award of 83,000 shares of restricted stock to two of the Company's executive officers. The award provided for vesting of one-third of the award shares on each of November 10, 2011, 2012 and 2013, conditioned upon each recipient's continuous service through the applicable vesting date and the Company achieving the financial performance target for that vesting date. Specifically, the financial performance targets were Fundamental EPS, as defined below, of \$1.44, \$1.60 and \$1.90 for the years ended June 30, 2011, 2012 and 2013, respectively. For the purpose of this award, Fundamental EPS was calculated as Company's diluted earnings per share as reflected in the Company's consolidated financial statements, measured in U.S. dollars and determined in accordance with GAAP, adjusted to exclude the effects related to the amortization of intangible assets and acquisition-related costs, stock-based compensation charges, foreign exchange gains and losses arising from foreign currency hedging transactions, and other items that the Committee determined in its discretion to be appropriate (for example, accounting changes and one-time or unusual items), and assumes a constant tax rate

equal to the Company's effective tax rate for the year ended June 30, 2010. If Fundamental EPS for the specified fiscal year was not equal to or exceeded the Fundamental EPS target for such year, no award shares would vest or become nonforfeitable on the corresponding vesting date but would have been available to become vested and nonforfeitable as of a subsequent vesting date if the Fundamental EPS target for a subsequent fiscal year was met; provided that the recipient's service continued through such subsequent vesting date.

Any outstanding award shares that have not become vested and nonforfeitable as of November 10, 2013, will be forfeited by the recipient on November 10, 2013, and transferred to the Company for no consideration. One-third of the award shares vested on November 10, 2011. The remaining two-thirds of the restricted stock award did not vest because the financial performance target of \$1.90 was not met for June 30, 2013. Refer also to Stock option and restricted stock activity restricted stock below.

**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

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(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**18. STOCK-BASED COMPENSATION (continued)****Amended and Restated Stock Incentive Plan (continued)***Stock Appreciation Rights*

The Remuneration Committee also may grant stock appreciation rights, either singly or in tandem with underlying stock options. Stock appreciation rights entitle the holder upon exercise to receive an amount in any combination of cash or shares of common stock (as determined by the Remuneration Committee) equal in value to the excess of the fair market value of the shares covered by the right over the grant price. No stock appreciation rights have been granted.

**Stock option and restricted stock activity***Options*

The following table summarizes stock option activity for the years ended June 30, 2014, 2013 and 2012:

|                     |               | Number of<br>shares | Weighted<br>average<br>exercise<br>price (\$) | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(in years) | Aggregate<br>Intrinsic<br>Value<br>(\$ 000) | Weighted<br>Average<br>Grant<br>Date Fair<br>Value (\$) |
|---------------------|---------------|---------------------|---|---|---|---|
| Outstanding         | July 1, 2011  | 2,120,656           | 18.44   | 6.82  | 243   |   |
| Granted under Plan: | August 2011   | 165,000             | 6.59  | 10.00   | 297   | 1.80  |
| Granted under Plan: | October 2011  | 202,000             | 7.98  | 10.00   | 442   | 2.19  |
| Forfeitures         |               | (240,073)           | 21.68   |   | -   |   |
| Outstanding         | June 30, 2012 | 2,247,583           | 16.28   | 6.43  | 602   | -   |
| Granted under Plan: | August 2012   | 431,000             | 8.75  | 10.00   | 1,249                                       | 2.90  |
| Exercised           |               | (30,000)            | 7.98  |   | 24  |   |
| Outstanding         | June 30, 2013 | 2,648,583           | 15.15   | 5.98  | 313   |   |
| Granted under Plan: | August 2013   | 224,896             | 7.35  | 10.00   | 568   | 2.53  |
| Exercised           |               | (26,667)            | 7.00  |   | 91  |   |
| Forfeited           |               | (136,420)           | 23.51   |   | -   |   |
| Outstanding         | June 30, 2014 | 2,710,392           | 14.16   | 5.38  | 3,909                                       |   |

The following table presents stock options vesting and expecting to vest as of June 30, 2014:

| Number of<br>shares | Weighted<br>average<br>exercise<br>price<br>(\$) | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(in years) | Aggregate<br>Intrinsic<br>Value<br>(\$ 000) |
|---------------------|--|---|---|
|---------------------|--|---|---|

|                              |      |           |       |      |       |
|------------------------------|------|-----------|-------|------|-------|
| Vested and expecting to vest | June |           |       |      |       |
| 30, 2014                     |      | 2,710,392 | 14.16 | 5.38 | 3,909 |

These options have an exercise price range of \$6.59 to \$24.46.

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**18. STOCK-BASED COMPENSATION (continued)****Stock option and restricted stock activity (continued)***Options (continued)*

The following table presents stock options that are exercisable as of June 30, 2014:

|             |               | Number of<br>shares | Weighted<br>average<br>exercise<br>price (\$) | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(in years) | Aggregate<br>Intrinsic<br>Value<br>(\$ 000) |
|-------------|---------------|---------------------|---|---|---|
| Exercisable | June 30, 2014 | 2,085,830           | 16.01   | 4.54  | 1,789                                       |

During the years ended June 30, 2014, 2013 and 2012, approximately 462,333, 442,666, and 300,000 stock options became exercisable, respectively. Included in the 442,666 stock options are 30,000 stock options with respect to which the Remuneration Committee of the Board agreed to accelerate vesting prior to the resignation of a non-employee director. The stock option vesting was accelerated in recognition of this director's long service and valued contributions. During the year ended June 30, 2014, the Company received \$0.2 million from 26,667 stock options exercised by employees. During the year ended June 30, 2013, the Company received approximately \$0.2 million from 30,000 stock options exercised by the non-employee director that resigned. No stock options were exercised during the year ended June 30, 2012. During the years ended June 30, 2014 and 2012, respectively, employees forfeited 136,420 and 240,073 stock options. There were no forfeitures during the years ended June 30, 2013. The Company issues new shares to satisfy stock option exercises.

