

NET 1 UEPS TECHNOLOGIES INC  
Form 10-K  
September 12, 2018

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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, 2018

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:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
<b>Common Stock, par value \$0.001 per share</b>	<b>NASDAQ Global Select Market</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, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth 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)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Yes  No

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, 2017 (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 \$387,520,188. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of September 6, 2018, 56,369,737 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 2018 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.

## INDEX TO ANNUAL REPORT ON FORM 10-K

Year Ended June 30, 2018

	<b>Page</b>
<b>PART I</b>	
<u>Item 1. Business</u>	<u>2</u>
<u>Item 1A. Risk Factors</u>	<u>13</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>31</u>
<u>Item 2. Properties</u>	<u>31</u>
<u>Item 3. Legal Proceedings</u>	<u>31</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>34</u>
<b>PART II</b>	
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>35</u>
<u>Item 6. Selected Financial Data</u>	<u>37</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>39</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>61</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>62</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>62</u>
<u>Item 9A. Controls and Procedures</u>	<u>62</u>
<u>Item 9B. Other Information</u>	<u>65</u>
<b>PART III</b>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>66</u>
<u>Item 11. Executive Compensation</u>	<u>66</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>66</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>66</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>66</u>
<b>PART IV</b>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>67</u>
<u>Signatures</u>	<u>77</u>
<u>Financial Statements</u>	<u>F-1</u>

## 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, plans, intends, anticipates, predicts, potential or continue or the negative of such terms and other comparable 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 during our 2019 fiscal year, which runs from July 1, 2018 to June 30, 2019.

### ITEM 1. BUSINESS

#### Overview

We are a leading provider of transaction processing services, financial inclusion products and services and payment and cryptographic technology across multiple industries and in a number of emerging and developed economies.

Our core payment technology is called the Universal Electronic Payment System, or UEPS, and its EMV interoperable derivative, UEPS/EMV, uses decentralized and biometrically secure smart cards that operate in real-time but both off-line and on-line, unlike traditional payment systems offered by major banking institutions that require immediate access through a communications network to a centralized computer.

Our off-line UEPS system also offers the highest level of availability and affordability by removing any components that are costly and prone to outages. Our latest version of the UEPS technology has been certified by the EuroPay, MasterCard and Visa global standard, or EMV, which enables our traditional 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 automated teller machine, 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 under-banked customers, including social welfare grant recipients. 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.

Our transaction processing services include multiple forms of payment and payroll processing. We operate leading processors in South Africa through EasyPay and in South Korea through KSNET, as well as end-to-end issuing, acquiring and processing services across Asia and Europe through our International Payments Group, or IPG. We manage more than 300,000 merchants worldwide and process more than three billion transactions annually. IPG has also established a leadership position in partnership with Bank Frick & Co. AG, or Bank Frick, a Liechtenstein-based bank, in Europe focused on cryptocurrency processing and the development of a number of block-chain related products.

We also provide a number of financial inclusion products and services, which are typically bundled and offered as part of our UEPS-based core banking system. In South Africa, this system is currently deployed under the brand EasyPay Everywhere, or EPE, and is a fully transactional low-cost bank account, which offers easy accessibility including in rural areas and highly-competitive loans, insurance and telecommunication products. During the fiscal year ended June 30, 2018, we distributed pension and welfare grants, on behalf of the South African government, to more than three million active EPE customers and an additional five million social grant recipient customers. In addition, we offer telecommunication products such as prepaid airtime on behalf of all network operators in South Africa and own

55% of DNI-4PL Contracts Proprietary Limited, or DNI, the largest distributor of starter packs for the third-largest network, Cell C (Pty) Limited, or Cell C.

Our technology businesses include the development and deployment of our UEPS and MVC solutions worldwide, cryptographic solutions including the STS-6 standard for utility vending solutions, hardware security modules or HSM, chip and subscriber identity module, or SIM, cards, and the reselling of point of sale equipment. Through DNI, we provide financing to Cell C to assist in the roll out of their telecommunications network infrastructure. DNI also has a micro-jobbing platform called Money 4Jam which connects parties for the execution of micro-jobs.

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 latest World Bank's Global Findex Database, 69% of adults worldwide have access to an account at a financial institution or through a mobile money service. In developing economies, this percentage is 63%. As a result, 1.7 billion adults around the world remain entirely excluded from the financial system. 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, also in cash.

The use of cash, however, presents significant risks. In the case of welfare recipients, 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 or fraud.

Our target under-banked customer base in most emerging economies, and particularly in sub-Saharan 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 transacting accounts, 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.

*Transaction processing services:* The continued global growth of retail credit and debit card transactions is reflected in the April 2018 Nilson Report, according to which worldwide annual general purpose card dollar volume increased 10.7% to \$28.2 trillion in 2017, while transaction volume increased by 18% to 296 billion transactions and cards issued increased by 7.9% to 11.95 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 prepaid 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 240,000 retailers. IPG, comprising Transact24 and Masterpayment, are established, growing end-to-end providers of issuing, acquiring, and processing, particularly for small merchants or those with significant cross-border operations. Another key differentiator of IPG is its extensive catalog of licenses and regulated entities, including some within the fast-growing fields of cryptocurrencies and blockchain. IPG is ably supported by Bank Frick, a European bank in which we have a sizeable strategic investment.

*Mobile payments:* The rapid growth of online commerce and the emergence of mobile devices as the preferred access channel for transacting online has created a global opportunity for the provision of secure payment services to online retailers and service providers. We have a business unit focused on providing secure payment solutions for all card-not-present transactions through the application of our Mobile Virtual Card, or MVC and other proprietary solutions.

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. The 2017 Global Findex Database: Measuring Financial Inclusion and the Fintech Revolution states that 21% of adults in Sub-Saharan Africa have a mobile-money account nearly twice the percentage compared to 2014. In developing economies, 19% of adults reported making at least one direct payment using a mobile money account, a mobile phone, or the internet.



Mobile phones are therefore increasingly viewed as a channel through which this underserved population can gain access to formal financial and other services. Our UEPS and MVC solutions are enabled to run on the SIM cards in or as applications on mobile phones and provide our users with secure payment and banking functionality.

*Telecommunications:* In addition to financial services, unbanked and under-banked customers have a strong demand for affordable telecommunication products and, increasingly so, for data. We address this market opportunity specifically in South Africa through our strategic investment in Cell-C, the third largest network in the country, as well as through DNI, its largest distributor.

The symbiotic relationship between Cell-C, DNI and Net1, allows us to create new, relevant products across both telecommunication and financial services being demanded by the unbanked and under-banked populations in South Africa.

## **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 and is more secure than traditional PIN identification. 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 incorporates the software, smart cards, payment terminals, back-end processing infrastructure, biometric systems and transaction security to provide a complete payment and transaction processing solution.

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 contactless), such as point of sale devices and ATMs. Our UEPS/EMV solution therefore expands our addressable market to include developed economies with established payment networks. The UEPS/EMV technology removes the hurdle, often perceived in developed economies, of operating a proprietary or closed-loop system by providing a truly inter-operable payment solution.

### ***Mobile Virtual Card***

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

MVC utilizes existing and traditional payment methods but enhances them by replacing or tokenizing plastic card data with 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 for each transaction with only the issuer bank identification number (first 6-digit) remaining constant.

MVC uses mobile phones to generate virtual cards offline. Mobile phones are 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 once the preset monetary amount has been utilized or after completion of the specific transaction that it was generated for. While MVC has been focused primarily on card-not-present transactions for internet payments in our initial deployments, we are constantly expanding the applicability of the software 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 phones 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, direct deposit or other electronic wallets.

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 and opportunities for powerful co-branding schemes.

*Consumers* convenience, peace of mind, ease of use and rewards.

*Merchants* elimination of charge-backs and fraud at no extra cost.

#### ***Incognito TSM cryptographic solutions***

Our internally-developed range of PIN encryption devices, card acceptance modules and hardware security modules are primarily aimed at the financial, retail, telecommunication, cryptocurrency, utilities and petroleum sectors. These devices and modules are suited for high-speed transaction processing requirements, acceptance of multiple payment tokens, value-added services at point of transaction, and adherence to stringent transaction security and payment association standards such as TDES and EMV.

#### **Our Strategy**

Our core purpose is to improve people's lives by bringing financial inclusion to the world's under-banked customers and helping small businesses access the financial services they need to prosper. We achieve this through our unique ability to efficiently digitize or tokenize the expensive and difficult to achieve last mile of financial inclusion. This includes our UEPS/EMV technology, which is accepted globally, and is protected with biometric security and enables offline and online transacting that works anywhere, anytime and with no reliance on mobile networks.

To achieve these goals, we are pursuing the following strategies:

*Build on our significant and established infrastructures* We control significant components of the payment infrastructure in South Africa, South Korea, Botswana and Namibia and we believe that we are well-positioned to leverage our existing asset base to continue to gain market share and build upon the critical mass that we have developed.

For example, in South Africa, we are one of the leading independent transaction processors, we have deployed the most extensive distribution network comprising of mobile and fixed ATM's and POS devices to the country's large unbanked and under-banked population, we are the largest third-party processor of retail merchant transactions, bill payments and third-party payroll payments. We believe that our large cardholder base, specialized technology and

payment infrastructure, together with our strong business relationships, position us at the epicenter of commerce in the country. Through our national distribution platform and relationships with a number of leading companies across multiple industries, we believe that we can provide many of the services consumed by our cardholders who would normally not have access to these services or would otherwise have to rely on the informal sector. We have already introduced several services to our cardholder and merchant base, such as low cost, high functionality bank accounts, microloans, life insurance, bill payment, prepaid mobile top-up and prepaid utility services. We have a network of mobile ATMs to provide services to our cardholders, and we have established a national fixed ATM and POS network. We aim to increase the adoption of our existing services by expanding our cardholder base and our transacting network, and we aim to increase our service offerings by developing new products and distribution networks and by forging partnerships with industry participants who share our vision and can accelerate the implementation of our business plan, such as Cell C, the third largest mobile operator in South Africa and our core focus remains the development and provision of our technological expertise.

We have established significant operational assets to ensure the rapid deployment of our technology. As these deployments mature, we may share or dispose of these operational assets if we believe this will result in higher efficiencies and synergistic benefits where we are able to provide technology to an expanded base of clients and operations.

Our banking product, EasyPay Everywhere, provides our target market with an affordable all-inclusive transactional bank account with access to financially inclusive services such as microloans, life insurance, remittances, value added services such as prepaid utilities and bill payments through their mobile phones and our national network of ATMs and POS devices. While the growth of this product is currently facing challenges due to the transition of the social welfare distribution service to the South African Post Office, or SAPO, we still believe this product forms a compelling offering to our target market and that its growth will resume once the transition is complete.

Our strength in South Africa has been further enhanced by the acquisition of DNI, since it significantly expands our distribution network in a complementary manner and allows us to bundle telecommunications products into our existing suite of products to improve the value adding nature of our services to this under-served customer base.

We plan to follow a similar approach in the other markets where we have an established infrastructure, taking into account the requirements of the local legislation, the composition of the local payment system and the specific components that we own or control. In markets where we do not have an established infrastructure, we intended to collaborate with local partners to provide a similar end-to-end solution.

*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 as well. 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 and business 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 and Europe, we are targeting our mobile payment solutions at 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. We plan to expand our market share in the mobile solutions and card-not-present processing markets by pursuing partnerships or supply relationships with online merchants, virtual card issuers, payment services processors, mobile remittance providers and other online service providers.

*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 provide us with technologies or solutions complementary to our current offerings. Our recent investments in Cell C and DNI in South Africa open up new distribution channels for our products as well as providing access to telecommunications products that we can assist in defining and pricing and market to our existing customer base. Our investment into Bank Frick has assisted us with access to the leading global card issues, acquirers and processors and has been very complimentary to the Masterpayment and Transact24 acquisitions of the previous fiscal year. We have accordingly acquired or obtained the required licenses and regulated entities to offer an end-to-end card issuing, acquiring and processing solution to the many underserved small and medium enterprises in Europe. In addition, our core and proven competencies in the fields of cryptography, biometrics and blockchain technology enables us to design products and solutions for the rapidly growing cryptocurrency industry, within a fully regulated environment through collaboration with Bank Frick.

## **Our Businesses**

Our company is organized into the following businesses:

**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 transacting accounts, microfinance, life insurance 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 banking product, EasyPay Everywhere, provides our target market with an affordable all-inclusive transactional bank account with unfettered access to financial services such as microloans, life insurance, remittances, value added services such as prepaid utilities and bill payments through their mobile phones and our national network of ATMs and POS devices.

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. We believe our loans are the most affordable form of credit available to our target market as, unlike our competitors, we do not charge interest or credit life insurance premiums on our loans. Our Smart Life business unit owns a life insurance license and offers our customer base affordable insurance products applicable to this market segment, focusing on group life and funeral insurance policies.

This business unit has been allocated to our Financial inclusion and applied technologies reporting segment.

## **KSNET**

Our KSNET business unit is based in Seoul, South Korea, and is a national payment solutions provider. KSNET has one of the broadest product offerings in the South Korean payment solutions market, a base of approximately 240,000 merchants and an extensive direct and indirect sales network. The merchant base is predominantly serviced via a network of independent agents. KSNET's core operations comprise three primary product 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. Approximately 81% of KSNET's revenue comes from the provision of payment processing services to merchants and card issuers through its card VAN. KSNET has also started providing working capital financing to those merchants where we provide payment processing services.

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.

*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 is relatively small.

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

## **DNI**

Our DNI business unit is based in Johannesburg, South Africa, and offers a number of technology and distribution services to the telecommunications industry. Through its DNI Retail subsidiary, DNI is the largest wholesaler of Cell-C starter packs nationwide. It also has an extensive distribution network comprising of more than 2,000 sales agents and a fleet of vehicles, mainly selling Cell C starter packs and airtime directly into urban communities. In addition, through its International Tower Corporation, or ITC, subsidiary, the company provides financing and project management to develop and maintain Cell C's tower network in the country. It also has a micro-jobbing platform, known as Money4Jam, which through the use of mobile phone technology connects companies and job-seekers for the completion of micro-jobs.

This business unit has been allocated to our Financial inclusion and applied technologies reporting segment.

### **International Payments Group**

IPG is based out of Hong Kong, China, and is an end-to-end payment service provider. IPG includes our Masterpayment processing business based in Munich, Germany. Transact24 in Hong Kong, holds e-money licenses in the United Kingdom and in Europe, and provides debit and credit card acquiring in Europe, the UK, and Asia including China. Additionally, IPG provides Automated Clearing House, or ACH, processing in the United States, and card acquiring services for cryptocurrency exchanges such as Bitstamp and Bitpanda.

In collaboration with Bank Frick, IPG provides a number of banking and processing services to small merchants. Through a joint, collaborative approach, IPG and Bank Frick have established a blockchain development division to create new, first-to market differentiated solutions to harness the capabilities of a bank and a processor.



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* EasyPay 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 Corporation, or SABC, 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.

*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 or mobile application.

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

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

### **Cash Paymaster Services**

Our CPS business unit is based in Johannesburg, South Africa, and has deployed our UEPS/EMV Social Grant Distribution technology to distribute social welfare grants on a monthly basis to over ten million recipient cardholders in South Africa for the last six and a half years. These social welfare grants were distributed on behalf of the South

African Social Security Agency, or SASSA. During our 2018, 2017, and 2016 fiscal years, we derived approximately 19%, 22%, and 21% of our revenues respectively, from CPS social welfare grant distribution business. The contract under which we provided this service is in the process of winding down and will terminate on September 30, 2018. Upon termination of the contract, CPS will discontinue its operations and we will seek to utilize its assets and capabilities in other parts of our Company.

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

## Applied Technology

Our Applied Technology business unit is managed from Johannesburg, South Africa, and is responsible for various individual lines of business:

*Payment Infrastructure* The deployment of our South African ATM and POS network and the sale of biometric and POS solutions to various South African banks, retailers and financial services providers. Our biometrically-enabled ATM network is fully EMV-compliant and integrated into the South African national payment system. We deploy our ATMs in areas where our UEPS/EMV cardholders have limited access to the national payment system, or where the cost of accessing the national payment system through other service providers is prohibitive for our cardholders.