*Restricted stock*

The following table summarizes restricted stock activity for the years ended June 30, 2014, 2013 and 2012:

|              |                        | Number of<br>Shares of<br>Restricted<br>Stock | Weighted<br>Average Grant<br>Date Fair Value<br>(\$ 000) |
|--------------|------------------------|---|--|
| Non-vested   | July 1, 2011           | 103,672                                       |  |
| Granted      | August 2011            | 30,155  | 199  |
| Granted      | February 2012          | 550,000                                       | 6,111  |
| Granted      | May 2012               | 2,574   | 23   |
|              | Vested - August 2011   | (6,141)                                       | 40   |
|              | Vested - November 2011 | (27,667)                                      | 209  |
| Total vested |                        | (33,808)                                      |  |
| Forfeitures  |                        | (5,976)                                       | 50   |
| Non-vested   | June 30, 2012          | 646,617                                       | 7,061  |
| Granted      | August 2012            | 21,569  | 189  |
|              | Vested - August 2012   | (23,436)                                      | 216  |

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|              |               |           |       |
|--------------|---------------|-----------|-------|
| Vested       | February 2013 | (183,333) | 1,016 |
| Vested       | May 2013      | (858)     | 7     |
| Total vested |               | (207,627) |       |
| Forfeitures  |               | (55,333)  | 407   |
| Non-vested   | June 30, 2013 | 405,226   | 4,393 |
| Granted      | August 2013   | 187,963   | 1,382 |
| Vested       | August 2013   | (16,907)  | 161   |
| Vested       | February 2014 | (183,333) | 1,742 |
| Total vested |               | (200,240) |       |
| Forfeitures  |               | (7,171)   | 84    |
| Non-vested   | June 30, 2014 | 385,778   | 3,534 |
|              |               | F-40      |       |

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**18. STOCK-BASED COMPENSATION (continued)****Stock option and restricted stock activity (continued)***Restricted stock (continued)*

The fair value of restricted stock vested during the years ended June 30, 2014, 2013 and 2012, was \$1.9 million, \$1.2 million and \$0.2 million, respectively. Non-employee directors resigning during the years ended June 30, 2014 and 2012, respectively forfeited 7,171 and 5,976 shares of restricted stock that had not vested. Included in the 23,436 shares of restricted stock that vested in August 2012 are 8,547 shares with respect to which the Remuneration Committee of the Board agreed to accelerate vesting prior to the resignation of a non-employee director. The second and third tranche totaling 55,333 shares of restricted stock granted in November 2010 to two executive officers did not vest because the agreed performance target was not achieved. Forfeited shares of restricted stock are returned to the Company and, in accordance with the Plan, are available for future issuances by the Remuneration Committee.

**Stock-based compensation charge and unrecognized compensation cost**

The Company has recorded a net stock compensation charge of \$3.7 million, \$3.9 million and \$2.8 million for the years ended June 30, 2014, 2013 and 2012, respectively, which comprised:

|   | <b>Total<br/>charge<br/>(reversal)</b> | <b>Allocated to<br/>cost of goods<br/>sold, IT<br/>processing,<br/>servicing<br/>and support</b> | <b>Allocated to<br/>selling,<br/>general and<br/>administration</b> |
|---|--|--|---|
| Year ended June 30, 2014  |  |  |   |
| Stock-based compensation charge   | \$ 3,724                               | \$ -   | \$ 3,724  |
| Reversal of stock compensation charge related to restricted stock forfeited | (6)                                    | -  | (6)   |
| <b>Total year ended June 30, 2014</b>                                       | <b>\$ 3,718</b>                        | <b>\$ -</b>  | <b>\$ 3,718</b>   |
| Year ended June 30, 2013  |  |  |   |
| Stock-based compensation charge   | \$ 4,387                               | \$ -   | \$ 4,387  |
| Reversal of stock compensation charge related to restricted stock forfeited | (480)                                  | -  | (480)   |
| <b>Total year ended June 30, 2013</b>                                       | <b>\$ 3,907</b>                        | <b>\$ -</b>  | <b>\$ 3,907</b>   |
| Year ended June 30, 2012  |  |  |   |
| Stock-based compensation charge   | \$ 2,909                               | \$ -   | \$ 2,909  |
| Reversal of stock compensation charge related to options forfeited          | (134)                                  | -  | (134)   |
| <b>Total year ended June 30, 2012</b>                                       | <b>\$ 2,775</b>                        | <b>\$ -</b>  | <b>\$ 2,775</b>   |

The stock compensation charge and reversals have been allocated to cost of goods sold, IT processing, servicing and support and selling, general and administration based on the allocation of the cash compensation paid to the employees.

As of June 30, 2014, the total unrecognized compensation cost related to stock options was approximately \$0.9 million, which the Company expects to recognize over approximately two years. As of June 30, 2014, the total unrecognized compensation cost related to restricted stock awards was approximately \$2.3 million, which the Company expects to recognize over approximately two years.

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**18. STOCK-BASED COMPENSATION (continued)****Tax consequences**

There are no tax consequences related to options and restricted stock granted to employees of Company subsidiaries incorporated in South Africa. The Company has recorded a deferred tax asset of approximately \$1.6 million and \$1.4 million, respectively, for the years ended June 30, 2014 and 2013, related to the stock-based compensation charge recognized related to employees of Net1 as it is able to deduct the difference between the market value on date of exercise by the option recipient and the exercise price from income subject to taxation in the United States.

**19. DECONSOLIDATION OF BUSINESSES SOLD OR LIQUIDATED AND DISPOSAL OF BUSINESS**

The profit (loss) on deconsolidation of businesses sold or liquidated and disposal of business during the years ended June 30, 2014, 2013 and 2012 are summarized in the table below:

|   | 2014     | 2013 | 2012     |
|---|----------|------|----------|
| Profit on sale of MediKredit Integrated Healthcare Solutions Proprietary Limited ( MediKredit )   | \$ 4,125 | \$ - | \$ -     |
| Profit on disposal of assets related to the business of Net 1 Universal Electronic Technological Solutions (Pty) Ltd ( NUETS business ) | 2,081    | -    | -        |
| Loss on liquidation of Net1 UTA   | (6,261)  | -    | -        |
| Profit on liquidation of SmartSwitch Nigeria  | -        | -    | 3,994    |
| Net profit (loss) for the year ended June 30,   | \$ (55)  | \$ - | \$ 3,994 |

**2014 transactions*****Sale of MediKredit***

On June 17, 2014, the Company sold its MediKredit subsidiary to an unrelated third party. The Company has recorded a profit of approximately \$4.1 million related to the sale in selling, general and administration expense on its consolidated statement of operations for the year ended June 30, 2014. The profit has been allocated to corporate/eliminations. The sales price will be paid in three tranches, approximately 57% on June 17, 2014, approximately 14% on June 1, 2015, and the remainder on June 1, 2016. In addition, the parties have agreed that MediKredit may continue to operate at the Company's premises at no cost to the purchaser until September 30, 2014. Furthermore, the parties have agreed that MediKredit will provide certain development, support and maintenance services (collectively Services) related to technology used in the United States at no cost to the Company up to an amount of \$0.3 million, translated at the foreign exchange rates applicable as of June 30, 2014. The Company determined that the Services comprise part of the sales price of MediKredit and have increased the profit on sale accordingly. In addition, the Company has determined that the provision of an operating area within the Company's premises represents an obligation on it, and has reduced the profit on sale accordingly. The fair value of the Services and free rental of premises has been determined using prices that would have been charged between unrelated third parties. Finally, the Company was required to release a gain of approximately \$2.0 million from its foreign currency transaction reserve which has been included in the profit on sale. During the year ended June 30, 2014, the Company incurred transaction-related expenditure of \$0.01 million related to the sale of MediKredit.