*Third Party Payments* Through FIHRST we are the largest provider of third party and payroll associated payments in South Africa, servicing over 2,270 employee groups that represent approximately 766,000 employees.

*Prepaid Vending* Our Prepaid Vending business line handles multichannel distribution of electronic products and services aimed at a variety of markets. Across Africa and abroad, our Virtual Top Up (VTU) solutions create 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.

*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 offerings 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.

*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, cryptocurrency, 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 Triple Data Encryption Algorithm, also known as TDES, EMV and Payment Card Industry, or 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 transaction processing and Financial inclusion and applied technologies reporting segments.

## 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 further intend to differentiate our value proposition for our end users by offering bundled lifestyle products to include affordable telephony solutions in addition to banking and finance, as well as the development of new payment technologies specifically for mobile phones. 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 and our affordable EasyPay Everywhere transactional account and our financial services offering, our competitors include the local banks, insurance companies, micro-lenders and other transaction processors. The South African banks and SAPO also offer low cost bank accounts that enable account holders to receive their salaries, wages or social grants through the formal banking payment networks.

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 processes more than 2.5 billion transactions per annum.

In the South African ATM network market, we compete against the South African banks, ATM Solutions and Spark ATM Systems, who collectively have a market share in excess of 90%.

DNI's competitors in the resale of mobile phone starter packs would include the resellers for the other major mobile operator networks, being Blue Label Telecoms, SmartCall and various other starter pack distributors in South Africa.

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, Inc. Entities operating in the VAN industry in South Korea compete on pricing and customer service.

IPG competitors typically include local or regional issuers, acquirers and processors as well as a few large multinational companies such as Wirecard and WorldPay. A number of new fintech entrants, usually locally or occasionally regionally such as Revolut, Klarna, Transferwise, and Digibank are also rapidly establishing their market presence.

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 rapidly evolving, 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, Facebook, Samsung and PayPal; mobile operators such as AT&T, Verizon, Vodafone, MTN and Bharti Airtel; as well as companies specifically focused on mobile payments such as Ant Financial, WeChat, M-Pesa and Square

## **Research and Development**

During fiscal 2018, 2017 and 2016, we incurred research and development expenditures of \$1.8 million, \$2.0 million and \$2.3 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 as well as the design and development of our MVC concept and mobile payment applications. We have recently established a dedicated research and development team focused on blockchain technology and the development of solutions and products for the rapidly growing cryptocurrency industry. Our research and development efforts also focus on taking advantage of improvements in hardware platforms that are not proprietary to us but 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 22 to our consolidated financial statements included in this annual report contains detailed financial information about our operating segments for fiscal 2018, 2017 and 2016. 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		
	2018 \$ 000	2017 \$ 000	2016 \$ 000	2018 \$ 000	2017 \$ 000	2016 \$ 000
South Africa	433,421	434,124	422,022	498,418	74,370	69,213
South Korea	153,314	153,403	158,609	177,388	192,473	221,459
Rest of world	26,154	22,539	10,118	116,643	77,723	49,105
Total	612,889	610,066	590,749	792,449	344,566	339,777

**Employees**

Our number of employees allocated on a segmental basis as of the years ended June 30, are presented in the table below:

	2018 <sup>(1)</sup>	2017	2016
Management	272	236	241
South African transaction processing	1,902	2,487	2,571
International transaction processing	330	354	310
Financial inclusion and applied technologies <sup>(2)</sup>	5,875	2,281	2,576
Total	8,379	5,358	5,701

(1) Fiscal 2018 number of employees includes 2,651 DNI employees, of which 51 are included in management and 2,600 are included in Financial inclusion and applied technologies;

(2) Financial inclusion and applied technologies includes employees allocated to corporate/ eliminations activities.

On a functional basis, six of our employees were part of executive management, 2,661 were employed in sales and marketing, 328 were employed in finance and administration, 319 were employed in information technology and 5,065 were employed in operations.

As of June 30, 2018, approximately 58 of the 1,902 and 99 of the 5,875 employees we have in South Africa who were performing transaction-based and financial inclusion activities, respectively, were members of unions in South Africa and approximately 186 of the 247 employees we have in South Korea who perform international transaction-based activities were members of a union in Korea. We believe that we have a good relationship with our employees and these unions.

**Corporate history**

Net1 was incorporated in Florida in May 1997. In 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 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 a 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, our website is not incorporated into this Annual Report on Form 10-K.



**Executive Officers of the Registrant**

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

<b>Name</b>	<b>Age</b>	<b>Title</b>
Herman G. Kotzé	48	Chief Executive Officer and Director
Alex M.R. Smith	49	Chief Financial Officer, Treasurer, Secretary, and Director
Philip S. Meyer	61	Managing Director: International Payments Group
Phil-Hyun Oh	59	Chief Executive Officer and President, KSNET, Inc.
Nanda Pillay	47	Managing Director: Southern Africa
Nitin Soma	51	Chief Technology Officer

*Herman Kotzé* has been our Chief Executive Officer since May 2017 and was our Chief Financial Officer, Secretary and Treasurer from June 2004 to February 2018. 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 has a bachelor of commerce honors degree, a post graduate diploma in treasury management, a higher diploma in taxation, completed his articles at KPMG, and is a member of the South African Institute of Chartered Accountants.

*Alex M.R. Smith* has been our Chief Financial Officer, Treasurer and Secretary since March 2018. Mr. Smith joined Allied Electronics Corporation Limited, or Altron, a JSE-listed company in 2006 and from August 2008 until February 2018, Mr. Smith served as a director and its Chief Financial Officer. Prior to joining Altron, Mr. Smith worked in various positions at PricewaterhouseCoopers in Edinburgh, Scotland and Johannesburg from 1991 to 2005. Mr. Smith holds a bachelor of law (honours) degree from the University of Edinburgh and is a member of the Institute of Chartered Accountants of Scotland.

*Philip Meyer* has been the Managing Director of IPG since February 2018 and also serves as the Managing Director of Transact24 Limited since he founded the company in 2006. Mr. Meyer has worked in the payments industry for over 20 years. Prior to incorporating Transact24, he was employed by Naspers, a global media group, as its Chief Executive: Information Technology and New Media and was responsible for all existing and new technology and media for Naspers. Mr. Meyer is a qualified engineer with a masters degree in engineering (electronic) and has a postgraduate diploma in strategic management. Mr. Meyer is registered with the Engineering Counsel of South Africa, is a member of the South Africa Institute of Electrical Engineers and is also a member of the Digital, Information & Telecommunications Committee and Asia & Africa Committee, Hong Kong General Chamber of Commerce.

*Phil-Hyun 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.

*Nanda Pillay* joined us in May 2000 and is responsible for our Southern African operations, including CPS, Financial Services, EasyPay, and SmartSwitch Botswana.

*Nitin Soma* has served as our Chief Technology Officer 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 20 years of experience in the development and design of smart card payment systems. Mr. Soma has a bachelor of science (computer science and applied mathematics) degree.

## 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**

*In fiscal 2018, we derived a significant portion of our revenues from our SASSA contract and the related bank accounts, which we will lose when we no longer provide a service to SASSA.*

We derive a significant portion of our revenue from our contract with SASSA for the payment of social grants. Our SASSA contract, which we were awarded through a competitive tender process in 2012, was originally scheduled to expire in March 2017, and then extended to the end of March 2018. In March 2018, the Constitutional Court of South Africa, which retained oversight of SASSA as a result of litigation related to the original award of the contract to us in 2012, ruled that SASSA and CPS have a constitutional obligation to continue to pay social welfare grants and ordered that the contract be extended for an additional six months in respect of the payment of grant beneficiaries at cash pay points. Refer to Item 3 Legal Proceedings for a summary of the Constitutional Court's order.

We do not expect our contract with SASSA to be extended beyond September 2018 and, therefore, we expect to lose revenues from the payment of social welfare grants at the time of the expiration of the SASSA contract. In addition, SASSA has publicly conveyed its expectation that most of the SASSA/Grindrod cards will be replaced by SAPO cards and, therefore, we expect that our revenue generated from the provision of SASSA/Grindrod bank accounts is also likely to be lost. Unless we are able to replace most or all of this revenue from other sources, our results of operations, financial position, cash flows and future growth are likely to suffer materially.

It is possible that SASSA might request us to enter into a transition agreement in order to phase out our services if their plan to do so is not completed within the required timeframe. The Constitutional Court reaffirmed in its March 2017 ruling that CPS is deemed to be an organ of state for the purposes of the contract between SASSA and CPS, and that CPS has constitutional obligations that go beyond its contractual obligations. We cannot predict what the financial or other implications may be if we are required to provide our services without a valid contract, or during any transitional period required for the orderly transfer of our services to SASSA and SAPO.

*Our South African business practices remain under intense scrutiny in the South African media. We continue to publicly refute what we believe to be misleading or factually incorrect statements that have damaged our reputation. However, our ability to operate effectively and efficiently in South Africa in the future will be adversely impacted if we are unable to communicate persuasively that our business practices comply with South African law and are fair to the customers who purchase our financial services products.*

The South African public, media, non-governmental organizations and political parties have utilized a number of platforms, including social media, to criticize SASSA over its failure to implement the orders of the Constitutional Court over the last two years and express their dissatisfaction with the state of affairs. Among the criticisms, we have been accused of being responsible for SASSA's inability to bring the payment service in-house. In addition, we were publicly accused of illegally providing our services and defrauding social welfare grant recipients. We have publicly denied these accusations and believe they have no merit.

These allegations continue to be made and are being emphasized during this transition period as a justification for requiring grant beneficiaries to move to the SAPO card. We continue to deny the accusations made against us.

Our reputation in South Africa has been tarnished as a result of these accusations. We have attempted to refute the allegations made against us and have appointed a public relations firm to assist us in communicating effectively to the public and our stakeholders that our business practices comply with South African law and are fair to the social welfare grant recipients who purchase the financial services products that we offer. It is difficult to quantify to what extent we have been successful in effectively repudiating these unsubstantiated allegations against us. If we are unable to communicate persuasively that our business practices comply with South African law and are fair to the customers who purchase our financial services products, our ability to operate effectively and efficiently in South Africa in the future will be adversely impacted, and our results of operations, financial position and cash flows would be adversely affected.

***SASSA and other organizations continue to challenge our ability to conduct certain aspects of our financial services business in a commercial manner through their interpretations of recently adopted regulations under the Social Assistance Act. We are in litigation with SASSA and the Black Sash over its interpretation of these regulations. If SASSA or the Black Sash were to prevail in this legal proceeding, our business will suffer.***

As described under Item 3 Legal Proceedings Litigation Regarding Legality of Debit Orders under Social Assistance Act Regulations, the High Court of the Republic of South Africa Gauteng Division, Pretoria, or Pretoria High Court, has issued the declaratory order sought by us that the Social Assistance Act and Regulations do not restrict social grant recipients in the operation of their banks accounts. SASSA continues to challenge our ability to operate certain aspects of our financial services business in a commercial manner in the South African courts. The Black Sash has also served applications petitioning the South African Supreme Court of Appeal, or the Supreme Court, to grant them leave to appeal the Pretoria High Court order through either the Supreme Court or to a full bench of the Pretoria High Court. The petitions served on the Supreme Court applying for leave to appeal were heard on August 16 and 17, 2018. We cannot predict whether leave to appeal will be granted or if granted, how the Supreme Court will rule on this matter.

If SASSA or the Black Sash were to prevail with their legal actions, our ability to operate our business, specifically our micro-lending and insurance businesses in a commercially viable manner would be impaired, which would likely have a material adverse effect on our business and might harm our reputation. Regardless of the outcome, management will be required to devote further time and resources to these legal proceedings, which may impact their ability to focus their attention on our business.

***We have been ordered by the High Court to repay to SASSA certain reimbursed implementation costs. We are appealing this decision, but if we are unsuccessful and are ultimately required to repay substantial monies to SASSA, such repayment would adversely affect our results of operations, financial position and cash flows.***

In March 2015, Corruption Watch, a South African non-profit civil society organization, commenced a legal proceeding in the High Court seeking an order by the Court to review and set aside the decision of SASSA's Chief Executive Officer to approve a payment to us of ZAR 317.0 million (approximately ZAR 277 million, excluding VAT) and directing us to repay the aforesaid amount, plus interest. Corruption Watch claimed that there was no lawful basis to make the payment to us, and that the decision was unreasonable and irrational and did not comply with South African legislation. We were named as a respondent in this legal proceeding.

On February 22, 2018, the matter was heard by the Gauteng Division, Pretoria of the High Court of South Africa. On March 23, 2018, the High Court ordered that the June 15, 2012 variation agreement between SASSA and CPS be reviewed and set aside. CPS was ordered to refund ZAR 317.0 million to SASSA, plus interest from June 2014 to date of payment. On April 4, 2018, we filed an application seeking leave to appeal the whole order and judgment of the High Court because we believe that the High Court erred in its application of the law and/or in fact in its findings. On April 25, 2018, the High Court rejected the application seeking leave to appeal. CPS is in the process of filing an application seeking leave to appeal the whole order and judgment of the High Court with the Supreme Court of Appeal. However, we cannot predict whether leave to appeal will be granted or if granted, how the Supreme Court of Appeal will rule on the matter.

In addition, in an April 2014 ruling, the Constitutional Court ordered SASSA to re-run the tender process and required us to file with the Court, after completion of our SASSA contract in March 2017, an audited statement of our expenses, income and net profit under the contract. The March 2018 Constitutional Court order contains a similar requirement that we file an audited statement of our expenses, income and net profit within 30 days of the completion of the contract. We expect to file the required information with the Constitutional Court as ordered. Parties to the March 2018 court proceedings also requested the Constitutional Court to consider further orders, including the repayment of any profits derived by CPS under its SASSA contract. The Constitutional Court did not provide such order in its March 2018 order; however, one or more third parties may in the future institute litigation challenging our

right to retain a portion of the amounts we will have received from SASSA under our contract. We cannot predict whether any such litigation will be instituted, or if it is, whether it would be successful.

Any successful challenge to our right to receive and retain payments from SASSA that requires substantial repayments would adversely affect our results of operations, financial position and cash flows.

***The pricing recommended by National Treasury to the Constitutional Court for our services provided at pay points for the period from April 1, 2018 through September 30, 2018, has not yet been approved by the Constitutional Court. If the amount payable to us is not commercially reasonable, our results of operations, financial position and cash flows may be adversely affected.***

Under the Constitutional Court order of March 23, 2018, related to the extension of the SASSA contract to September 30, 2018 in respect of the recipients paid at cash pay points, we were granted permission to approach National Treasury to request revised pricing of the contract. National Treasury provided a recommendation to the Constitutional Court in compliance with their order at a price per recipient of R51.00 (VAT inclusive) per month. Although we offered to accept this amount in respect of the three months ended June 30, 2018 when the number of recipients paid approximated two million per month, we have asked the Constitutional Court to reconsider the last three months of the contract. Neither the Treasury recommendation or our proposal have been approved by the Constitutional Court to date and as a result we have only recognised revenue at the rate set forth in the original contract since April 1, 2018 while we await an order from the Constitutional Court.

In line with SASSA's public statements, we have seen a material reduction in the number of recipients paid at the pay points during July and August, and this is expected to continue into September. This would result in a material decrease in the revenue from the provision of this service if National Treasury's recommendation is applied and CPS would then operate at an even greater loss for the three months to the end of the contract. If we are unable to reach a commercially reasonable settlement for this period, then this will adversely affect our results of operations, financial position and cash flows during the first quarter of fiscal 2019.

***In order to meet our obligations under our current 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 current 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 or make strategic investments that could increase our costs or liabilities or be disruptive to our business.***

Acquisitions and strategic investments are an integral 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 or investment candidates at prices that we consider appropriate. If we do identify an appropriate acquisition or investment candidate, we may not be able to successfully negotiate the terms of the transaction, finance it or, if the transaction occurs, integrate the new business into our existing business. These transactions may require debt financing or additional equity financing, resulting in additional leverage or dilution of ownership. For instance, in July 2017, we invested in Cell C utilizing a combination of existing cash reserves and external debt from South African banks. Refer to Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations - Developments During Fiscal 2018 - CPS and SASSA Contract Termination.

Acquisitions of businesses or other material operations and the integration of these acquisitions or their businesses 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. For instance, in March 2018, we recorded an impairment loss of \$19.9 million related to the goodwill identified in the Masterpayment and Masterpayment Financial Services acquisitions. Finally, acquisition candidates may have liabilities or adverse operating issues that we fail to discover through due diligence prior to the acquisition.

***We may not achieve the expected benefits from our recent Cell C and DNI investments.***

We have invested more than \$240 million, in aggregate, to acquire a 15% interest in Cell C and a 55% controlling interest in DNI. We believe that there are potential synergies that we can derive from each of these transactions, including the integration of certain of our service offerings with those of Cell C and DNI. However, we may not realize some or any of the benefits we expect to achieve from these investments.

Attempting to integrate these service offerings may be disruptive to us, and we may not be able to integrate these offerings successfully. Even if we are able to achieve this integration, our customers may not use these services to the extent that we expect they will. Any such failure could adversely impact our business or the businesses of Cell C and DNI, which could, in turn, reduce the value of our investments in them. Additionally, attempting to integrate Cell C's and DNI's offerings with our own may adversely impact our other business and operational relationships. Our inability to achieve the expected synergies from the Cell C and DNI transactions may have a material adverse effect on our business, results of operations or financial condition. In addition, Cell C and DNI may not be able to successfully execute their respective business plans, which may adversely affect, or impair, the carrying value of our investments in them.

***DNI generates most of its revenue by providing services to or on behalf of Cell C, principally through the sale of mobile phone starter packs. Our results of operations, financial condition and cash flow would suffer materially if DNI were to lose its contractual relationships with Cell C.***

DNI's business comprises of a number of separate entities that are primarily involved in the distribution of mobile phone starter packs, mainly on behalf of Cell C. We also provide funding for the expansion of Cell C's mobile telecommunications infrastructure. If Cell C were to terminate any of these contractual relationships that have multi-year notice periods, it would have a material adverse effect on our results of operations, financial condition and cash flow as a consequence of the impact on DNI.

***We have 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.***

We financed our investments in Cell C and DNI through South African bank borrowings of ZAR 1.46 billion, which has since reduced to ZAR 683.8 million through the Company meeting its scheduled repayments (\$49.8 million, translated at exchange rates applicable as of June 30, 2018). The loans are secured by intercompany cross-guarantees and a pledge by Net1 Applied Technologies South Africa Proprietary Limited, or Net1 SA, of its entire equity interests in Cell C and DNI. The terms of the lending arrangement contain customary covenants that require Net1 SA to remain below a specified total net leverage ratio and restrict the ability of Net1 SA, and certain of its subsidiaries to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make investment above specified levels, engage in certain business combinations and engage in other corporate activities without the approval of the lenders.

In addition, DNI has obtained a three year revolving credit facility of ZAR 200 million (\$14.6 million, translated at exchange rates applicable as of June 30, 2018) from Rand Merchant Bank, a division of FirstRand Bank Limited, a South African bank, to expand its operations. The revolving credit facility is secured by intercompany cross-guarantees within the DNI group and a pledge by DNI of its entire equity interests in its subsidiaries. The terms of the lending arrangement contain customary covenants that require DNI to remain in accordance with specified net senior debt to EBITDA and EBITDA to net senior interest ratios and restrict the ability of DNI, and certain of its subsidiaries to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make investment above specified levels, engage in certain business combinations and engage in other corporate activities without the approval of the lenders.



Although these covenants only apply to certain of our South African 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 the covenants in South Africa, 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 may be unable to secure the necessary facilities that will enable us to maintain the cash requirements for our ATM network***

The expansion of our fixed and mobile ATM network, along with an increase in our EPE client base, necessitates access to large amounts of cash to stock the ATM s and maintain uninterrupted service levels. While we have been able to operate our ATM s using our surplus cash and existing general credit facilities, any significant reduction in our available cash reserves or general credit facilities, or our failure to increase our facilities if required, will have an adverse impact on our ability to continue uninterrupted operation of our ATM network and our profits from this business. We will also suffer reputational damage if our service levels are negatively impacted due to the unavailability of cash.

***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 2016 FinScope survey, which is an annual survey conducted by the FinMark Trust, a non-profit independent trust, 77% of South Africans are banked (58% if SASSA account holders are excluded). As the competition to bank the unbanked in South Africa intensifies, we may not be successful in marketing our low-cost EasyPay Everywhere 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.***

All of these microfinance loans made are for a period of six months or less. We have created an allowance for doubtful finance loans receivable related to this book. Management has considered factors including the period of the finance loan outstanding, creditworthiness of the customers and the past payment history of the borrower when creating the allowance. 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.

Furthermore, since the commencement of SASSA s process of transitioning grant recipients to SAPO accounts, we have seen an increased incidence of our customers changing their primary bank accounts to other commercial banks or to SAPO. This has increased our recoverability risk and the risk that our allowance is insufficient.

***Our working capital financing and supply chain solutions receivables expose us to credit risk and our allowance for doubtful working capital finance loans receivable may not be sufficient to absorb future write-offs.***

We have created an allowance for doubtful working capital finance receivables related to our Mastertrading business and our Korean lending activities. We have considered factors including the period of the working capital receivable outstanding, creditworthiness of the customers and the past payment history of the borrower when creating the allowance. A significant amount of judgment is required to assess the ultimate recoverability of these and other working capital finance receivables because these are new offerings and we continue to refine and improve our processes, including the maximum amount of exposure per customer that we are willing to accept and the on-going evaluation of the creditworthiness of each customer.

A determination that requires a change in our allowance for doubtful working capital finance receivables, or a failure by one or more of our customers to pay a significant portion of outstanding working capital finance receivables, could have a negative impact on our business, operating results, cash flows and financial condition.

***We may face competition from other companies that offer innovative payment technologies and payment processing, which could result in the 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, as the acceptance of using a mobile phone to facilitate financial services has increased exponentially, other companies have introduced such services to the marketplace successfully and 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, the sales of mobile phone starter packs, the take-up of the financial services we offer and the ability of our customers to repay our microloans or to pay their insurance premiums, 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 certain of our 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, Mr. Herman Kotzé, our Chief Executive Officer. Many of our key responsibilities in South Africa are currently performed by Mr. Kotzé, as well as by Messrs. Nanda Pillay, our Managing Director: Southern Africa and Nitin Soma, our Senior Vice President of Information Technology. The loss of the services of any of these executives would 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.

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. In addition, the growth and future profitability of IPG is reliant on Mr. Philip Meyer's leadership, industry knowledge and contacts. We do not maintain any key person life insurance policies.

Similarly following the completion of our acquisition of DNI, the success of that business is heavily dependent on the continued involvement of Messrs. Andrew Dunn and Dave Smaldon and other senior officers of the DNI group of companies who have successfully built the business to its current position and are critical to its continued success.

***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, to numerous qualified individuals leaving 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 significant 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 one we have co-established in Namibia and our non-controlling investments in Nigeria, Liechtenstein 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 non-controlling interest. Non-controlling 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 pre-fund certain merchant and customer payments in South Africa and 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. We also 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 expect this risk to remain after the conclusion of the SASSA contract as we will continue to service our EasyPay Everywhere cardholders and our financial services branch and ATM networks.

***We may incur material losses in connection with our distribution of cash through our payment infrastructure in South Africa.***

Many cardholders use our services to access cash using their debit cards. We use armored vehicles and our own fixed ATM infrastructure to deliver large amounts of cash to rural areas across South Africa to enable these 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, ATMs or depots and we will therefore bear the full cost of certain uninsured losses or theft in connection with the cash handling 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, ATMs, 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.

***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, the ability to recover policy premiums from our customers 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.

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 broad-based black economic empowerment objectives in our South African businesses, we risk losing our government and/or private contracts and/or risk not being in compliance with any***

*government and/or private contracts which we have already entered into. In addition, it is possible that we may be required to increase the black shareholding of our company in a manner that could dilute your ownership and/or change the companies from which we purchase goods or procure services (to companies with a better BEE Contributor Status Level).*

The legislative framework for the promotion of broad-based black economic empowerment, or BEE, in South Africa has been established through the Broad-Based Black Economic Empowerment Act, No. 53 of 2003, as amended from time to time, and the Amended BEE Codes of Good Practice, 2013, or BEE Codes, any sector-specific codes of good practice, or Sector Codes, published pursuant thereto. Sector Codes are fully binding between and among businesses operating in a sector for which a Sector Code has been published. Achievement of BEE objectives is measured by a scorecard which establishes a weighting for the various elements.

Save for certain exempt entities (for example, micro enterprises and qualifying small enterprises), scorecards are independently reviewed by accredited BEE verification agencies which issue a certificate that presents an entity's BEE Contributor Status Level.

Certain of our South African businesses are subject to either the Information, Communications and Technology Sector Code, or ICT Sector Code, or the Financial Services Sector Code. The ICT Sector Code has been amended and aligned with the new BEE Codes, and was promulgated on November 7, 2016. Likewise, the Financial Service Sector Code has been amended and aligned with the new BEE Codes, and was promulgated on December 1, 2017.

We have taken a number of actions as a company to increase empowerment of black (as defined under applicable regulations) 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 (either directly or indirectly). Such sales or placements of shares could have a dilutive impact on your ownership interest, which could cause the market price of our stock to decline.

We expect that our BEE Contributor Status Level will be important for us in order to remain competitive in the South African marketplace and we continually seek ways to improve our BEE Contributor Status Level, especially the ownership (so-called equity element) element thereof. For instance, 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 our scoring on the ownership (equity) element of our BEE scorecard. 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 the relevant 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. Furthermore, in August 2014, we entered into a Subscription and Sale of Shares Agreement with Business Venture Investments No 1567 Proprietary Limited (RF), or BVI, one of our BEE partners, in preparation for any new potential SASSA tender. Pursuant to the aforesaid agreement, we repurchased BVI's remaining shares of Net1 common stock and BVI subscribed for new ordinary shares of CPS, representing approximately 12.5% of CPS's ordinary shares outstanding after the subscription.

It is possible that we may find it necessary to issue additional shares to improve our BEE Contributor Status Level. 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 U.S. dollars. This means that as long as the ZAR remains our primary operating currency, depreciation in the ZAR against the U.S. dollar, and to a lesser extent, the South Korean won against the U.S. dollar, would negatively impact our reported revenue and net income, while a strengthening of the ZAR and the South Korean won would have the opposite effect. Depreciation in the ZAR may negatively impact the prices at which our stock trades. The U.S. dollar/ZAR exchange rate has historically been volatile and we expect this volatility to continue. 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 U.S. dollars or euros. We have used forward contracts in order to hedge our economic exposure to the ZAR/U.S. 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, relative to peer countries in Africa and other emerging economies, 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.

***We may not be able to effectively and efficiently manage the electricity supply disruptions in South Africa, which could adversely affect our results of operations, financial position, cash flows and future growth.***

Our businesses in South Africa are dependent on electricity generated and supplied by the state-owned utility, Eskom, in order to operate. In recent years, Eskom has been unable to generate and supply the amount of electricity required by South Africans, and the entire country experienced significant and largely unpredictable electricity supply disruptions. Eskom has implemented a number of short- and long-term mitigation plans to correct these issues and the number of supply disruptions has decreased since calendar 2016.

As part of our business continuity programs, we have installed back-up diesel generators in order for us to continue to operate our core data processing facilities in Cape Town and Johannesburg in the event of intermittent disruptions to our electricity supply. We have to perform regular monitoring and maintenance of these generators as well as sourcing and managing diesel fuel levels. We may also be required to replace these generators on a more frequent basis due to the additional burden placed on them.

Our results of operations, financial position, cash flows and future growth could be adversely affected if Eskom is unable to commission new electricity-generating power stations in accordance with its plans, or at all, or if we are unable to effectively and efficiently test, maintain, source fuel for and replace our generators.

***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. Higher interest rates increase the cost of our debt financing, though conversely they also increase the amount of income we earn on any cash balances.

***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 U.S. 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, 2018, approximately 54% 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 1% 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 and Southeast Asia and Central 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 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, utilities (including electricity and water supply) 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;
- exposure to liability under the U.K. Bribery Act; and
- exposure to liability under U.S. securities and foreign trade laws, including the Foreign Corrupt Practices Act, or FCPA, and regulations established by the U.S. 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**

*The South African National Credit Regulator has applied to cancel the registration of our subsidiary, Moneyline Financial Services (Pty) Ltd, as a credit provider. If the registration is cancelled, we will not be able to provide loans to our customers, which would harm our business.*

Moneyline provides microloans to our EasyPay Everywhere cardholders. Moneyline is a registered credit provider under the South African National Credit Act, or NCA, and is required to comply with the NCA in the operation of its lending business. In September 2014, the South African National Credit Regulator, or NCR, applied to the National Consumer Tribunal to cancel Moneyline's registration, based on an investigation concluded by the NCR.

The NCR has alleged, among other things, that Moneyline contravened the NCA by including child support grants and foster child grants in the affordability assessments performed by Moneyline prior to granting credit to these borrowers, and that the procedures followed and documentation maintained by Moneyline are not in accordance with the NCA. We believe that Moneyline has conducted its business in compliance with NCA and we are opposing the NCR's application. However, if the NCR's application is successful, Moneyline would be prohibited from operating its microlending business, which could have a material adverse effect on our results of operations and cash flows.

*We are required to comply with certain U.S. laws and regulations, including economic and trade sanctions, which could adversely impact our future growth.*

We are subject to U.S. and other trade controls, economic sanctions and similar laws and regulations, including those in the jurisdictions where we operate. Our failure to comply with these laws and regulations could subject us to civil, criminal and administrative penalties and harm our reputation. Doing business on a worldwide basis requires us to comply with the laws and regulations of various foreign jurisdictions. These laws and regulations place restrictions on our operations, trade practices, partners and investment decisions. In particular, our operations are subject to U.S. and foreign trade control laws and regulations, including various export controls and economic sanctions programs, such as those administered by OFAC, as well as European sanctions. We monitor compliance in accordance with the 10 principles as set out in the United Nations Global Compact Principles, the Organisation for Economic Co-operation and Development recommendations relating to corruption, and the International Labor Organization Protocol in terms of certain of the items to be monitored. As a result of doing business in foreign countries and with foreign partners, we are exposed to a heightened risk of violating trade control laws as well as sanctions regulations.

Economic sanctions programs restrict our business dealings with certain sanctioned countries, persons and entities. In addition, because we act through dealers and distributors, we face the risk that our dealers, distributors and customers might further distribute our products to a sanctioned person or entity, or an ultimate end-user in a sanctioned country, which might subject us to an investigation concerning compliance with OFAC or other sanctions regulations.

Violations of trade control laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts and revocations or restrictions of licenses, as well as criminal fines and imprisonment. We have developed policies and procedures as part of a company-wide compliance program that is designed to assist our compliance with applicable U.S. and international trade control laws and regulations, including trade controls and sanctions programs administered by OFAC, and provide regular training to our employees to comply with these laws and regulations. However, there can be no assurance that all of our employees, consultants, partners, agents or other associated persons will not take actions in violation of our policies and these laws and regulations, or that our policies and procedures will effectively prevent us from violating these regulations in every transaction in which we may engage, or provide a defense to any alleged violation. In particular, we may be held liable for the actions that our local, strategic or joint venture partners take inside or outside of the United States, even though our partners may not be subject to these laws. Such a violation, even if our policies prohibit it, could materially and adversely affect our reputation, business, results of operations and financial condition. Our continued international expansion, including in developing countries, and our development of

new partnerships and joint venture relationships worldwide, could increase the risk of OFAC violations in the future.

***We are required to comply with anti-corruption laws and regulations, including the FCPA and U.K. Bribery Act, in the jurisdictions in which we operate our business, which could adversely impact our future growth.***

The FCPA prohibits us from providing anything of value to foreign officials for the purposes of obtaining or retaining business, or securing any improper business advantage. It also requires us to keep books and records that accurately and fairly reflect our transactions. As part of our business, we may deal with state-owned business enterprises, the employees of which are considered foreign officials for purposes of the FCPA.