The purchaser is contingently obligated to pay the Company additional amounts based on future expansion of the MediKredit business in certain circumstances. The Company has not recorded any of these amounts during the year ended June 30, 2014, as none of the contingent events have occurred as of June 30, 2014.

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## **NET 1 UEPS TECHNOLOGIES, INC.**

### **Notes to the consolidated financial statements**

**for the years ended June 30, 2014, 2013 and 2012**

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#### **19. DECONSOLIDATION OF BUSINESSES SOLD OR LIQUIDATED AND DISPOSAL OF BUSINESS (continued)**

##### **2014 transactions (continued)**

###### *Disposal of assets related to NUETS business*

On June 30, 2014, the Company sold the NUETS business, which consisted primarily of customer contracts, other than contracts for UEPS systems in Botswana and Namibia, and equipment for approximately \$2.2 million in cash. The Company received \$0.2 million of these cash proceeds in June 2014, and the remaining \$2.0 million was received in July 2014, and is included in accounts receivable, net, as of June 30, 2014. The Company has recorded a profit of approximately \$2.1 million on the sale in selling, general and administration expense on its consolidated statement of operations for the year ended June 30, 2014. The profit has been allocated to corporate/eliminations. The shareholders of the purchaser comprise a former employee of the Company, a US-based economic development equity fund and other unrelated individuals and private companies. The Company has provided the purchaser with a non-exclusive, perpetual, worldwide license to use the Company's UEPS technology. The purchaser may not use this technology in South Africa to provide payment services and specifically may not use the technology in any manner to service the Ministry of Social Development in South Africa and/or SASSA. The parties have agreed that the Company will provide certain administrative and technical support services related to the NUETS business until March 2015. During the year ended June 30, 2014, the Company incurred transaction-related expenditure of \$0.06 million related to the sale of NUETS business.

###### *Liquidation of Net1 UTA*

The Company has substantially liquidated its Net1 UTA business due to an inability to implement and expand its technology into new markets on a profitable basis. Net1 UTA's operations were streamlined a number of years ago and the Company did not incur significant cash costs to liquidate Net1 UTA. However, the Company was required to release approximately \$6.3 million from its foreign currency transaction reserve which has resulted in a loss on liquidation of Net1 UTA. This non-cash loss on liquidation of Net1 UTA has been recorded in selling, general and administration expense on its consolidated statement of operations for the year ended June 30, 2014. The loss has been allocated to corporate/eliminations.

##### **2012 transaction**

###### *Liquidation of SmartSwitch Nigeria*

The Company ceased operations in the Federation of Nigeria due to an inability to implement its technology on a profitable basis. During the year ended June 30, 2012, the Company, together with the other shareholders, agreed to liquidate SmartSwitch Nigeria, the company through which operating activities in Nigeria were performed. SmartSwitch Nigeria was capitalized primarily with shareholder loans. The shareholders of SmartSwitch Nigeria agreed to waive all outstanding capital and interest repayments related to the loan funding initially provided as part of the liquidation processes. The non-cash profit on liquidation of SmartSwitch Nigeria of \$4.0 million includes the write back of all assets and liabilities, including non-controlling interest loans, of SmartSwitch Nigeria, except for expected liabilities related to the liquidation of SmartSwitch Nigeria. The Company has recorded the profit in selling, general and administration expense on its consolidated statement of operations for the year ended June 30, 2012. The profit

has been allocated to corporate/eliminations.

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

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(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**20. INCOME TAXES****Income tax provision**

The table below presents the components of income before income taxes for the years ended June 30, 2014, 2013 and 2012:

|                            | 2014       | 2013      | 2012      |
|----------------------------|------------|-----------|-----------|
| South Africa               | \$ 121,338 | \$ 38,654 | \$ 67,054 |
| United States              | (9,923)    | (10,075)  | (6,340)   |
| Other                      | (2,273)    | (1,300)   | (333)     |
| Income before income taxes | \$ 109,142 | \$ 27,279 | \$ 60,381 |

Presented below is the provision for income taxes by location of the taxing jurisdiction for the years ended June 30, 2014, 2013 and 2012:

|                                    | 2014                   | 2013      | 2012      |
|------------------------------------|------------------------|-----------|-----------|
| Current income tax                 | \$ 61,902              | \$ 33,968 | \$ 49,092 |
| South Africa                       | 41,326                 | 15,418    | 26,787    |
| United States                      | 14,838                 | 16,061    | 20,746    |
| Other                              | 5,738                  | 2,489     | 1,559     |
| Deferred taxation (benefit) charge | (7,887)                | (4,915)   | (4,598)   |
| South Africa                       | (3,345)                | (2,037)   | (2,941)   |
| United States                      | (107)                  | (331)     | 31        |
| Other                              | (4,435)                | (2,547)   | (1,688)   |
| Capital gains tax                  | 202                    | 7         | 1,465     |
| Secondary taxation on companies    | -                      | -         | 327       |
| Change in tax rate                 | -                      | -         | (18,315)  |
| Foreign tax credits generated      | United States (14,838) | (14,404)  | (12,035)  |
| Income tax provision               | \$ 39,379              | \$ 14,656 | \$ 15,936 |

There were no significant capital gains taxes paid during the years ended June 30, 2014 and 2013, respectively. The capital gains tax paid during the year ended June 30, 2012, represents the taxes paid resulting from an intercompany capital transaction in South Africa.

The Company's South African subsidiary paid a dividend to Net1 after the tax law had changed but before the effective date of the South African dividends withholding tax which resulted in the payment of STC in the third quarter of the year ended June 30, 2012. For the first half of the year ended June 30, 2012, the Company's effective tax rate included an accrual for STC and therefore any STC obligation arising during these periods was charged against the STC liability provided. This STC liability was released during the year end June 30, 2012, as a result of the change in tax law discussed below.

There were no changes to the enacted tax rate in the years ended June 30, 2014 and 2013. On December 20, 2011, there was a change in South African tax law to impose a dividends withholding tax (a tax levied and withheld by a company on distributions to its shareholders) to replace STC. The change was effective on April 1, 2012. As a

result, the Company has recorded a net deferred taxation benefit of approximately \$18.3 million in income taxation expense in its consolidated statements of operations during the year ended June 30, 2012.