In addition, we have to comply with the U.K. Bribery Act, or the U.K. Bribery Act, which includes provisions that extend beyond bribery of foreign public officials and also apply to transactions with individuals not employed by a government. The provisions of the U.K. Bribery Act are also more onerous than the FCPA in a number of other respects, including jurisdiction, non-exemption of facilitation payments and penalties. Some of the international locations in which we operate, lack a developed legal system and have higher than normal levels of corruption.

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.

Our current and potential competitors may use U.S. laws and regulations, including the FCPA, to disrupt our business operations and harm our reputation in the territories in which we operate or in which we intend to expand into. For instance, as we have previously reported, in November 2012, the U.S. Department of Justice commenced an investigation into whether we violated the FCPA and other U.S. federal criminal laws by engaging in a scheme to make corrupt payments to officials of the South Africa government in connection with securing our 2012 SASSA contract and whether we violated federal securities laws in connection with statements made by us in our SEC filings regarding this contract. The investigations commenced as a result of reports made to the relevant U.S. authorities by a losing bidder to the 2012 SASSA contract. While these investigations have all been concluded with no adverse findings against us, during the course of the investigations, management's time was diverted from other matters relating to our business and we suffered harm to our business reputation. Furthermore, in fiscal 2013, the FSB suspended Smart Life's insurance license. Our management has to spend a disproportionate amount of time explaining the circumstances surrounding, and the result of the investigations, when engaging new business partners, shareholders or regulators.

Violations of anti-corruption laws and regulations are punishable by civil penalties, including fines, as well as criminal fines and imprisonment. We have developed policies and procedures as part of a company-wide compliance program that is designed to assist our compliance with applicable U.S. and international anti-corruption laws and regulations, and provide regular training to our employees to comply with these laws and regulations. However, there can be no assurance that all of our employees, consultants, partners, agents or other associated persons will not take actions in violation of our policies and these laws and regulations, or that our policies and procedures will effectively prevent us from violating these regulations in every transaction in which we may engage, or provide a defense to any alleged violation. In particular, we may be held liable for the actions that our local, strategic or joint venture partners take inside or outside of the United States, even though our partners may not be subject to these laws. Such a violation, even if our policies prohibit it, could materially and adversely affect our reputation, business, results of operations and financial condition.

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 provision of financial and other services to social grant recipients. 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, this could result in a reduction of our revenue, profits and cash flows.

*We do not have a South African banking license and, therefore, we provide our social welfare grant distribution and EasyPay Everywhere 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 EasyPay Everywhere 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 EasyPay Everywhere business activities 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 an agreement with Grindrod Bank that enables us to implement our social welfare grant distribution and EasyPay Everywhere 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 Bank 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. Furthermore, we have to comply with the strict anti-money laundering and customer identification regulations of the SARB when we open new bank accounts for our customers and when they transact. Failure to effectively implement and monitor these regulations may result in significant fines or prosecution of Grindrod Bank and ourselves.

In addition, the South African Financial Advisory and Intermediary Services Act, 2002, requires persons who act as intermediaries between financial product suppliers and consumers in South Africa to register as financial service providers. Smart Life was granted an Authorized Financial Service Provider, or FSP, license on June 9, 2015, and Moneyline Financial Services (Pty) Ltd and Net1 Mobile Solutions (Pty) Ltd were each granted FSP licenses on July 11, 2017. If our FSP licenses are cancelled, we may be stopped from continuing our financial services businesses 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 the 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, Know Your Customer, personal financial and health information. New laws in this area, such as GDPR, 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.

The General Data Protection Regulation, or GDPR, took effect on May 25, 2018, in the European Union and introduced direct compliance obligations for data controllers and data processors. National Data Protection Agencies, or NDPA's, are now able to impose fines for violations ranging from 2% to 4% of annual worldwide turnover, or 10 million to 20 million euro, whichever is greater. NDPA's have the power to carry out audits, request information, and obtain access to premises. Businesses must be able to demonstrate that the personal data of any data subject can be lawfully processed on one of the six specified grounds. The GDPR adopts a risk-based approach to compliance, under which businesses bear responsibility for assessing the degree of risk that their processing activities pose to data subjects. Businesses are required to perform data protection impact assessments before any processing that uses new technology and is likely to result in a high risk to data subjects. The GDPR requires businesses to maintain records of their processing activities. Clear rules around data breach notifications and the processing of personal data in such a manner that the personal data can no longer be attributed to a specific individual have been set out by the GDPR. In addition, under the GDPR, data subjects have new rights, for example, the right to request that businesses delete their personal data (the right to be forgotten); to object to their personal data being processed; and to obtain a copy of their

personal data within a set time frame.

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 2018 fiscal year, our stock price ranged from a low of \$8.05 to a high of \$13.20. 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:

- any adverse developments in litigation or regulatory actions in which we are involved;
- fluctuations in currency exchange rates, particularly the U.S. dollar/ZAR exchange rate;
- announcement of additional BEE transactions, especially one involving the issuance or potential issuance of equity securities or dilution or sale 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 investments or major projects;
- large purchases or sales of our common stock;
- general conditions in the markets in which we operate; and
- economic and financial conditions.

***The put right we have agreed to grant to the IFC Investors on the occurrence of certain triggering events may have adverse impacts on us.***

In May 2016, we issued an aggregate of 9,984,311 shares of our common stock to the IFC Investors. We granted the IFC Investors certain rights, including the right to require us to repurchase any shares we have sold to the IFC Investors upon the occurrence of specified triggering events, which we refer to as a put right. Events triggering the put right relate to (1) us being the subject of a governmental complaint alleging, a court judgment finding or an indictment alleging that we (a) engaged in specified corrupt, fraudulent, coercive, collusive or obstructive practices; (b) entered into transactions with targets of economic sanctions; or (c) failed to operate our business in compliance with anti-money laundering or anti-terrorism laws; or (2) we reject a bona fide offer to acquire all of our outstanding shares at a time when we have in place or implement a shareholder rights plan, or adopt a shareholder rights plan triggered by a beneficial ownership threshold of less than twenty percent. The put price per share will be the higher of the price per share paid to us by the IFC Investors and the volume-weighted average price per share prevailing for the 60 trading days preceding the triggering event, except that with respect to a put right triggered by rejection of a bona fide offer, the put price per share will be the highest price offered by the offeror. If a put triggering event occurs, it could adversely impact our liquidity and capital resources. In addition, the existence of the put right could also affect whether or on what terms a third party might in the future offer to purchase our company. Our response to any such offer could also be complicated, delayed or otherwise influenced by the existence of the put right.

***Approximately 38% of our outstanding common stock is owned by three 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 38% of our outstanding common stock is owned by three shareholders. Based on their most recent SEC filings disclosing ownership of our shares, IFC Investors, International Value Advisers, LLC, or IVA, and Allan Gray Proprietary Limited, beneficially owned approximately 18%, 15% and 5% of our outstanding common stock, respectively.

The interests of the IFC Investors, IVA and Allan Gray, may be different from or conflict with the interests of our other shareholders. As a result of the ownership by the IFC Investors, IVA and Allan Gray, they will be able, if they act together, to significantly 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 over financial reporting also applies to companies that we acquire. As a private company, DNI was not required to comply with the requirements of Sarbanes prior to the time we acquired it. As DNI was acquired on June 30, 2018, there was not sufficient time, and therefore it was not possible for management to perform an assessment of the internal controls at DNI. Our management evaluation and auditor attestation regarding the effectiveness of our internal control over financial reporting as of June 30, 2018, excluded the operations of DNI. 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. The integration of DNI into our internal control over financial reporting requires significant time and resources from our

management and other personnel and may increase our compliance costs.

In addition, our independent registered public accounting firm identified a material weakness in our internal control related to our recognition of revenue from our SASSA contract during the three months ended June 30, 2018. As discussed in “Item 3—Legal Proceedings—Constitutional Court order regarding extension of contract with SASSA for 12 months,” our SASSA contract was extended by, and is currently subject to the ongoing oversight of, the Constitutional Court. Specifically, they concluded that our procedures and controls did not appropriately assess the documentation specific to the provision of cash payment services during the three months ended June 30, 2018, which should have resulted in the Company concluding that there is no evidence of an arrangement at a fixed and determinable price other than that noted in the court order extension. This material weakness could have resulted in a material misstatement of our financial statements that would not have been prevented or detected. In the event that we are faced with a similar set of circumstances in the future, we intend to appoint an independent expert to assist us in determining the appropriate accounting treatment. We cannot assure you that the measures we have taken to date, and actions we may take in the future, will be sufficient to remediate the control deficiencies that led to our material weakness in our internal control over financial reporting or that they will prevent potential future material weaknesses.

While we continue to dedicate resources and management time to ensuring that we have effective internal control 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 certain of 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, the majority of Net1's directors and all its officers reside outside of the United States and the majority of 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.

South Africa is not a party to any treaties regarding the enforcement of foreign commercial judgments, as opposed to foreign arbitral awards. Accordingly, a foreign judgment is not directly enforceable in South Africa, but constitutes a cause of action which may be enforced by South African courts provided that:

- the court 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 in respect of South Africa, 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, a 50,052 square foot administration building in Kramerville, Johannesburg, 175 financial services branches and 78 depot facilities. We also lease additional office space in Johannesburg, Cape Town and Durban, South Africa; London, United Kingdom; Seoul, South Korea; Munich, Germany; Hong Kong and Zhuhai, China; Mumbai, India and Black River, Mauritius. These leases expire at various dates through 2022. We own land and buildings in Ahnsung, Kyung-gi, South Korea, that is used for the storage of business documents. We believe that we have adequate facilities for our current business operations.

## **ITEM 3. LEGAL PROCEEDINGS**

### ***Constitutional Court order regarding extension of contract with SASSA for 12 months***

On March 17, 2017, the Constitutional Court delivered its order regarding the continued payment of social grants upon the expiration of the contract between our subsidiary, CPS, and SASSA on March 31, 2017, or the March 2017 order. The Constitutional Court ordered that SASSA and CPS were under a constitutional obligation to ensure payment of social welfare grants from April 1, 2017 and ordered CPS and SASSA to ensure payment of grants, for a period of 12 months, on the same terms and conditions as those included in the expiring contract plus additional requirements to (i) adequately safeguard personal data obtained during the payment process and ensure that it remains private and may not be used for any purpose other than the payment of grants, and (ii) preclude anyone from inviting beneficiaries to opt-in to the sharing of confidential information for the marketing of goods and services. The Constitutional Court also ordered that CPS may request National Treasury to investigate and make a recommendation regarding the price charged by CPS in the extension contract and stated that National Treasury must file a report with the Constitutional Court stating its findings in this regard.

The March 2017 order also included public accountability provisions that directly impacted CPS. These provisions are similar to those included in the Constitutional Court's April 2014 order, and require CPS to provide the Constitutional Court with an audited statement of expenses incurred, income received and net profit earned under the 12 month extension contract ending March 31, 2018. SASSA was also required to obtain an independent audit of the audited information provided by CPS. Furthermore, the Constitutional Court has instructed SASSA to send this audited information to National Treasury for its approval prior to submission to the Constitutional Court.

The Constitutional Court included additional public accountability provisions that impact the Minister of Social Development and SASSA. These provisions required the Minister and SASSA to file reports, on affidavit, with the Constitutional Court every three months, commencing on June 19, 2017, setting out how they planned to ensure the payment of social grants after the end of the 12-month contract extension period, details of the steps taken in that regard, what further steps they would take, and when they would take each future step, so as to ensure that the payment of all social grants is made when due after the expiry of the 12-month period. The Constitutional Court also directed that these reports must include the applicable time-frames for the various deliverables which formed part of the plan, whether the time-frames have been complied with, and if not, why that is the case and what will be done to remedy the situation. The Minister and SASSA were also required to immediately report to the Constitutional Court and explain the reasons for and consequences of any material changes to the circumstances included in the reports previously submitted to the Constitutional Court.

The Constitutional Court also ordered SASSA to ensure that any new payment method would (i) adequately safeguard personal data obtained during the payment process and ensure that such data remain private and may not be used for any purpose other than the payment of grants; and (ii) preclude a contracting party from inviting beneficiaries to

opt-in to the sharing of confidential information for the marketing of goods and services.

The Constitutional Court order also invited parties involved in the Constitutional Court proceedings to provide the name and consent of independent legal practitioners and technical experts, together with the Auditor-General of South Africa, to oversee the implementation of the payment of social welfare grants during the period to March 31, 2018, as well as oversee SASSA's conduct to appoint a new service provider from April 1, 2018, or to perform the grant distribution service in-house. The Constitutional Court appointed a panel of ten such experts on June 6, 2017.

Further to the March 2017 order, SASSA and certain other parties, including the independent panel of experts appointed by the Constitutional Court, have made various submissions to the Constitutional Court. Argument was heard on March 6, 2018 and on March 23, 2018, the Constitutional Court issued an order reiterating that SASSA and CPS have a constitutional obligation to pay social welfare grants and that the contract between SASSA and CPS, for the payment of social grants to beneficiaries who are paid in cash (i.e. those grant recipients who receive their grants at pay points), be extended for a further six months to September 30, 2018, or March 2018 order. The Constitutional Court's order provides for the payment of these grants under the extended contract's terms and conditions. The Constitutional Court permitted CPS to request National Treasury to evaluate and recommend the price to be charged by CPS for the payment of grants in cash under the extended contract. National Treasury submitted its recommendations to the Constitutional Court on April 30, 2018, proposing fee levels that were materially lower than CPS had requested, but significantly higher than the current fee levels. We submitted a responding affidavit to the Constitutional Court on May 11, 2018, but, until the Constitutional Court issues an order, we do not have certainty around CPS's compensation for providing this service.

The Constitutional Court included public accountability provisions in its March 2018 order that directly impact CPS. These provisions are similar to those included in the Constitutional Court's April 2014 and March 2017 orders and require CPS to provide SASSA with an independently audited statement of expenses incurred, income received and profit earned under the contract. SASSA is also required to obtain an independent audit of the audited information provided by CPS. Furthermore, the Constitutional Court directed SASSA to send this audited information to National Treasury for its approval prior to submission to the Constitutional Court.

The Constitutional Court also included public accountability provisions in its March 2018 order that impact the Minister of Social Development and SASSA. These provisions are similar to those included in the March 2017 order and require the Minister and SASSA to file reports with the Constitutional Court at the end of every month, commencing in April 2018 and ending in August 2018, regarding the implementation of the Constitutional Court's order. The Minister and SASSA are also required to immediately report and explain any material changes, and the consequences of such changes, to the circumstances included in the reports previously submitted to the Constitutional Court.

The Constitutional Court also ordered SASSA to ensure that the payment method determined by it must (i) adequately safeguard beneficiaries' personal data obtained during the payment process and ensure that such data remains private and not used for any purpose other than the payment of grants; and (ii) preclude a contracting party from inviting beneficiaries to opt-in to share confidential information for the marketing of goods and services.

The independent panel of experts, appointed by the Constitutional Court, was directed to (i) evaluate the implementation of the cash payment of social grants from the date of the order until September 2018, (ii) evaluate the steps proposed and taken by SASSA for any competitive bidding process or any other processes aimed at the appointment of a new contract or contracts for the cash payment of social grants by SASSA, (iii) evaluate the steps proposed or taken by SASSA for SASSA itself to administer and pay grants in the future, and (iv) file reports with the Constitutional Court, by the 15th of each month from May 2018 to September 2018, relating to the period from April 1, 2018 to the date of each report, describing the steps that the panel has taken to evaluate the matters referred to in (i) through (iii) above, the results of their evaluation and any recommendations.

On August 31, 2018, SASSA and its Chief Executive Officer, in her official capacity, were ordered by the Constitutional Court to pay the costs related to the March 2018 Order.

On February 6, 2018, CPS applied to the Constitutional Court requesting clarity on whether CPS may participate in any future SASSA tender processes. On February 23, 2018, the Constitutional Court ordered that CPS may participate in the new SASSA tender process, which commenced in December 2017.

#### ***Litigation Regarding Legality of Debit Orders under Social Assistance Act Regulations***



On June 3, 2016, we filed for a declaratory order with the High Court of the Republic of South Africa Gauteng Division, Pretoria, or Pretoria High Court, to provide certainty to us, as well as other industry stakeholders, on the interpretation of the Social Assistance Act and recent regulations promulgated in terms thereof, or the Regulations. The Regulations sought to restrict deductions from social grants paid to beneficiaries to direct deductions only. We interpret the meaning of the word "deductions" to be specific to the practice of deducting amounts, historically limited to life insurance premiums from grants, before the grants are paid to social welfare beneficiaries' bank accounts, and are of the opinion that the legislature did not intend to curtail the rights of beneficiaries to transact freely after the money is deposited into their bank accounts.

We brought the application for a declaratory order because SASSA sought to lend a broader interpretation to the meaning of the term "deductions" to include any debit orders, EFT debits, purchase transactions, or fund transfers that are effected after the transfer of social grants to beneficiaries' bank accounts. If SASSA's interpretation were to prevail, debit transactions could no longer be used as a method for beneficiaries to make payments for financial services such as insurance premiums, loan repayments, electricity and other purchases, money transfers or any other electronic payments.

We believe that SASSA's broad interpretation of the Regulations is flawed and inaccurate for a number of reasons, including but not limited to, the following:

- (a) It would unjustifiably infringe beneficiaries' fundamental rights to contractual freedom and self-autonomy.
- (b) It would limit beneficiaries' ability to pay for those products or services through the utilization of their bank accounts in the manner they so choose, which would (i) be a major setback to the national objective of financial inclusiveness; (ii) introduce financial and security risks for beneficiaries; and (iii) result in significant price increases for these products and services.
- (c) It impermissibly encroaches on the jurisdiction and regulatory powers of the SARB and the Payments Association of South Africa, which regulate the national payment system.
- (d) It would constitute a retrogressive regulatory measure that conflicts with the government's constitutional obligation to improve access to social security and assistance, in that it would deprive beneficiaries of the advantages of the national payment system and the convenient, low cost, reliable and ubiquitous payment system that they currently have under the CPS payment system.

Several other industry participants launched similar proceedings, and the SARB also filed an affidavit in which it sets out its position.

The matter was heard on October 17 and 18, 2016 and on May 9, 2017, the Pretoria High Court issued a declaratory order that the Social Assistance Act and Regulations do not restrict social grant recipients in the operation of their banks accounts. The order clarified that recipients may continue to initiate debit order instructions with any service provider, including our subsidiaries, against their bank accounts for the payment of goods and services. SASSA, its Chief Executive Officer and the Minister of Social Development were ordered to pay the costs of the application. The Pretoria High Court also refused the Black Sash Trust's, or Black Sash, application to intervene in the matter. In support of its application, the Black Sash made several allegations of illegal deductions which we denied in our answering affidavits.

On June 20, 2017, the Pretoria High Court refused the Minister of Social Development, SASSA and Black Sash's applications for leave to appeal the Pretoria High Court's May 9, 2017, declaratory order. SASSA, its Chief Executive Officer and the Minister of Social Development were ordered to pay the costs of the application for the leave to appeal.

On July 19, 2017, SASSA and the Black Sash served applications petitioning the South African Supreme Court of Appeal to grant them leave to appeal to either the Supreme Court or to a full bench of the Pretoria High Court. On September 29, 2017, the Supreme Court of Appeal referred the petitions to oral argument. The oral argument in respect of the petitions was heard on August 16 and 17, 2018.

We believe that SASSA's and the Black Sash's claims are without merit, and we intend to defend against them vigorously. However, we cannot predict how the courts will rule on the matter.

In addition, on June 15, 2016, SASSA brought criminal charges against us and Grindrod Bank for contravening the Social Assistance Act, alleging that we and Grindrod Bank failed to act in accordance with SASSA's instructions by processing debit orders against social welfare beneficiaries' bank accounts after the Regulations came into effect. On June 28, 2016, the Pretoria High Court prohibited SASSA from making any representations to the South African Police Services and the National Prosecuting Authority regarding the criminal charges brought against us and Grindrod Bank pending the determination of the proceedings, including the determination of any appeals. In addition, the order prevented SASSA from issuing further demands to us and Grindrod Bank to stop the processing of debit transactions against SASSA bank accounts pending the determination of the dispute, including the determination of any appeals. On August 8, 2016, we were informed that the NPA had reached a no prosecution decision on the criminal charges filed by SASSA. On May 17, 2017, the NPA reaffirmed its no prosecution decision reached in August 2016 on the criminal charges brought by SASSA against us and Grindrod Bank. In addition, the NPA notified us that no further action would be taken and that we could consider the case closed.

***Challenge to Payment by SASSA of Additional Implementation Costs***

As previously disclosed, in June 2014, we received approximately ZAR 277.0 million, excluding VAT, from SASSA, related to the recovery of additional implementation costs we incurred during the beneficiary re-registration process in fiscal 2012 and 2013. After the award of the tender, SASSA requested that CPS biometrically register all social grant beneficiaries (including child grant beneficiaries) and collect additional information for each child grant recipient. CPS agreed to SASSA's request and, as a result, performed approximately 11.0 million additional registrations beyond those that CPS tendered for the quoted service fee. Accordingly, we sought reimbursement from SASSA, supported by a factual findings certificate from an independent auditing firm. SASSA agreed to pay us the ZAR 277.0 million as full settlement of the additional costs we incurred.

In March 2015, Corruption Watch, a South African non-profit civil society organization, commenced legal proceedings in the High Court of South Africa seeking an order by the Pretoria High Court to review and set aside the decision of SASSA's Chief Executive Officer to approve payment to us of ZAR 317.0 million (approximately ZAR 277 million, excluding VAT) and directing us to repay the aforesaid amount, plus interest. Corruption Watch claimed that there was no lawful basis to make the payment to us, and that the decision was unreasonable and irrational and did not comply with South African legislation. CPS was named as a respondent in this legal proceeding.

On February 22, 2018, the matter was heard by the Gauteng Division, Pretoria of the High Court of South Africa, or High Court. On March 23, 2018, the High Court ordered that the June 15, 2012 variation agreement between SASSA and CPS be reviewed and set aside. CPS was ordered to refund ZAR 317.0 million to SASSA, plus interest from June 2014 to date of payment. On April 4, 2018, we filed an application seeking leave to appeal the whole order and judgment of the High Court with the High Court because we believe that the High Court erred in its application of the law and/or in fact in its findings. On April 25, 2018, the High Court refused the application seeking leave to appeal.

On May 23, 2018, CPS delivered its petition seeking leave to appeal the whole order and judgment of the High Court with the Supreme Court of Appeal. On June 21, 2018, Corruption Watch delivered a responding affidavit and, on July 4, 2018, CPS delivered its replying affidavit. We await directions from the Supreme Court of Appeal. However, we cannot predict whether leave to appeal will be granted or if granted, how the Supreme Court of Appeal would rule on the matter.

#### ***NCR application for the cancelation of Moneyline's registration as a credit provider***

In September 2014, the NCR applied to the South African National Consumer Tribunal, or Tribunal, to cancel the registration of our subsidiary, Moneyline, for breach of the NCA based on an investigation concluded by it. Pursuant to the investigation, the NCA also issued two Compliance Notices—one to CPS and one to Moneyline. The Compliance Notice issued to Moneyline accused it of having access into the Grindrod Bank Accounts of social grant beneficiaries which enables them (*sic*) to see the spending patterns of beneficiaries and deposit loan amounts into such accounts. The Compliance Notice issued to CPS accused it of providing information about social grant beneficiaries to Moneyline in breach of section 68(1) of the NCA. The Compliance Notices demanded that both CPS and Moneyline take the appropriate steps to address the alleged non-compliance with the NCA and to report in writing to the NCR, along with an independent audit report, that they were no longer non-compliant as alleged by the Compliance Notices.

We objected to the Compliance Notices and the Tribunal set both Compliance Notices aside.

Regarding the NCR's application to cancel the registration of Moneyline, we raised a number of procedural points in defense, which, if we are successful, will be dispositive of the application. Argument on these points was heard on November 27, 2015, before three tribunal members. Two ruled against us and one upheld our points. We are appealing the majority ruling to the High Court. This matter was initially scheduled to be heard on December 6, 2017, however, the matter was subsequently removed from the roll. A new hearing date has not been allocated and the matter will be heard on December 4, 2018 by a full bench of the Pretoria High Court.

If we are successful, it will dispose of the application. If we do not prevail, then the NCR's application will be set down before the Consumer Tribunal for argument on the main issues raised by the NCR, as dealt with above. We cannot predict the outcome of this litigation.

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 ISSUANCE OF COMMON STOCK***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, 2016	\$ 11.30	\$ 8.37
Quarter ended December 31, 2016	\$ 12.26	\$ 8.57
Quarter ended March 31, 2017	\$ 13.53	\$ 11.33
Quarter ended June 30, 2017	\$ 12.23	\$ 9.19
Quarter ended September 30, 2017	\$ 10.35	\$ 9.06
Quarter ended December 31, 2017	\$ 13.20	\$ 8.87
Quarter ended March 31, 2018	\$ 13.15	\$ 9.12
Quarter ended June 30, 2018	\$ 10.71	\$ 8.05

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 16, 2018, there were 15 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 repay debt and 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, debt commitments, expansion plans, financial condition and other relevant factors.

*Issuer purchases of equity securities*

On February 3, 2016, our board of directors approved the replenishment of our existing share repurchase authorization to repurchase up to an aggregate of \$100 million of common stock and, as of June 30, 2018, we had utilized approximately \$47.5 million of this authorization and approximately \$52.5 million remains available. The authorization has no expiration date. We did not repurchase any shares of our common stock during fiscal 2018.

*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, 2013, in each of our common stock, the companies in the S&P 500 Index, 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, 2018 and 2017, and for the three years ended June 30, 2018, 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, 2016, 2015 and 2014 and for the years ended June 30, 2015 and 2014, 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 U.S. 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)

	<b>Year Ended June 30</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014<sup>(1)</sup></b>
Revenue	\$ 612,889	\$ 610,066	\$ 590,749	\$ 625,979	\$ 581,656
Cost of goods sold, IT processing, servicing and support	304,536	292,383	290,101	297,856	260,232
Selling, general and administrative <sup>(2)</sup>	193,003	179,262	145,886	158,919	168,072
Equity instruments granted pursuant to BEE transactions <sup>(3)</sup>	-	-	-	-	11,268
Depreciation and amortization	35,484	41,378	40,394	40,685	40,286
Impairment loss	20,917	-	-	-	-
Operating income	58,949	97,043	114,368	128,519	101,798
Interest income	17,885	20,897	15,292	16,355	14,817
Interest expense	8,941	3,484	3,423	4,456	7,473
Income before income taxes	67,893	114,456	126,237	140,418	109,142
Income tax expense	41,353	42,472	42,080	44,136	39,379
Net income attributable to Net1	39,150	72,954	82,454	94,735	70,111
Income from continuing operations per share:					
Basic	\$ 0.69	\$ 1.34	\$ 1.72	\$ 2.03	\$ 1.51
Diluted	\$ 0.69	\$ 1.33	\$ 1.71	\$ 2.02	\$ 1.50

(1) Fiscal 2014 includes recovery of \$26.6 million of implementation costs from SASSA.

(2) Includes a separation payment of \$8.0 million paid to our former chief executive officer in 2017.

(3) Includes a non-cash charge of approximately \$11.3 million in 2014 related to common stock issued in a BEE transaction.

**Additional Operating Data:**

(in thousands, except percentages)

	<b>Year ended June 30,</b>				
	<b>2018<sup>(1)</sup></b>	<b>2017<sup>(1)</sup></b>	<b>2016<sup>(1)</sup></b>	<b>2015<sup>(1)</sup></b>	<b>2014<sup>(1)</sup></b>
	\$ 132,605	\$ 97,161	\$ 116,552	\$ 135,258	\$ 37,145



Cash flows provided by operating activities						
Cash flows (used in) provided by investing activities	\$ (180,448)	\$ 114,071	\$ 5,756	\$ 80,783	\$ 9,237	
Cash flows (used in) provided by financing activities	\$ (473,479)	\$ 40,469	\$ 13,645	\$ 16,784	\$ (25,781)	

Operating income margin <sup>(2)</sup>	9.6%	15.9%	19.4%	20.5%	17.5%
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(1) Cash flows (used in) provided by investing activities include movements in settlement assets and cash flows provided by (used in) financing activities include movement in settlement liabilities.

(2) Fiscal 2018 operating income margin was 15% before the impairment loss (Refer to Note 10 of our consolidated financial statements for a full description of the impairment loss). Fiscal 2017 operating income margin was 18% before the separation payment of \$8.0 million paid to our former chief executive officer.

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

	2018	2017 <sup>(R)</sup>	As of June 30, 2016 <sup>(R)</sup>	2015	2014
Cash and cash equivalents	\$ 90,054	\$ 258,457	\$ 223,644	\$ 117,583	\$ 58,672
Total current assets before settlement assets	277,794	465,735	386,998	301,874	259,591
Goodwill	283,240	188,833	179,478	166,437	186,576
Intangible assets	131,132	38,764	48,556	47,124	68,514
Total assets	1,219,290	1,450,756	1,263,500	1,316,956	1,363,375
Total current liabilities before settlement obligations	133,486	80,859	65,486	82,198	81,823
Total long-term debt	5,469	7,501	43,134	50,762	62,388
Total equity <sup>(R)</sup>	\$ 738,430	\$ 600,335	\$ 603,220	\$ 478,785	\$ 441,748

<sup>(R)</sup> During fiscal 2018, we reclassified redeemable common stock out of total equity because redeemable common stock is required to be presented outside of permanent equity. We have restated these amounts in our consolidated balance sheet as at June 30, 2017 and 2016, respectively. The reclassification resulted in a decrease in total equity by approximately \$107.7 million and an increase in redeemable common stock, presented outside of permanent equity, of approximately \$107.7 million. This reclassification had no impact on the Company's previously reported consolidated income, comprehensive income or cash flows.

## **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, transaction processing services and financial technology across multiple industries and in a number of emerging and developed 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 UEPS, and UEPS/EMV derivative discussed below, uses biometrically secure smart cards that operate in real-time but either offline or online, 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 components that are costly and are prone to outages. Our latest version of the UEPS technology has been certified by EMV, which facilitates our 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 financial technology solutions and services, by offering transaction processing and financial products to various industries. We have extensive expertise in secure online transaction processing, cryptography, mobile telephony, integrated circuit card (chip/smart card) technologies, and the design and provision of financial and value-added services to our cardholder base.

Our technology is widely used in South Africa today, where we provide bank accounts to approximately 3.0 million EPE customers and are in the last month of our contract to distribute welfare payments, using our UEPS/EMV technology, 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, insurance, mobile transacting and prepaid utilities to our cardholder base.

In addition, 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. We also offer end-to-end payment services through IPG in Europe, the U.K., Asia and the United States. We are also collaborating with Bank Frick on exploiting opportunities in the blockchain and cryptocurrency environments.

Our Applied Technologies business unit has an 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, Malawi, Cameroon, the Philippines, India 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 cardholders; 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, provide bank accounts 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 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. The revenue and costs 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 prepaid utility sales, 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 240,000 merchants and to card issuers in South Korea through our value-added-network. Through IPG we generate fee revenue through the provision of payment service provider and card issuing and acquiring services in primarily Germany, China and the U.S. 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 of all of these businesses are reflected in our International transaction processing segment.

Finally, we have investments, business partnerships or joint ventures to introduce our financial technology solutions to markets such as Bank Frick in Europe, Finbond in South Africa and North America, OneFi in Nigeria and MobiKwik in India. 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 our proprietary technologies in the specific territory, including the back-end system.

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 2018**

### ***CPS and SASSA Contract Termination***

On March 23, 2018, the Constitutional Court ordered a six-month extension of our current contract with SASSA, for the payment of grants in cash at pay points only, on the same terms and conditions as the contract that was due to expire on March 31, 2018. Accordingly, we have continued to pay grant recipients at pay points. While the Court order was silent regarding the payment of the other 9.1 million grant recipients who access their grants utilizing PIN or by biometric verification at POS and ATMs, we have continued to support the bank accounts that underpin these grant payments. As SASSA is no longer paying us a service fee for the management of these accounts with effect from April 1, 2018, grant recipients now bear the cost for the fees associated with these accounts. SASSA has indicated that grant recipients will be encouraged to open a commercial bank account of their choice in the future, including the special account offered by SAPO for grant recipients. SASSA reported in its September 2018 filing with

the Constitutional Court the SASSA CEO reported that 5,475,752 new SASSA/SAPO payment cards have been issued.