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(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**20. INCOME TAXES (continued)****Income tax provision (continued)**

The movement in the valuation allowance for the year ended June 30, 2014, relates to releases of the valuation allowance resulting from the utilization of foreign tax credits during the year and deconsolidation of net operating loss carryforwards for MediKredit. The movement in the valuation allowance for the year ended June 30, 2013, relates to valuation allowances for foreign tax credits and valuation allowances related to net operating loss carryforwards for the Company's South African subsidiaries, primarily MediKredit. As a result of the change in South African tax law during the year ended June 30, 2012, and the Company's intention to permanently reinvest its undistributed earnings in South Africa, the Company did not believe it would be able to recover foreign tax credits previously recognized of \$8.2 million. The movement in the valuation allowance during the year ended June 30, 2012, included a valuation allowance related to this foreign tax credits.

Net1 included actual and deemed dividends received from one of its South African subsidiaries in its years ended June 30, 2014, 2013 and 2012, taxation computation. Net1 applied net operating losses against this income. Net1 generated foreign tax credits as a result of the inclusion of the dividends in its taxable income. Net1 has applied certain of these foreign tax credits against its current income tax provision for the year ended June 30, 2014, 2013 and 2012, respectively.

A reconciliation of income taxes, calculated at the fully-distributed South African income tax rate to the Company's effective tax rate, for the years ended June 30, 2014, 2013 and 2012 is as follows:

|   | 2014     | 2013     | 2012     |
|---|----------|----------|----------|
| Income tax rate reconciliation:                           |          |          |          |
| Income taxes at fully-distributed South African tax rates | 28.00%   | 28.00%   | 28.00%   |
| Non-deductible items                                      | 4.71%    | 6.78%    | 6.60%    |
| Foreign tax rate differential                             | 1.89%    | 10.39%   | 7.22%    |
| Foreign tax credits                                       | (13.59%) | (52.80%) | (21.12%) |
| Taxation on deemed dividends in the United States         | 13.46%   | 57.32%   | 31.29%   |
| Capital gains tax paid                                    | 0.19%    | 0.03%    | 2.43%    |
| Secondary taxation on companies                           | -%       | -%       | 0.54%    |
| Movement in valuation allowance                           | 1.23%    | 9.40%    | 1.23%    |
| Prior year adjustments                                    | 0.19%    | (5.39%)  | 0.53%    |
| Change in tax law   | -%       | -%       | (30.33%) |
| Income tax provision                                      | 36.08%   | 53.73%   | 26.39%   |

The non-deductible items during the year ended June 30, 2014, relates principally to expenses that are not deductible for tax purposes, including the charge related to the equity awards issued pursuant to the Company's BEE transactions, stock-based compensation charges, costs incurred to support foreign related entities and interest expense. The non-deductible items during the year ended June 30, 2013, relates principally to expenses that are not deductible for tax purposes, including stock-based compensation charges, costs incurred to support foreign related entities and interest expense. The non-deductible items during the year ended June 30, 2012, relates principally to expenses that are not deductible for tax purposes, including stock-based compensation charges, interest expense and an equity award issued pursuant to the Company's BEE transaction. The foreign tax rate differential represents the difference between statutory tax rates in South Africa and foreign jurisdictions, primarily the United States.



**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**20. INCOME TAXES (continued)****Deferred tax assets and liabilities**

Deferred income taxes reflect the temporary differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The primary components of the temporary differences that gave rise to the Company's deferred tax assets and liabilities as at June 30, and their classification, were as follows:

|   | 2014     | 2013      |
|---|----------|-----------|
| <b>Total deferred tax assets</b>  |          |           |
| Net operating loss carryforwards  | \$ 1,901 | \$ 12,024 |
| Provisions and accruals   | 5,470    | 3,164     |
| FTS patent  | 909      | 1,088     |
| Intangible assets   | 123      | 17,150    |
| Foreign tax credits   | 23,338   | 24,637    |
| Other   | 7,765    | 5,537     |
| <b>Total deferred tax assets before valuation allowance</b>             | 39,506   | 63,600    |
| Valuation allowances  | (25,153) | (54,117)  |
| <b>Total deferred tax assets, net of valuation allowance</b>            | 14,353   | 9,483     |
| <b>Total deferred tax liabilities:</b>                                  |          |           |
| Intangible assets   | 16,600   | 18,729    |
| Other   | 5,824    | 4,543     |
| <b>Total deferred tax liabilities</b>                                   | 22,424   | 23,272    |
| <b>Reported as</b>  |          |           |
| Current deferred tax assets   | 7,451    | 4,938     |
| Long term deferred tax liabilities                                      | 15,522   | 18,727    |
| <b>Net deferred income tax liabilities</b>                              | \$ 8,071 | \$ 13,789 |
| <i>Decrease in total deferred tax assets before valuation allowance</i> |          |           |

*Net operating loss carryforwards*

Net operating loss carryforwards have decreased primarily due to the sale of MediKredit and substantial liquidation of Net1 UTA during the year ended June 30, 2014. Net operating loss carryforwards related to these entities as of June 30, 2013, were provided in full in previous years. In addition, the Company provided for the full net operating losses incurred by MediKredit and Net1 UTA during the year ended June 30, 2014. The Company deconsolidated MediKredit's net operating loss carryforwards and associated valuation allowance of \$3.1 million when it was sold in June 2014. Furthermore, as a result of the substantial liquidation of Net1 UTA in 2014, the full valuation allowance of \$8.9 million has been applied against its net operating loss carryforwards.

*Intangible assets*

Included in total deferred tax assets intangible assets as of June 30, 2013, is an intangible asset related to license rights in Net1 UTA. These license rights are termed software for Austrian tax purposes and were valued for Austrian tax purposes based on previous license payments at €50.76 million in June 2006. The Company expected to amortize these license rights in its tax returns over a period of 15 years. Any unused amounts were not expected to be carried forward to the subsequent year of assessment. During the years ended June 30, 2014, 2013 and 2012, Net1 UTA utilized approximately \$0.02 million, \$0.05 million and \$0.04 million, respectively, of these license rights against its taxable income. As a result of the substantial liquidation of Net1 UTA in 2014, the full valuation allowance of \$8.0 million has been applied against the gross carrying value of this deferred tax asset. Accordingly, there was no impact on the Company's income tax expense during the year ended June 30, 2014.

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**20. INCOME TAXES (continued)****Deferred tax assets and liabilities (continued)***Decrease in total deferred tax assets (continued)**Intangible assets (continued)*

Net1 Applied Technologies Austria GmbH ( Net1Austria ) generated tax deductible goodwill related to the acquisition of Net1 UTA in August 2008 and under Austrian tax law Net1Austria can deduct up to 50% of the goodwill recognized, as defined under Austrian tax law, over a period of 15 years. Unused amounts are carried forward to subsequent years of assessment and are included in net operating loss carryforwards. The Company did not utilize the goodwill deferred tax asset during the years ended June 30, 2014 and 2013, respectively. As a result of the substantial liquidation of Net1 UTA in 2014, the full valuation allowance of \$7.9 million has been applied against the gross carrying value of this deferred tax asset. Accordingly, there was no impact on the Company's income tax expense during the year ended June 30, 2014.