The Constitutional Court further ordered that we may approach the National Treasury to investigate and make a recommendation regarding the price to be paid for our contracted services during the six-month period. We approached the National Treasury for a price review shortly after receipt of the Constitutional Court order and on April 30, 2018, the National Treasury filed their recommendation with the Constitutional Court proposing fee levels that were materially lower than we had requested, but significantly higher than the current fee levels. As we believe that National Treasury's recommendation does not take SASSA's stated plans into account, and does not recognize the need for us to maintain our infrastructure regardless of the number of beneficiaries paid, we asked the Constitutional Court for permission to refer the matter back to National Treasury.

We received permission from the Constitutional Court and re-engaged with National Treasury, who indicated that the original recommendation to the Constitutional Court will not be amended. We have subsequently filed an urgent application with the Constitutional Court, requesting that the National Treasury recommendation be made an order of the court to enable SASSA to pay us, with a further request to engage with National Treasury to determine a fair price for the last three months of our contract period where there has been a significant decline in the number of beneficiaries we have paid, while we have maintained our full payment infrastructure. We have not received any response from the Constitutional Court regarding this application. For additional information refer to Item 1A. Risk Factors The pricing recommended by National Treasury to the Constitutional Court for our services provided at pay points for the period from April 1, 2018 through September 30, 2018, has not yet been approved by the Constitutional Court. If the amount payable to us is not commercially reasonable, our results of operations, financial position and cash flows may be adversely affected.

On April 25, 2018, we, and other bidders, received a notice from SASSA informing us of the suspension of the tender issued in December 2017 for the appointment of a service provider to distribute grants in cash at pay points when our contract expires on September 30, 2018.

In an affidavit filed with the Constitutional Court, the recently appointed Minister of Social Development, Ms. Susan Shabangu, indicated that she had ordered the suspension of the tender due to objections received regarding the completeness of the tender document from a prospective bidder, as well as the fact that the Bid Evaluation Committee did not have the required skills to evaluate a tender of this nature. Minister Shabangu also indicated to members of the Portfolio Committee for Social Development in the South African Parliament that there will be no request for a further extension of our contract when it expires on September 30, 2018. SASSA has subsequently informed the Constitutional Court that it has amended the contract with the SAPO to include the servicing of pay points when our contract expires.

We are relieved that we finally have visibility regarding the end of our contract and we look forward to the successful completion of our contract on September 30, 2018. We are extremely proud of our achievements of uninterrupted grant delivery to 11.0 million social grant recipients since the inception of our contract in April 2012, and the saving of more than ZAR 2.0 billion per annum that our biometric payment technology realized for government due to the elimination of fraudulent grants. We intend to focus our resources and technology on the provision of financial inclusion services to our target market after our contract expires, without the contractual constraints and challenges we have experienced during the past six years.

### ***EPE, Moneyline and Smart Life***

In June 2015, we began the rollout of EPE, our business-to-consumer offering in South Africa. As of July 31, 2018, we had more than 3.0 million EPE accounts, compared to 2.0 million as of July 31, 2017. EPE is a fully transactional, low cost account created to serve the needs of South Africa's unbanked and under-banked population, many of whom are social grant recipients. The EPE account offers customers a comprehensive suite of financial services and various financial inclusion services, such as prepaid products, in an economical, convenient and secure solution. EPE provides account holders with a biometrically-enabled UEPS/EMV debit MasterCard, mobile and internet banking services, ATM and POS services, as well as loans, insurance and other financial products and value-added services.

In order for us to address the sizeable opportunity for EPE and related financial inclusion services in South Africa, in fiscal 2016, we began to expand our brick-and-mortar financial services branch infrastructure, which supplements our nationwide distribution, with a biometrically-enabled UEPS/EMV ATM network, and hired a dedicated sales force. We are currently expanding our physical branch and ATM infrastructure and our efforts will be supplemented by employing a roaming sales force equipped with a biometrically-enabled UEPS/EMV card-issuing work station. In January 2018, we deployed an additional 500 portable card-issuing working stations and employed 625 temporary staff to achieve this objective. At July 31, 2018, we had 169 branches (April 30, 2018: 152), 1,175 ATMs (April 30, 2018: 1,100), and 2,977 (April 30, 2018: 2,371) dedicated employees, including the temporary staff.

Our efforts have resulted in an increased rate in the number of EPE accounts opened, the amount of loans disbursed and the number of insurance policies sold. We have opened approximately 815,000 EPE accounts during the last seven months since January 1, 2018, and we will have additional capacity to further increase our activities when our staff members and infrastructure currently dedicated to the SASSA contract become available for this initiative when our contract with SASSA ends. We have, however, experienced significant churn of our EPE accounts due to the unilateral decision by SASSA to open SAPO accounts for some of our EPE cardholders and to deposit their grants into these accounts, despite the legal and valid request by these cardholders to be paid via their EPE accounts. We have laid complaints with the relevant regulators in an effort to remedy this unfortunate situation but we have not received any response to date. For additional information refer to Item 1A. Risk Factors 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.



Our loan book under Moneyline has continued to grow despite our tightening of lending criteria given the current changes in the grant recipient environment. During the 13 months since July 1, 2017, we sold approximately 172,000 new policies related to our simple, low-cost life insurance products, in addition to the free basic life insurance policy provided with every EPE account opened. On May 2, 2018, we introduced low-cost mobile telephony and data packages, designed in collaboration with Cell C and DNI, as part of our lifestyle product offering and we intend to deploy further relevant products in the near future. While the initial take up has been disappointing, we believe Cell C's recently concluded infrastructure sharing deal in South Africa with MTN will significantly lift the market penetration of these products. We believe that we are a market leader, both in terms of cost and scale, in the provision of bank accounts, credit and insurance products in the market segments that we serve.

The graph below presents the growth of the number of EPE cards and Smart Life policies:

### *Cell C and DNI*

In August 2017, we purchased 15% of Cell C, one of the three major licensed mobile operators in South Africa with over 15 million active subscribers at the time of investment. In July 2017, we purchased a 45% interest in DNI, and in March 2018, we agreed to subscribe for additional shares in DNI to ultimately increase our interest to 55% with effect from June 30, 2018. DNI is the leading distributor of mobile subscriber starter packs for Cell C, while also distributing prepaid airtime through its extensive network of field operatives and agents.

The investments in Cell C and DNI are consistent with our approach of leveraging our significant and established infrastructure, and pursuing strategic acquisition opportunities or partnerships to gain access to new markets and complementary products. We believe that customers want a truly bespoke, affordable and comprehensive mobile-based digital product. We believe that the Cell C and DNI investments enable us to address the needs of the broader South African population through a stake in a value chain that includes the network, payment, product, distribution and hardware. Our relationship with Cell C and DNI has other complementary benefits. For example, we

recently sold four million SIM cards to Cell C during fiscal 2018 and received orders for an additional 15 million SIMs. During the first week of May 2018, we launched new low-cost products for our unbanked and under-banked customer base that were developed in collaboration with DNI and Cell C. Our investment in DNI complements our existing distribution footprint and provides us with access to an additional 2,500 employees who are dedicated to the marketing of our products, mainly in urban and semi-urban areas.

For additional financial information regarding Cell C and DNI, please refer to Notes 3, 7 and 9 to our consolidated financial statements.

### ***Bank Frick, Finbond and OneFi***

In October 2017, we acquired a 30% interest in Bank Frick, a fully licensed bank based in Balzers, Liechtenstein, from the Kuno Frick Family Foundation for approximately CHF 39.8 million (\$40.9 million). In January 2018, we purchased an additional 5% in Bank Frick from the Frick Foundation for CHF 10.4 million (\$11.1 million), in cash, and the Frick Foundation agreed to contribute approximately CHF 3.8 million (\$4.1 million) to Bank Frick to facilitate the development of Bank Frick's Fintech and blockchain businesses. It is the first bank in the CHF area to have issued a certificate based on cryptocurrencies, launched custodial services for professional cryptocurrency investors, and has supported over a dozen initial coin offerings, or ICOs. Bank Frick has stated that it expects to increase its head count by 50% in 2018 in order to support the expansion of its blockchain offerings as well as related IT and operational support.

We are approaching the final stages of certification for Finbond to become an issuer of biometrically-enabled UEPS/EMV cards and expect to commence with related activities during the first half of fiscal 2019. Finbond operates an extensive distribution network of approximately 430 branches across South Africa that will be utilized as issuing and service points for the biometrically-enabled UEPS/EMV cards. We are also deploying biometrically-enabled ATM's across the Finbond branch network. As part of a rights offering conducted by Finbond in April 2018, we subscribed for 55,585,514 additional Finbond shares and now own an aggregate of 261,069,481 Finbond shares, representing approximately 28.5% of Finbond's issued and outstanding ordinary shares immediately after the rights offering.

For additional financial information regarding Bank Frick and Finbond, please refer to Note 9 to our consolidated financial statements.

During fiscal 2018 we also invested a further \$1.0 million in convertible notes issued by OneFi, an equity method investment in which we currently own 25%. OneFi is the first neo bank in Sub-Saharan Africa offering loans, fixed savings and payments services to its customers via its proprietary 100%-mobile app platform, Paylater. In 2018, alone OneFi processed over 1 million loans using its machine learning algorithms that preclude the need for any human interaction.

OneFi is expanding its product line to include credit cards, insurance and personal finance management in keeping with its mission to provide financial services to the next billion and will expand to two other countries in West Africa by the end of the year. We are excited by and supportive of the expanded OneFi business model. Similar to the other major neo bank platforms such as Revolut, N26 and Nubank, OneFi's ability to impact and revolutionize the financial services sectors in the markets in which it operates should not be underestimated.

### ***International Payments Group***

During fiscal 2018, we completed the re-organization of IPG by consolidating all our e-money licenses and international card issuing, acquiring and processing activities (excluding South Korea and India) under a single management structure. IPG completed certain key product developments during the year, including its unique multicurrency-issuing platform and new card management system, which are currently undergoing certification. In addition, IPG is working in close collaboration with Bank Frick and other specialist departments in the Net1 group to develop bespoke blockchain-based solutions, including a highly secure but easily accessible crypto-asset storage solution for crypto-asset investors and exchanges.

### ***India***

We launched our Virtual Card project with MobiKwik in April 2018. Initially, we had to control the number of users added daily due to limitations resulting from a merger by our issuing bank partner. We have seen very positive trends in the take up and usage among the registered user base, which currently stands at 65,000 users. Approximately 70%

of the spend on virtual card is at locations where the MobiKwik wallet is not accepted, thereby adding meaningful value to its acceptance network.

MobiKwik has rapidly transformed itself from being a pure digital wallet player to a digital financial services provider, which more closely aligns to our strategy. Their lending business, launched about six months ago, has seen rapid adoption and by number of loans issued daily, MobiKwik has already become one of the largest digital lenders in India.

### **Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with U.S. 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 2018 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, with the exception of the \$19.9 million of goodwill impaired during the third quarter of fiscal 2018 and goodwill of \$1.1 million allocated to a business that ceased trading during the year.

### ***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 2018, 2017 and 2016 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.

### ***Valuation and impairment of marketable securities***

Our investments in available-for-sale equity securities are reported at fair value. Unrealized gains and losses related to changes in the fair value of available-for-sale equity securities are recognized in accumulated other comprehensive income, net of tax. Changes in the fair value of available-for-sale equity securities impact our reported net income only when such securities are sold or an other-than-temporary impairment is recognized. Realized gains and losses on the sale of equity securities will be calculated with reference to its original cost.

We regularly review the carrying value of our available-for-sale equity securities to determine whether it is other-than-temporarily impaired, which would require us to record an impairment charge in the period in which such determination is made. In making this determination, we consider, among other things, the extent and the duration of

the decline; the reasons for the decline in value (i.e. credit event, currency or interest-rate related); and the financial condition of and near term-prospects of the issuer of the security. Our assessment of whether an equity security is other-than-temporarily impaired could change in the future due to new developments or changes in assumptions related to any particular security, which would have an adverse impact on our financial condition and operating results.

***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 the foreseeable future. A valuation allowance is created if it is determined that a deferred tax asset will not be realized in the foreseeable future. Any change to the valuation allowance would be charged or credited 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 2018, we recorded a net decrease of \$22.9 million to our valuation allowance and during fiscal 2017 and 2016, respectively, we recorded a net increase of \$0.1 million and \$16.3 million to our valuation allowance. As of June 30, 2018 and 2017, the valuation allowance related to deferred tax assets was \$16.1 million and \$39.0 million, respectively.

### ***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. We have also utilized a bespoke adjusted Monte Carlo simulation discounted cash flow model to measure the fair value of restricted stock with market conditions granted to employees and directors. The stock-based compensation cost related to these valuations has been recognized on a straight line basis. These valuation 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 \$2.6 million, \$2.0 million and \$3.6 million for fiscal 2018, 2017 and 2016, respectively.

### ***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 with respect to 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; or our working capital financing and supply chain solutions provided.

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.

### ***Microlending***

We maintain an allowance for doubtful finance loans receivable related to our Financial inclusion and applied technologies segment with respect to microlending 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 microlending 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 microlending loan outstanding, creditworthiness of the customers and the past payment history and trends of its established microlending 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.



## 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, 2018*

Refer to Note 2 of our consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of June 30, 2018, including the expected dates of adoption and effects on financial condition, results of operations and cash flows.

## New Fiscal 2018 U.S. Tax Legislation

On December 22, 2017, the Tax Cuts and Jobs Act, or TCJA, was enacted into law, significantly modifying U.S. federal tax laws. The TCJA reduces the federal statutory tax rate for corporations from 35% to 21% effective from January 1, 2018, eliminates alternative minimum tax for corporations, limits net operating loss carryforwards (and eliminates carrybacks), repeals indirect foreign tax credits carry-forward rules, limits the deductibility of interest expense and transitions the system of U.S. international taxation of corporations from a worldwide tax system to a territorial tax system. The transition to a territorial tax system is not expected to have a significant impact on our future consolidated effective tax rate as we generate the majority of our taxable income in tax jurisdictions with tax rates that are higher than the new federal statutory tax rate of 21% (mainly South Africa, where our income is taxed at 28%, and Korea, where our income is taxed at 22%). Refer to Note 19 of our consolidated financial statements for additional information regarding the impact of TCJA on us.

## Currency Exchange Rate Information

### *Actual exchange rates*

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

Table 1	Year ended June 30,		
	2018	2017	2016
ZAR : \$ average exchange rate	12.8557	13.6147	14.5062
Highest ZAR : \$ rate during period	14.4645	14.8114	16.8231
Lowest ZAR : \$ rate during period	11.5526	12.4379	12.1965
Rate at end of period	13.7255	13.0535	14.7838
KRW : \$ average exchange rate	1,098	1,141	1,173
Highest KRW : \$ rate during period	1,156	1,210	1,245
Lowest KRW : \$ rate during period	1,056	1,092	1,122
Rate at end of period	1,114	1,144	1,153





**Translation Exchange Rates**

We are required to translate our results of operations from ZAR to U.S. dollars on a monthly basis. Thus, the average rates used to translate this data for the years ended June 30, 2018, 2017 and 2016, 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>2018</b>	<b>June 30, 2017</b>	<b>2016</b>
Income and expense items: \$1 = ZAR	12.6951	13.6182	14.3842
Income and expense items: \$1 = KRW	1,095	1,146	1,172
Balance sheet items: \$1 = ZAR	13.7255	13.0535	14.7838
Balance sheet items: \$1 = KRW	1,114	1,144	1,153

**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 U.S. GAAP. We analyze our results of operations both in U.S. 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 U.S. dollar and ZAR on our reported results and because we use the U.S. 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 22 to those statements.

DNI was acquired on June 30, 2018, and has been accounted for using the equity method up until that date. Therefore DNI is excluded from the revenue and operating income analysis below. Fiscal 2017 includes Masterpayment Financial Services Limited, or Malta FS, from November 1, 2016 and Pros Software from October 1, 2016. Fiscal 2016 includes the results of Transact24 from January 1, 2016 and Masterpayment from April 1, 2016. Refer also to Note 3 to the consolidated financial statements.

**Fiscal 2018 Compared to Fiscal 2017**

The following factors had an influence on our results of operations during fiscal 2018 as compared with the same period in the prior year:

**Growth in non-CPS South African transaction processing businesses:** Higher volumes, transaction and fee income due to the increased utilization by our customers of both the National Payment System and our own distribution networks (including ATMs) during fiscal 2018, resulted in improved contribution to our processing revenue;

**Decline of CPS revenue and operating income due to the expiration of our SASSA contract:** CPS revenue and operating income declined significantly due to 82% fewer grant recipients paid by CPS during the fourth quarter of fiscal 2018, being only those recipients paid at cash pay points as per the Constitutional Court order of March 23, 2018. We have not recognized the additional revenue per recipient recommended by South Africa's National Treasury as the amounts have not yet been confirmed by the Constitutional Court. As a result, CPS incurred a significant operating loss during fiscal 2018;

**Increased contributions from EasyPay Everywhere:** EPE revenue and operating income growth was driven primarily by expansion of our customer base and increased utilization of our ATM infrastructure;

**Growth in financial inclusion businesses:** Volume growth in our lending and insurance activities during fiscal 2018 coupled with operating efficiencies, resulted in an improved contribution to our financial inclusion revenue and operating income;

**Higher equity-accounted earnings and re-measurement loss:** Our investments in Finbond, Bank Frick and DNI positively impacted our reported results by approximately \$14.6 million, before amortization of intangible assets, net of deferred taxes. The acquisition of DNI also resulted in a non-cash \$4.6 million loss on re-measurement of the previously held equity interest following the consolidation of its business into our financial statements on June 30, 2018;

**Favorable impact from the weakening of the U.S. dollar against South African Rand:** The U.S. dollar depreciated by 7% against the ZAR and 4% against the KRW during fiscal 2018 compared with fiscal 2017, which positively impacted our reported results;

**Regulatory changes in South Korea pertaining to fees on card transactions:** The regulatory reduction in fees that may be charged on card transactions that came into effect October 2017 continued to adversely impact our revenues and operating income in South Korea as all parties in the payment process adapt to the new laws and renegotiate their respective positions in the marketplace;

**Higher revenue from Masterpayment offset by severance payments and allowance for credit losses:** Masterpayment contributed higher revenues as a result of an increase in processing activities, particularly related to its cryptocurrency processing launched in December 2017. However, we incurred severance costs related to the separation of two senior Masterpayment managers and created an allowance for credit losses related to doubtful working capital finance receivables of \$7.8 million;

**Non-cash impairment loss related primarily to Masterpayment intangible assets:** We recorded an impairment loss of \$20.9 million primarily related to Masterpayment and Masterpayment Financial Services goodwill;

**Indirect taxes refund in Korea:** We received a refund of indirect taxes of approximately \$2.5 million during fiscal 2018 which positively impacted our reported results; and

**Lower prepaid sales and ad hoc terminal sales:** The number of transacting users purchasing prepaid products through our mobile channel decreased due to security features introduced in fiscal 2017. In addition, our results were adversely impacted by fewer ad hoc terminal sales.

### Consolidated overall results of operations

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

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

	In United States Dollars (U.S. GAAP)		
	Year ended June 30,		
	2018	2017	%
	\$ 000	\$ 000	change
Revenue	612,889	610,066	0%
Cost of goods sold, IT processing, servicing and support	304,536	292,383	4%
Selling, general and administration	193,003	179,262	8%
Depreciation and amortization	35,484	41,378	(14%)
Impairment loss	20,917	-	nm
Operating income	58,949	97,043	(39%)
Interest income	17,885	20,897	(14%)
Interest expense	8,941	3,484	157%
Income before income tax expense	67,893	114,456	(41%)
Income tax expense	41,353	42,472	(3%)
Net income before earnings from equity-accounted investments	26,540	71,984	(63%)
Earnings from equity-accounted investments	11,730	2,664	340%
Net income	38,270	74,648	(49%)
Less net income attributable to non-controlling interest	(880)	1,694	(152%)
Net income attributable to us	39,150	72,954	(46%)

**Table 4**

	<b>In South African Rand (U.S. GAAP) Year ended June 30,</b>		
	<b>2018 ZAR 000</b>	<b>2017 ZAR 000</b>	<b>% change</b>
Revenue	7,780,687	8,308,001	(6%)
Cost of goods sold, IT processing, servicing and support	3,866,114	3,981,730	(3%)
Selling, general and administration	2,450,193	2,441,226	0%
Depreciation and amortization	450,473	563,493	(20%)
Impairment loss	265,544	-	nm
Operating income	748,363	1,321,552	(43%)
Interest income	227,052	284,580	(20%)
Interest expense	113,507	47,446	139%
Income before income tax expense	861,908	1,558,686	(45%)
Income tax expense	524,980	578,392	(9%)
Net income before earnings from equity-accounted investments	336,928	980,294	(66%)
Earnings from equity-accounted investments	148,914	36,279	310%
Net income	485,842	1,016,573	(52%)
Less net income attributable to non-controlling interest	(11,172)	23,069	(148%)
Net income attributable to us	497,014	993,504	(50%)

In ZAR, the decrease in revenue was primarily due to lower prepaid airtime sales, a decline in the number of SASSA biometrically-enabled UEPS/EMV grant recipients paid and fewer ad hoc terminal sales, which was partially offset by higher revenue from Masterpayment and Transact 24, EPE and related ATM services, and growth in our insurance business. KSNET's revenue contribution was flat compared with fiscal 2017 due to the ongoing impact of regulatory changes in South Korea.

In ZAR, the decrease in cost of goods sold, IT processing, servicing and support was primarily due to fewer prepaid airtime and ad hoc terminal sales, which was partially offset by increases in goods and services purchased from third parties, higher expenses incurred due to increased usage of the South African National Payment System by beneficiaries, and inflationary pressures on the cost base.

Our selling, general and administration expense increased primarily due to an increase in our allowance for doubtful working capital finance receivables of \$7.8 million, a \$4.6 million non-cash loss on re-measurement of the previously held equity interest in DNI upon acquisition, the impact of October 2017 annual salary increases for our South African employees, an increase in our allowance for doubtful microlending finance loans receivable, and an increase in goods and services purchased from third parties. These increases were partially offset by fewer agent incentive costs paid in Korea due to weaker trading conditions in fiscal 2018, lower executive remuneration and fewer transaction related expenses in fiscal 2018. In fiscal 2017, our selling, general and administration expense included an \$8.0 million separation payment to our former chief executive officer, a \$3.8 million allowance for credit losses related to a specific customer, and a \$1.8 million reversal of stock-based compensation charges related to awards of restricted stock with performance conditions which we believe will not be achieved.

Our operating income margin for fiscal 2018 and 2017 was 9.6% and 15.9%, respectively. Our fiscal 2018 margin was 14.6% excluding the \$20.9 million impairment loss, the \$7.8 million allowance for doubtful finance loans receivable, the \$4.6 million DNI re-measurement and the \$2.5 million South Korean indirect tax refund. Our fiscal 2017 margin was 17.5% excluding the \$8.0 million separation payment to our former chief executive officer, the \$3.8 million allowance for doubtful finance loans receivable and the \$1.8 million stock-based compensation reversal. We discuss

the components of operating income margin under Results of operations by operating segment.

Depreciation and amortization decreased primarily due to lower overall amortization of intangible assets that are fully amortized and tangible assets that are fully depreciated. We expect our depreciation and amortization expense to increase in fiscal 2019 as a result of the amortization of intangible assets acquired in the DNI transaction that closed on June 30, 2018 as well as our investment into expanding our branch network and ATM infrastructure in South Africa.

Interest on surplus cash decreased to \$17.9 million (ZAR 227.1 million) from \$20.9 million (ZAR 284.6 million), due primarily to lower average daily ZAR cash balances, partially offset by interest earned on the loan to Finbond and the listed Cedar Cellular note.

Interest expense increased to \$8.9 million (ZAR 113.5 million) from \$3.5 million (ZAR 47.4 million), largely due to interest on the South African facility we obtained to partially fund our investment in Cell C and DNI, somewhat offset by a lower average long-term debt balance on our South Korean debt and a lower interest rate.



Fiscal 2018 tax expense was \$41.4 million (ZAR 525.0 million) compared to \$42.5 million (ZAR 578.4 million) in fiscal 2017. Our effective tax rate for fiscal 2018 was 60.9% and higher than the South African statutory rate as a result of an impairment loss, a valuation allowance related to an allowance for doubtful working capital finance receivables created, the DNI re-measurement loss on acquisition, non-deductible expenses (including transaction-related expenditure and non-deductible interest on our South African long-term facility) and the impact of the changes in U.S. federal statutory tax law. Our effective tax rate for the fiscal 2017 was 37.1% and higher than the South African statutory rate as a result of non-deductible expenses (including consulting and legal fees) and the tax attributable to distributions from our South African subsidiary.

Earnings from equity-accounted investments increased primarily due to the inclusion of our portion of earnings from DNI and Bank Frick and an increase, in USD, in Finbond's net income. Finbond is listed on the Johannesburg Stock Exchange and reports its six-month results during our first half and its annual results during our fourth quarter. The table below presents the relative earnings (loss) from our equity accounted investments:

	<b>Year ended June 30,</b>		<b>\$ % change</b>
	<b>2018 \$ 000</b>	<b>2017 \$ 000</b>	
DNI	7,005	-	nm
Share of net income	9,510	-	nm
Amortization of intangible assets, net of deferred tax	(2,505)	-	nm
Bank Frick	(606)	-	nm
Share of net income	201	-	nm
Amortization of intangible assets, net of deferred tax	(403)	-	nm
Other	(404)	-	nm
Finbond	5,327	2,503	113%
Other	4	161	(98%)
Earnings from equity accounted investments	11,730	2,664	340%

#### **Results of operations by operating segment**

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

	<i>In United States Dollars (U.S. GAAP)</i>				
	<b>2018</b>		<b>Year ended June 30,</b>		<b>% change</b>
<b>Operating Segment</b>	<b>\$ 000</b>	<b>% of total</b>	<b>2017 \$ 000</b>	<b>% of total</b>	
Revenue:					
South African transaction processing	268,047	44%	249,144	41%	8%
International transaction processing	180,027	29%	176,729	29%	2%
Financial inclusion and applied technologies	221,906	36%	235,901	39%	(6%)
Subtotal: Operating segments	669,980	109%	661,774	109%	1%
Intersegment eliminations	(57,091)	(9%)	(51,708)	(9%)	10%
<b>Consolidated revenue</b>	612,889	100%	610,066	100%	-
Operating income (loss):					

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South African transaction processing	42,796	73%	59,309	61%	(28%)
International transaction processing	(12,478)	(21%)	13,705	14%	(191%)
Financial inclusion and applied technologies	55,372	94%	57,785	60%	(4%)
Subtotal: Operating segments	85,690	146%	130,799	135%	(34%)
Corporate/Eliminations	(26,741)	(46%)	(33,756)	(35%)	(21%)
<b>Consolidated operating income</b>	58,949	100%	97,043	100%	(39%)

51

Table 7

*In South African Rand (U.S. GAAP)*  
Year ended June 30,

Operating Segment	2018 ZAR 000	% of total	2017 ZAR 000	% of total	% change
Revenue:					
South African transaction processing	3,402,883	44%	3,392,893	41%	-
International transaction processing	2,285,461	29%	2,406,731	29%	(5%)
Financial inclusion and applied technologies	2,817,119	36%	3,212,547	39%	(12%)
Subtotal: Operating segments	8,505,463	109%	9,012,171	109%	(6%)
Intersegment eliminations	(724,776)	(9%)	(704,170)	(9%)	3%
<b>Consolidated revenue</b>	<b>7,780,687</b>	<b>100%</b>	<b>8,308,001</b>	<b>100%</b>	<b>(6%)</b>
Operating income (loss):					
South African transaction processing	543,299	73%	807,682	61%	(33%)
International transaction processing	(158,409)	(21%)	186,637	14%	(185%)
Financial inclusion and applied technologies	702,953	94%	786,928	60%	(11%)
Subtotal: Operating segments	1,087,843	146%	1,781,247	135%	(39%)
Corporate/Eliminations	(339,480)	(46%)	(459,696)	(35%)	(26%)
<b>Consolidated operating income</b>	<b>748,363</b>	<b>100%</b>	<b>1,321,551</b>	<b>100%</b>	<b>(43%)</b>
<b>South African transaction processing</b>					

In ZAR, the increase in revenue from our South African transaction processing segment was primarily due to higher EPE related fee and transaction revenue and increased inter-segment transaction processing activities, partially offset by a decline in the number of social welfare grants distributed. The March 2018 Constitutional Court order extended our grant distribution service only for grant recipients that are paid at cash pay-points and, therefore, on April 1, 2018, we introduced a monthly fee to recipients who continued to utilize the SASSA Grindrod card that was issued to them under our 2012 SASSA contract. For additional information refer to Developments During Fiscal 2018 CPS and SASSA Contract Termination .

Our operating income margin decreased as a result of the fees earned from SASSA and grant recipients on current pricing terms not being sufficient to cover CPS fixed cost to maintain the majority of its cash pay-points, as well as increases in goods and services purchased from third parties and annual salary increases granted to our South African employees. During fiscal 2018, we also recognized a \$1.1 million impairment loss related to goodwill allocated to a business that ceased trading during the year. Operating income margin in our South African transaction processing segment for fiscal 2018 and 2017 was 16.0% and 23.8%, respectively.

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

Segment revenue was higher during fiscal 2018 due to an increase in processing activities, particularly related to Masterpayment's cryptocurrency processing launched in December 2017, partially offset by the ongoing impact of regulatory changes in South Korea on KSNET's revenue. Operating income during fiscal 2018 was lower due to an impairment loss of \$19.9 million, an increase in our allowance for doubtful working capital finance receivable of \$7.8 million and a decrease in profitability at KSNET, partially offset by an ad hoc refund of indirect taxes of \$2.5 million in Korea. Operating income during fiscal 2017 was lower due to an allowance for doubtful working capital finance receivable of \$3.8 million and a refund of approximately \$0.8 million that had been paid several years ago in connection with industry-wide litigation in Korea that was finalized.

Operating income margin for fiscal 2018 and 2017 was (6.9%) and 7.8%, respectively. Excluding the Mastertrading allowance for doubtful working capital finance receivables, the impairment loss and the indirect taxes refund received, segment operating income and margin for fiscal 2018 were \$13.7 million and 7.6%, respectively. Excluding the Mastertrading allowance for doubtful working capital finance receivables and the refund received, segment operating income and margin for fiscal 2017 were \$16.7 million and 9.4% respectively.

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

Segment revenue decreased primarily due to fewer prepaid airtime and other value added service sales and lower lending fees, partially offset by the introduction of monthly account fees to our card holders, increased volume from our insurance business and an increase in inter-segment revenues. For additional information regarding the introduction of the monthly account fees, refer to [Developments During Fiscal 2018 - CPS and SASSA Contract Termination](#).

Operating income was also impacted by an increase in the allowance for doubtful finance loans receivable due to the increase in our lending book and higher risks associated with the transition to the new social grant payment arrangements.

Operating income margin for the Financial inclusion and applied technologies segment for fiscal 2018 and 2017 was 25.0% and 24.5%, respectively, and was impacted by fewer low margin prepaid product sales, increased revenue from our insurance business, the introduction of a monthly account fee and an increase in inter-segment revenues, partially offset by annual salary increases granted to our South African employees and inflation cost pressures.

### **Corporate/ Eliminations**

Our corporate expenses have decreased primarily due to lower executive compensation, fewer transaction-related expenditures and a \$0.5 million profit related to the sale of XeoHealth, partially offset by a \$4.6 million non-cash loss on remeasurement of the previously held equity interest in DNI, higher stock-based compensation charges (net of reversals), additional directors fees and a modest increase in U.S. dollar denominated goods and services purchased from third parties. Our corporate expenses for fiscal 2017, included an \$8.0 million separation payment made to our former chief executive officer and a \$1.9 million reversal of stock-based compensation charges.