*Decrease in total deferred tax liabilities**Intangible assets*

Deferred tax liabilities – intangible assets have decreased during the year ended June 30, 2014, primarily as a result of the amortization of the underlying KSNET intangible assets during the year.

*Decrease in valuation allowance*

At June 30, 2014, the Company had deferred tax assets of \$14.4 million (2013: \$9.5 million), net of the valuation allowance. Management believes, based on the weight of available positive and negative evidence it is more likely than not that the Company will realize the benefits of these deductible differences, net of the valuation allowance. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised.

At June 30, 2014, the Company had a valuation allowance of \$25.2 million (2013: \$54.1 million) to reduce its deferred tax assets to estimated realizable value. The movement in the valuation allowance for the years ended June 30, 2014 and 2013, is presented below:

|                                     | <b>Total</b> | <b>Foreign<br/>tax<br/>credits</b> | <b>Tax<br/>deductible<br/>goodwill</b> | <b>Net<br/>operating<br/>loss carry-<br/>forwards</b> | <b>FTS<br/>patent</b> | <b>Other</b> |
|-------------------------------------|--------------|------------------------------------|--|---|-----------------------|--------------|
| July 1, 2012                        | \$ 47,496    | \$ 19,089                          | \$ 17,985                              | \$ 9,560  | \$ 660                | \$ 202       |
| Reversed to statement of operations | -            | -                                  | -                                      | -   | -                     | -            |
| Charged to statement of operations  | 8,201        | 5,547                              | -                                      | 2,621   | -                     | 33           |

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|                                     |           |           |          |          |        |        |
|-------------------------------------|-----------|-----------|----------|----------|--------|--------|
| Utilized                            | (1,733)   | -         | (1,643)  | -        | (90)   | -      |
| Foreign currency adjustment         | 153       | -         | 615      | (367)    | (96)   | 1      |
| June 30, 2013                       | 54,117    | 24,636    | 16,957   | 11,814   | 474    | 236    |
| Reversed to statement of operations | (1,412)   | (1,412)   | -        | -        | -      | -      |
| Charged to statement of operations  | 1,442     | 113       | -        | 1,329    | -      | -      |
| Utilized                            | (26,698)  | -         | (17,682) | (9,016)  | -      | -      |
| Deconsolidation                     | (3,075)   | -         | -        | (3,075)  | -      | -      |
| Foreign currency adjustment         | 779       | -         | 725      | 192      | (105)  | (33)   |
| June 30, 2014                       | \$ 25,153 | \$ 23,337 | \$ -     | \$ 1,244 | \$ 369 | \$ 203 |

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**20. INCOME TAXES (continued)****Deferred tax assets and liabilities (continued)***Net operating loss carryforwards and foreign tax credits**United States*

As of June 30, 2014, Net1 had net operating loss carryforwards that will expire, if unused, as follows:

**Year of expiration**

|      | <b>US net<br/>operating loss<br/>carry<br/>forwards</b> |       |
|------|---|-------|
| 2024 | \$  | 3,340 |

During the year ended June 30, 2014 and 2013, Net1 generated additional foreign tax credits related to the cash dividends received. Net1 had no net unused foreign tax credits that are more likely than not to be realized as of June 30, 2014 and 2013, respectively. The unused foreign tax credits generated expire after ten years in 2023, 2022, 2021, 2020 and 2019.

*South Africa*

Net operating losses incurred in South Africa generally expire if a company does not trade during the year. In South Africa, the subsidiary companies that incurred the losses are currently trading and will continue to trade for the foreseeable future.

**Uncertain tax positions**

As of each of June 30, 2014 and 2013, respectively the Company has unrecognized tax benefits of \$1.2 million, all of which would impact the Company's effective tax rate. The Company files income tax returns mainly in South Africa, South Korea, Austria, Botswana and in the US federal jurisdiction. As of June 30, 2014, the Company's South African subsidiaries are no longer subject to income tax examination by the South African Revenue Service for periods before June 30, 2009. The Company is subject to income tax in other jurisdictions outside South Africa, none of which are individually material to its financial position, statement of cash flows, or results of operations. The Company does not expect the change related to unrecognized tax benefits will have a significant impact on its results of operations or financial position in the next 12 months.

The following is a reconciliation of the total amounts of unrecognized tax benefits for the year ended June 30, 2014, 2013 and 2012:

|  | <b>2014</b> |       | <b>2013</b> |       | <b>2012</b> |         |
|--|-------------|-------|-------------|-------|-------------|---------|
| Unrecognized tax benefits - opening balance      | \$          | 1,150 | \$          | 1,314 | \$          | 2,664   |
| Gross decreases - tax positions in prior periods |             | -     |             | (170) |             | (1,159) |

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|   |          |          |          |
|---|----------|----------|----------|
| Gross increases - tax positions in current period | 38       | 216      | 97       |
| Lapse of statute limitations                      | -        | -        | -        |
| Foreign currency adjustment                       | (28)     | (210)    | (288)    |
| Unrecognized tax benefits - closing balance       | \$ 1,160 | \$ 1,150 | \$ 1,314 |

As of each of June 30, 2014 and 2013, the Company had accrued interest related to uncertain tax positions of approximately \$0.2 million, respectively, on its balance sheet.

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

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**21. EARNINGS PER SHARE**

Basic earnings per share include shares of restricted stock that meet the definition of a participating security because these shares are eligible to receive non-forfeitable dividend equivalents at the same rate as common stock. Basic earnings per share have been calculated using the two-class method and basic earnings per share for the years ended June 30, 2014, 2013 and 2012, reflects only undistributed earnings. The computation below of basic earnings per share excludes the net income attributable to shares of unvested restricted stock (participating non-vested restricted stock) from the numerator and excludes the dilutive impact of these unvested shares of restricted stock from the denominator.

Diluted earnings per share has been calculated to give effect to the number of shares of additional common stock that would have been outstanding if the potential dilutive instruments had been issued in each period. Stock options are included in the calculation of diluted earnings per share utilizing the treasury stock method and are not considered to be participating securities as the stock options do not contain non-forfeitable dividend rights. The calculation of diluted earnings per share includes the dilutive effect of a portion of the restricted stock granted to employees in October 2010, November 2010 and February 2012 as these shares of restricted stock are considered contingently returnable shares for the purposes of the diluted earnings per share calculation and the vesting conditions in respect of a portion of the restricted stock had been satisfied. The vesting conditions are discussed in Note 18.

The following table presents net income attributable to Net1 (income from continuing operations) and the share data used in the basic and diluted earnings per share computations using the two-class method for the years ended June 30, 2014, 2013 and 2012:

|   | 2014   | 2013      | 2012      |
|---|--|-----------|-----------|
|   | (in thousands except percent and per share data) |           |           |
| Numerator:  |  |           |           |
| Net income attributable to Net1   | \$ 70,111  | \$ 12,977 | \$ 44,651 |
| Undistributed earnings  | 70,111   | 12,977    | 44,651    |
| Percent allocated to common shareholders (Calculation 1)  | 99%  | 99%       | 99%       |
| Numerator for earnings per share: basic and diluted   | \$ 69,376  | \$ 12,836 | \$ 44,397 |
| Denominator:  |  |           |           |
| Denominator for basic earnings per share:<br>weighted-average common 3<br>shares outstanding                                    | 45,997   | 45,057    | 44,930    |
| Effect of dilutive securities:  |  |           |           |
| Performance shares related to acquisition   | -  | 95        | -         |
| Stock options   | 119  | 30        | 45        |
| Denominator for diluted earnings per share:<br>adjusted weighted<br>average common shares outstanding and assumed<br>conversion | 46,116   | 45,182    | 44,975    |
| Earnings per share:   |  |           |           |

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|         |    |      |    |      |    |      |
|---------|----|------|----|------|----|------|
| Basic   | \$ | 1.51 | \$ | 0.28 | \$ | 0.99 |
| Diluted | \$ | 1.50 | \$ | 0.28 | \$ | 0.99 |

(Calculation 1)

|  |        |        |        |
|--|--------|--------|--------|
| Basic weighted-average common shares outstanding (A)   | 45,997 | 45,057 | 44,930 |
| Basic weighted-average common shares outstanding and unvested restricted shares expected to vest (B) | 46,484 | 45,553 | 45,187 |
| Percent allocated to common shareholders (A) / (B)   | 99%    | 99%    | 99%    |

Options to purchase 1,516,240 shares of the Company's common stock at prices ranging from \$7.35 to \$24.46 per share were outstanding during the year ended June 30, 2014, but were not included in the computation of diluted earnings per share because the options' exercise price were greater than the average market price of the Company's common shares. The options, which expire at various dates through on August 22, 2022, were still outstanding as of June 30, 2014.

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(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**22. SUPPLEMENTAL CASH FLOW INFORMATION****Supplemental cash flow information:**

The following table presents the supplemental cash flow disclosures for the years ended June 30, 2014, 2013 and 2012:

|                             | <b>2014</b> |    | <b>2013</b> |    | <b>2012</b> |
|-----------------------------|-------------|----|-------------|----|-------------|
| Cash received from interest | \$ 14,703   | \$ | 12,043      | \$ | 9,180       |
| Cash paid for interest      | \$ 6,969    | \$ | 7,927       | \$ | 9,773       |
| Cash paid for income taxes  | \$ 42,417   | \$ | 21,900      | \$ | 30,704      |

The cash flows associated with the December 2013 BEE transactions and buy back of shares from the BEE partners as described in Note 14 were all denominated in South African rand and net settled and there were no actual cash flow transactions between the parties. The Company would have recorded the following movements in its investing and financing activities in its consolidated statement of cash flows for the year ended June 30, 2014, if cash had actually flowed between the parties as follows:

|   | <b>2014</b> |
|---|-------------|
| <b>Cash (used in ) provided by investing activities:</b>      |             |
| Loans provided to BEE partners                                | (\$25,054)  |
| Loans repaid by BEE partners                                  | \$24,574    |
| <b>Cash provided by (used in) financing activities:</b>       |             |
| Issue of shares of the Company's common stock to BEE partners | \$25,054    |
| Purchase of shares from BEE partners                          | (\$24,858)  |

In addition, the equity instrument charges discussed in Note 17 and expensed during the years ended June 30, 2014 and 2012, respectively, are book entries and were not paid in cash.

**23. OPERATING SEGMENTS****Change to internal reporting structure and restatement of previously reported information**

During June 2014, the Company's chief operating decision maker simplified its operating and internal reporting structures from five reportable segments to three. Previously reported information has been restated.

**Operating segments**

The Company discloses segment information as reflected in the management information systems reports that its chief operating decision maker uses in making decisions and to report certain entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets or reports material revenues.

The Company currently has three reportable segments: South African transaction processing, International transaction processing and Financial inclusion and applied technologies. The South African transaction processing and Financial inclusion and applied technologies segments operate mainly within South Africa and the International transaction processing segment operates mainly within South Korea. The Company's reportable segments offer different products and services and require different resources and marketing strategies and share the Company's assets.

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

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(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**23. OPERATING SEGMENTS (continued)****Operating segments (continued)**

The South African transaction processing segment currently consists mainly of a welfare benefit distribution service provided to the South African government and transaction processing for retailers, utilities, medical-related claim service customers and banks. Fee income is earned based on the number of recipient cardholders paid. Utility providers and banks are charged a fee for transaction processing services performed on their behalf at retailers. This segment has individually significant customers that each provides more than 10% of the total revenue of the Company. For the year ended June 30, 2014, there was one such customer, providing 27% of total revenue (2013: one such customer, providing 42% of total revenue; 2012: one such customer, providing 41% of total revenue).

The International transaction processing segment consists mainly of activities in South Korea from which the Company generates revenue from the provision of payment processing services to merchants and card issuers through its VAN. This segment generates fee revenue from the provision of payment processing services and to a lesser extent from the sale of goods, primarily point of sale terminals, to customers in South Korea. The segment also generates transaction fee revenue from transaction processing of UEPS-enabled smartcards in Botswana and, until February 2013, through NUETS initiative in Iraq as well as transaction processing of medical-related claims in the United States.

The Financial inclusion and applied technologies segment derives revenue from the provision of smart card accounts, as a fixed monthly fee per card is charged for the maintenance of these accounts, and the provision of short-term loans as a principal. This segment also includes fee income and associated expenses from merchants and card holders using the Company's merchant acquiring system, the sale of prepaid products (electricity and airtime) as well as the sale of hardware and software. Finally, the Company earns premium income from the sale of life insurance products and investment income through its insurance business.

Corporate/eliminations includes the Company's head office cost center and the amortization of acquisition-related intangible assets. The charges related to the BEE equity instrument issued during the years ended June 30, 2014 and 2012 (refer to Note 17), and the profit related to the deconsolidation of subsidiaries and disposal of business (refer to Note 19), during the years ended June 30, 2014 and 2012, has been allocated to corporate/eliminations.

The reconciliation of the reportable segments revenue to revenue from external customers for the years ended June 30, 2014, 2013 and 2012, respectively, is as follows:

|  | <b>Revenue</b>                |                           |  |
|--|-------------------------------|---------------------------|--|
|  | <b>Reportable<br/>Segment</b> | <b>Inter-<br/>segment</b> | <b>From<br/>external<br/>customers</b> |
| South African transaction processing         | \$ 261,577                    | \$ 11,543                 | \$ 250,034                             |
| International transaction processing         | 152,725                       | -                         | 152,725                                |
| Financial inclusion and applied technologies | 207,595                       | 28,698                    | 178,897                                |
| Total for the year ended June 30, 2014       | 621,897                       | 40,241                    | 581,656                                |

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|  |            |           |            |
|--|------------|-----------|------------|
| South African transaction processing         | 242,739    | 495       | 242,244    |
| International transaction processing         | 135,954    | -         | 135,954    |
| Financial inclusion and applied technologies | 108,001    | 34,052    | 73,949     |
| Total for the year ended June 30, 2013       | 486,694    | 34,547    | 452,147    |
| South African transaction processing         | 194,630    | 3,011     | 191,619    |
| International transaction processing         | 120,625    | -         | 120,625    |
| Financial inclusion and applied technologies | 90,792     | 12,772    | 78,020     |
| Total for the year ended June 30, 2012       | \$ 406,047 | \$ 15,783 | \$ 390,264 |

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

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(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**23. OPERATING SEGMENTS (continued)**

The Company does not allocate interest income, interest expense or income tax expense to its reportable segments. The Company evaluates segment performance based on segment operating income before acquisition-related intangible asset amortization which represents operating income before acquisition-related intangible asset amortization and allocation of expenses allocated to Corporate/Eliminations, all under GAAP. The reconciliation of the reportable segments measure of profit or loss to income before income taxes for the years ended June 30, 2014, 2013 and 2012, respectively, is as follows:

|   | For the years ended June 30, |           |           |
|---|------------------------------|-----------|-----------|
|   | 2014                         | 2013      | 2012      |
| Reportable segments measure of profit or loss | \$ 144,038                   | \$ 50,383 | \$ 94,439 |
| Operating income: Corporate/Eliminations      | (42,240)                     | (27,221)  | (33,289)  |
| Interest income                               | 14,817                       | 12,083    | 8,576     |
| Interest expense                              | (7,473)                      | (7,966)   | (9,345)   |
| Income before income taxes                    | \$ 109,142                   | \$ 27,279 | \$ 60,381 |

The following tables summarize segment information which is prepared in accordance with GAAP for the years ended June 30, 2014, 2013 and 2012:

|  | For the years ended June 30, |            |            |
|--|------------------------------|------------|------------|
|  | 2014                         | 2013       | 2012       |
| <b>Revenues</b>                              |                              |            |            |
| South African transaction processing         | \$ 261,577                   | \$ 242,739 | \$ 194,630 |
| International transaction processing         | 152,725                      | 135,954    | 120,625    |
| Financial inclusion and applied technologies | 207,595                      | 108,001    | 90,792     |
| Total  | 621,897                      | 486,694    | 406,047    |
| <b>Operating income (loss)</b>               |                              |            |            |
| South African transaction processing         | 61,401                       | (21,316)   | 33,906     |
| International transaction processing         | 21,952                       | 14,208     | 14,649     |
| Financial inclusion and applied technologies | 60,685                       | 57,491     | 45,884     |
| Subtotal: Operating segments                 | 144,038                      | 50,383     | 94,439     |
| Corporate/Eliminations                       | (42,240)                     | (27,221)   | (33,289)   |
| Total  | 101,798                      | 23,162     | 61,150     |
| <b>Depreciation and amortization</b>         |                              |            |            |
| South African transaction processing         | 7,036                        | 7,516      | 2,982      |
| International transaction processing         | 15,823                       | 14,183     | 13,209     |
| Financial inclusion and applied technologies | 874                          | 678        | 751        |
| Subtotal: Operating segments                 | 23,733                       | 22,377     | 16,942     |
| Corporate/Eliminations                       | 16,553                       | 18,222     | 19,557     |
| Total  | 40,286                       | 40,599     | 36,499     |
| <b>Expenditures for long-lived assets</b>    |                              |            |            |
| South African transaction processing         | 3,425                        | 9,400      | 23,332     |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| International transaction processing         | 19,393    | 12,490    | 14,994    |
| Financial inclusion and applied technologies | 1,088     | 857       | 841       |
| Subtotal: Operating segments                 | 23,906    | 22,747    | 39,167    |
| Corporate/Eliminations                       | -         | -         | -         |
| Total  | \$ 23,906 | \$ 22,747 | \$ 39,167 |

The segment information as reviewed by the chief operating decision maker does not include a measure of segment assets per segment as all of the significant assets are used in the operations of all, rather than any one, of the segments. The Company does not have dedicated assets assigned to a particular operating segment. Accordingly, it is not meaningful to attempt an arbitrary allocation and segment asset allocation is therefore not presented.

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**23. OPERATING SEGMENTS (continued)**

It is impractical to disclose revenues from external customers for each product and service or each group of similar products and services.

**Geographic Information**

Revenues based on the geographic location from which the sale originated for the years ended June 30, are presented in the table below:

|               | 2014       |    | 2013    |    | 2012    |
|---------------|------------|----|---------|----|---------|
| South Africa  | \$ 428,931 | \$ | 317,916 | \$ | 272,063 |
| South Korea   | 146,667    |    | 129,338 |    | 114,096 |
| Rest of world | 6,058      |    | 4,893   |    | 4,105   |
| Total         | \$ 581,656 | \$ | 452,147 | \$ | 390,264 |

Long-lived assets based on the geographic location for the years ended June 30, are presented in the table below:

|               | 2014       |    | 2013                         |    | 2012    |
|---------------|------------|----|------------------------------|----|---------|
|               |            |    | <b>Long-lived<br/>assets</b> |    |         |
| South Africa  | \$ 105,627 | \$ | 117,858                      | \$ | 140,308 |
| South Korea   | 229,830    |    | 213,589                      |    | 224,272 |
| Rest of world | 6,593      |    | 7,676                        |    | 6,911   |
| Total         | \$ 342,050 | \$ | 339,123                      | \$ | 371,491 |

**24. COMMITMENTS AND CONTINGENCIES****Operating lease commitments**

The Company leases certain premises. At June 30, 2014, the future minimum payments under operating leases consist of:

|                    |          |
|--------------------|----------|
| Due within 1 year  | \$ 3,490 |
| Due within 2 years | 2,608    |
| Due within 3 years | 1,126    |
| Due within 4 years | 363      |
| Due within 5 years | \$ -     |

Operating lease payments related to the premises and equipment were \$7.5 million, \$15.9 million and \$7.5 million, respectively, for the years ended June 2014, 2013 and 2012, respectively.

**Capital commitments**

As of June 30, 2014 and 2013, the Company had outstanding capital commitments of approximately \$0.2 million and \$0.3 million, respectively.

**Purchase obligations**

As of June 30, 2014 and 2013, the Company had purchase obligations totaling \$5.5 million and \$3.9 million, respectively. The purchase obligations as of June 30, 2014, primarily include inventory that will be delivered to the Company and sold to customers in the next twelve months.

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## **NET 1 UEPS TECHNOLOGIES, INC.**

### **Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

#### **24. COMMITMENTS AND CONTINGENCIES (continued)**

##### **Guarantees**

The South African Revenue Service and certain of the Company's customers, suppliers and other business partners have asked the Company to provide them with guarantees, including standby letters of credit, issued by a South African bank. The Company is required to procure these guarantees for these third parties to operate its business.

Nedbank has issued guarantees to these third parties amounting to ZAR 135.1 million (\$12.8 million, translated at exchange rates applicable as of June 30, 2014) and thereby utilizing part of the Company's short-term facility. The Company in turn has provided nonrecourse, unsecured counter-guarantees to Nedbank for ZAR 125.0 million (\$11.8 million, translated at exchange rates applicable as of June 30, 2014). The Company pays commission of between 0.2% per annum to 2.0% per annum of the face value of these guarantees and does not recover any of the commission from third parties.

The Company has not recognized any obligation related to these counter-guarantees in its consolidated balance sheet as of June 30, 2014. The maximum potential amount that the Company could pay under these guarantees is ZAR 135.1 million (\$12.8 million, translated at exchange rates applicable as of June 30, 2014). The guarantees have reduced the amount available for borrowings under the Company's short-term credit facility described in Note 12.

##### **Contingencies**

###### *Securities Litigation*

On December 24, 2013, Net1, its chief executive officer and its chief financial officer were named as defendants in a purported class action lawsuit filed in the United States District Court for the Southern District of New York alleging violations of the federal securities laws.

The lawsuit alleges that Net1 made materially false and misleading statements regarding its business and compliance policies in its SEC filings and other public disclosures. The lawsuit was brought on behalf of a purported shareholder of Net1 and all other similarly situated shareholders who purchased its securities between August 27, 2009 and November 27, 2013. The lawsuit seeks unspecified damages. The Company believes this lawsuit has no merit and intends to defend it vigorously.

The Company is subject to a variety of insignificant claims and suits that arise from time to time in the ordinary course of business.

Management currently believes that the resolution of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's financial position, results of operations and cash flows.

#### **25. RELATED PARTY TRANSACTIONS**

As described in Note 3, on September 14, 2012, the Company acquired all of the outstanding and issued ordinary shares in N1MS. In 2010, the Company had engaged the services of N1MS to perform software development

services, primarily software utilized on mobile phones and by cash-accepting kiosks. All software developed under this engagement became the Company's property. During the years ended June 30, 2013 and 2012, the Company recognized expenses of approximately \$0.1 million and \$0.8, respectively, for software development services provided by NIMS prior to it becoming a subsidiary of the Company. As of June 30, 2013, and since acquisition, the Company has eliminated all intercompany balance sheet accounts with NIMS on consolidation.

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements**

for the years ended June 30, 2014, 2013 and 2012

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

**26. UNAUDITED QUARTERLY RESULTS**

The following tables contain selected unaudited consolidated statements of operations information for each quarter of fiscal 2014 and 2013:

|  | <b>Three months ended</b>                   |                         |                         |                         | <b>Year ended</b>        |
|--|---|-------------------------|-------------------------|-------------------------|--------------------------|
|  | <b>Jun 30,<br/>2014</b>                     | <b>Mar 31,<br/>2014</b> | <b>Dec 31,<br/>2013</b> | <b>Sep 30,<br/>2013</b> | <b>June 30,<br/>2014</b> |
|  | <b>(In thousands except per share data)</b> |                         |                         |                         |                          |
| Revenue  | \$ 182,753                                  | \$ 138,126              | \$ 137,283              | \$ 123,494              | \$ 581,656               |
| Operating income                                   | 42,647                                      | 23,949                  | 18,802                  | 16,400                  | 101,798                  |
| Net income attributable to Net1                    | \$ 28,584                                   | \$ 17,182               | \$ 12,749               | \$ 11,596               | \$ 70,111                |
| Net income per share, in United States dollars     |   |                         |                         |                         |                          |
| Basic earnings attributable to Net1 shareholders   | \$ 0.59                                     | \$ 0.38                 | \$ 0.28                 | \$ 0.25                 | \$ 1.51                  |
| Diluted earnings attributable to Net1 shareholders | \$ 0.58                                     | \$ 0.37                 | \$ 0.28                 | \$ 0.25                 | \$ 1.50                  |

|   | <b>Three months ended</b>                   |                         |                         |                         | <b>Year ended</b>        |
|---|---|-------------------------|-------------------------|-------------------------|--------------------------|
|   | <b>Jun 30,<br/>2013</b>                     | <b>Mar 31,<br/>2013</b> | <b>Dec 31,<br/>2012</b> | <b>Sep 30,<br/>2012</b> | <b>June 30,<br/>2013</b> |
|   | <b>(In thousands except per share data)</b> |                         |                         |                         |                          |
| Revenue   | \$ 117,882                                  | \$ 111,141              | \$ 111,442              | \$ 111,682              | \$ 452,147               |
| Operating (loss) income                                   | 13,591                                      | (4,726)                 | 4,972                   | 9,325                   | 23,162                   |
| Net income (loss) attributable to Net1                    | \$ 8,285                                    | \$ (4,681)              | \$ 2,629                | \$ 6,744                | \$ 12,977                |
| Net income (loss) per share, in United States dollars     |   |                         |                         |                         |                          |
| Basic earnings (loss) attributable to Net1 shareholders   | \$ 0.18                                     | \$ (0.10)               | \$ 0.06                 | \$ 0.15                 | \$ 0.28                  |
| Diluted earnings (loss) attributable to Net1 shareholders | \$ 0.18                                     | \$ (0.10)               | \$ 0.06                 | \$ 0.15                 | \$ 0.28                  |

**27. SUBSEQUENT EVENTS**

On August 27, 2014, the Company entered into a sale and subscription agreement with Business Venture Investments No 1567 (Proprietary) Limited (RF) ( BVI ), one of the Company's BEE partners, in preparation for any new potential SASSA tender. Pursuant to the sale and subscription agreement: (i) the Company repurchased BVI's remaining 1,837,432, shares of the Company's common stock for approximately \$9.2 million in cash (translated at exchange rates prevailing as of August 27, 2014) and (ii) BVI has subscribed for new ordinary shares of CPS

representing approximately 12.5% of CPS ordinary shares outstanding after the subscription for \$1.4 million in cash (translated at exchange rates prevailing as of August 27, 2014). In connection with transactions described above, the CPS shareholder agreement that was negotiated as part of the original December 2013 Relationship Agreement became effective.

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