### ***Fiscal 2017 Compared to Fiscal 2016***

The following factors had an influence on our results of operations during fiscal 2017 as compared with the same period in the prior year:

***Favorable impact from the weakening of the U.S. dollar against ZAR:*** The U.S. dollar depreciated by 5% against the ZAR during fiscal 2017, which positively impacted our reported results;

***Separation costs related to former chief executive officer:*** We paid our former chief executive officer \$8 million in cash related to his separation from our company in fiscal 2017. In addition, the vesting of 200,000 shares of restricted stock granted to him in August 2016 was accelerated which resulted in an additional stock-based compensation charge of approximately \$1.6 million during fiscal 2017;

***Growth in lending and insurance businesses:*** We continued to achieve volume growth and operating efficiencies in our lending and insurance businesses during fiscal 2017, which has resulted in an improved contribution to our financial inclusion revenue and operating income;

***Ongoing contributions from EasyPay Everywhere:*** EPE revenue and operating income growth was driven primarily by ongoing EPE adoption as we further expanded our customer base utilizing our ATM infrastructure;

***Masterpayment expansion costs and \$3.8 million allowance for credit losses:*** Masterpayment has incurred additional employment costs as it grows its staff complement to execute its expansion plan into new markets. We have provided an allowance for credit losses of \$3.8 million related to an amount due from one customer;

***Regulatory changes in South Korea governing fees on card transactions:*** Regulations governing the fees that may be charged on card transactions have adversely impacted our revenues and operating income in South Korea, partially offset by transaction volume growth;

***Lower prepaid sales resulting from improved security features to our Manje products:*** The introduction of our new biometric-linking feature was implemented in the first quarter of fiscal 2017 and adversely impacted the number of transacting users purchasing prepaid products through our mobile channel;

***Higher transaction-related costs in fiscal 2017:*** We incurred \$3.3 million in transaction-related costs due to various acquisition and investment initiatives pursued during fiscal 2017; and

***Lower tax impact of dividends from South African subsidiary in fiscal 2017 compared with 2016:*** There were fewer distributions from our South African subsidiary during fiscal 2017, and our tax expense includes approximately \$1.5 million related to the tax impact, including withholding taxes, resulting from these distributions. Our income tax expense for fiscal 2016 includes approximately \$6.2 million related to

the tax impact, including withholding taxes, resulting from distributions from our South African subsidiary.

**Consolidated overall results of operations**

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

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

<b>Table 8</b>	<b>In United States Dollars (U.S. GAAP) Year ended June 30,</b>		
	<b>2017 \$ 000</b>	<b>2016 \$ 000</b>	<b>% change</b>
Revenue	610,066	590,749	3%
Cost of goods sold, IT processing, servicing and support	292,383	290,101	1%
Selling, general and administration	179,262	145,886	23%
Depreciation and amortization	41,378	40,394	2%
Operating income	97,043	114,368	(15%)
Interest income	20,897	15,292	37%
Interest expense	3,484	3,423	2%
Income before income tax expense	114,456	126,237	(9%)
Income tax expense	42,472	42,080	1%
Net income before earnings from equity-accounted investments	71,984	84,157	(14%)
Earnings from equity-accounted investments	2,664	639	317%
Net income	74,648	84,796	(12%)
Less net income attributable to non-controlling interest	1,694	2,342	(28%)
Net income attributable to us	72,954	82,454	(12%)

<b>Table 9</b>	<b>In South African Rand (U.S. GAAP) Year ended June 30,</b>		
	<b>2017 ZAR 000</b>	<b>2016 ZAR 000</b>	<b>% change</b>
Revenue	8,308,001	8,497,452	(2%)
Cost of goods sold, IT processing, servicing and support	3,981,730	4,172,870	(5%)
Selling, general and administration	2,441,226	2,098,453	16%
Depreciation and amortization	563,493	581,036	(3%)
Operating income	1,321,552	1,645,093	(20%)
Interest income	284,580	219,963	29%
Interest expense	47,446	49,237	(4%)
Income before income tax expense	1,558,686	1,815,819	(14%)
Income tax expense	578,392	605,287	(4%)
Net income before earnings from equity-accounted investments	980,294	1,210,532	(19%)
Earnings from equity-accounted investments	36,279	9,192	295%
Net income	1,016,573	1,219,724	(17%)
Less net income attributable to non-controlling interest	23,069	33,688	(32%)
Net income attributable to us	993,504	1,186,036	(16%)

In ZAR, the decrease in revenue was primarily due to lower prepaid airtime sales, fewer ad hoc terminal sales, and a lower contribution from KSNET due to regulatory changes in South Korea, which was partially offset by more fees generated from our EPE and ATM offerings, improved lending and insurance activities, the inclusion of Masterpayment s businesses, and an increase in the number of SASSA UEPS/EMV beneficiaries paid.

In ZAR, the decrease in cost of goods sold, IT processing, servicing and support was primarily due to fewer prepaid airtime and ad hoc terminal sales, which was partially offset by higher expenses incurred due to increased usage of the South African National Payment System by beneficiaries, expenses incurred to operate our EPE and ATM offerings, and the inclusion of Masterpayment s businesses.

In ZAR, our selling, general and administration expense increased primarily due to a higher employee costs resulting from our EPE roll-out in fiscal 2016, the impact of October 2016 annual salary increases for our South African and UK-based employees, an \$8.0 million separation payment to our former chief executive officer, an allowance for credit losses related to a specific customer of \$3.8 million, as well as increases in goods and services purchased from third parties.



Our fiscal 2016 selling, general and administration expense includes a \$1.9 million gain on re-measurement of the previously held interest related to the T24 acquisition and a gain of ZAR 30 million (\$2.2 million) resulting from the change in accounting for Finbond due to the appointment of our representative to Finbond's board of directors.

Our operating income margin for fiscal 2017 and 2016 was 15.9% and 19.4%, respectively. Our fiscal 2017 margin was 17.5% excluding the \$8.0 million separation payment to our former chief executive officer, the \$3.8 million allowance for doubtful finance loans receivable and the \$1.8 million stock-based compensation reversal. We discuss the components of operating income margin under Results of operations by operating segment. The decrease is primarily attributable to the separation payment to our former chief executive officer and higher cost of goods sold, IT processing, servicing and support referred to above, and partially offset by a decrease in depreciation expenses.

In ZAR, depreciation and amortization decreased primarily due to lower overall amortization of intangible assets that are fully amortized and tangible assets that are fully depreciated. These decreases were partially offset by an increase in acquisition-related intangible asset amortization resulting from recent transactions, including Masterpayment and Pros Software.

In ZAR, interest on surplus cash increased to \$20.9 million (ZAR 284.6 million) from \$15.3 million (ZAR 220.0 million), due primarily to the interest received from our loan to Finbond and higher average daily ZAR cash balances and ZAR interest rates, partially offset by the lower interest earned on the U.S. dollar cash reserves that we converted from ZAR through distributions from our South African subsidiary.

In ZAR, interest expense decreased to \$3.5 million (ZAR 47.4 million) from \$3.4 million (ZAR 49.2 million), due to a lower average long-term debt balance on our South Korean debt and a lower interest rate, offset by a \$1.2 million (ZAR 16.0 million) guarantee fee that was expensed related to the financing for the Blue Label Telecoms Limited investment that was ultimately not pursued.

Fiscal 2017 tax expense was \$42.5 million (ZAR 578.4 million) compared to \$42.1 million (ZAR 605.3 million) in fiscal 2016. Our effective tax rate for fiscal 2017, was 37.1% and was higher than the South African statutory rate as a result of non-deductible expenses (including consulting and legal fees) and the tax impact attributable to distributions from our South African subsidiary. Our effective tax rate for fiscal 2016, was 33.3% and was higher than the South African statutory rate as a result of non-deductible expenses (including consulting and legal fees) and the tax impact, including withholding taxes, of approximately \$6.2 million attributable to distributions from our South African subsidiary.

Earnings from equity-accounted investments for fiscal 2017 have increased primarily due to the inclusion of our portion of Finbond's net income. Finbond is listed on the Johannesburg Stock Exchange and reports its six-month results during our first half and its annual results during our fourth quarter.

### Results of operations by operating segment

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

<b>Operating Segment</b>	<b>2017 \$ 000</b>	<b>% of total</b>	<b>2016 \$ 000</b>	<b>% of total</b>	<b>% change</b>
Revenue:					
South African transaction processing	249,144	41%	212,574	36%	17%
International transaction processing	176,729	29%	169,807	29%	4%

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Financial inclusion and applied technologies	235,901	39%	249,403	42%	(5%)
Subtotal: Operating segments	661,774	109%	631,784	107%	5%
Intersegment eliminations	(51,708)	(9%)	(41,035)	(7%)	26%
<b>Consolidated revenue</b>	610,066	100%	590,749	100%	3%
Operating income (loss):					
South African transaction processing	59,309	61%	51,386	45%	15%
International transaction processing	13,705	14%	23,389	20%	(41%)
Financial inclusion and applied technologies	57,785	60%	54,999	48%	5%
Subtotal: Operating segments	130,799	135%	129,774	113%	1%
Corporate/Eliminations	(33,756)	(35%)	(15,406)	(13%)	119%
<b>Consolidated operating income</b>	97,043	100%	114,368	100%	(15%)

55

Table 11

*In South African Rand (U.S. GAAP)*  
Year ended June 30,

Operating Segment	2017 ZAR 000	% of total	2016 ZAR 000	% of total	% change
Revenue:					
South African transaction processing	3,392,893	41%	3,057,707	36%	11%
International transaction processing	2,406,731	29%	2,442,538	29%	(1%)
Financial inclusion and applied technologies	3,212,547	39%	3,587,463	42%	(10%)
Subtotal: Operating segments	9,012,171	109%	9,087,708	107%	(1%)
Intersegment eliminations	(704,170)	(9%)	(590,256)	(7%)	19%
<b>Consolidated revenue</b>	<b>8,308,001</b>	<b>100%</b>	<b>8,497,452</b>	<b>100%</b>	<b>(2%)</b>
Operating income (loss):					
South African transaction processing	807,682	61%	739,147	45%	9%
International transaction processing	186,637	14%	336,432	20%	(45%)
Financial inclusion and applied technologies	786,928	60%	791,117	48%	(1%)
Subtotal: Operating segments	1,781,247	135%	1,866,696	113%	(5%)
Corporate/Eliminations	(459,696)	(35%)	(221,603)	(13%)	107%
<b>Consolidated operating income</b>	<b>1,321,551</b>	<b>100%</b>	<b>1,645,093</b>	<b>100%</b>	<b>(20%)</b>
<b>South African transaction processing</b>					

In ZAR, the increase in revenue and operating income from our South African transaction processing segment was primarily due to higher EPE transaction revenue as a result of increased usage of our ATMs, increased inter-segment transaction processing activities, and a modest increase in the number of social welfare grants distributed.

Operating income margin in our South African transaction processing segment for fiscal 2017 and 2016 was 23.8% and 24.2%, respectively. Our fiscal 2017 margin includes higher EPE revenue as a result of increased ATM transactions, an increase in inter-segment transaction processing activities, an increase in the number of beneficiaries paid in fiscal 2017 and a modest increase in the margin of transaction fees generated from cardholders using the South African National Payment System, which was partially offset by annual salary increases granted to our South African employees.

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

In calendar 2016, South Korean regulators introduced specific regulations governing the fees that may be charged on card transactions, as is the case in most other developed economies. These regulations have a direct impact on card issuers in South Korea and, consistent with global practices, card issuers have renegotiated their fees with South Korean VAN companies, including KSNET, which has had an adverse impact on KSNET's financial performance.

Revenue from our International transaction processing segment increased during fiscal 2017, primarily due to the inclusion of T24 and Masterpayment; however, this growth was partially offset by a lower contribution from KSNET due to the regulatory changes. Operating income from our International transaction processing segment during fiscal 2017 was lower due to a decrease in revenue at KSNET; losses incurred by Masterpayment as it grows its staff complement to execute its expansion plan into new markets and an allowance for credit losses related to a specific customer of \$3.8 million; and ongoing ZAZOO start-up costs in the UK and India, which was partially offset by a positive contribution by T24. Operating income and margin for fiscal 2017 was also positively impacted by a refund of approximately \$0.8 million that had been paid several years ago in connection with industry-wide litigation that has now been finalized.

Operating income margin in our International transaction processing segment for fiscal 2017 and 2016, was 7.8% and 13.8%, respectively.

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

In ZAR, revenue and operating income from our Financial inclusion and applied technologies segment decreased primarily due to the introduction of our new biometric linking feature for prepaid airtime and other value added services, which adversely impacted sales, as well as fewer ad hoc terminal sales, partially offset by increased volumes in our lending and insurance businesses, an increase in inter-segment revenues and higher card sales.

Operating income margin from our Financial inclusion and applied technologies segment was 24.5% and 22.1%, during fiscal 2017 and 2016, respectively, and has increased primarily due to improved revenues from our lending and insurance businesses and an increase in inter-segment revenues and fewer low margin prepaid product sales, offset by fewer ad hoc terminal sales and annual salary increases granted to our South African employees.

## **Corporate/ Eliminations**

During fiscal 2017, our corporate expenses have increased primarily due to the separation payment made to our former chief executive officer, higher transaction-related expenditures and amortization costs and modest increases in U.S. dollar denominated goods and services purchased from third parties and directors' fees. These increases were partially offset by lower stock-based compensation charges; lower provision for incentives, including no cash incentive award for fiscal 2017 for the chief executive officer and chief financial officer; and the impact of the stronger U.S. dollar on goods and services procured in other currencies, primarily the ZAR. Our fiscal 2016 corporate expenses include the fair value gain on re-measurement of the previously held interest related to the T24 acquisition and the gain resulting from the change in accounting for Finbond.

## **Liquidity and Capital Resources**

At June 30, 2018, our cash and cash equivalents were \$90.1 million and comprised mainly ZAR-denominated balances of ZAR 648.8 million (\$47.3 million), KRW-denominated balances of KRW 32.8 billion (\$29.5 million), U.S. dollar-denominated balances of \$6.3 million, and other currency deposits, primarily Botswana pula, of \$7.0 million, all amounts translated at exchange rates applicable as of June 30, 2018. The decrease in our cash balances from June 30, 2017, was primarily due to our investments in DNI, Bank Frick, Cell C and a \$9 million listed note, scheduled repayments of our South African long-term debt, unscheduled repayment of our Korean debt in full, repayment of our short-term facilities, growth in our South African lending book, and capital expenditures, which was partially offset by cash generated by our core businesses and a new South Africa long-term facility.

Based on information available at the time of this report, we believe that our cash and credit facilities are sufficient to fund our future operations for at least the next four quarters.

We generally invest 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 U.S. dollar denominated money market accounts. We invest surplus cash in Korea in short-term investment accounts at Korean banking institutions.

Historically, we have financed most of our operations, research and development, working capital, and capital expenditures, as well as acquisitions and strategic investments, through internally generated cash and our credit facilities. 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. For instance, in fiscal 2018, we obtained loan facilities from South African banks to fund a portion of our investments in Cell C and DNI as well as a portion of our working capital requirements. Refer to Notes 12 and 14 to our consolidated financial statements for the year ended June 30, 2018, for additional information related to these loan facilities.

We have a short-term South African credit facility with Nedbank of ZAR 400 million (\$29.2 million), which consists of (i) a primary amount of up to ZAR 200 million, and (ii) a secondary amount of up to ZAR 200 million. The primary amount is comprised of an overdraft facility of up to ZAR 50 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, 2018, the interest rate on the overdraft facility was 8.85%. As of June 30, 2018, we had used none of the overdraft and ZAR 108.0 million (\$7.9 million, translated at exchange rates applicable as of June 30, 2018) of the indirect and derivative facilities to support guarantees issued by Nedbank to various third parties on our behalf.

We have a short-term U.S. dollar-denominated overdraft credit facility with Bank Frick of \$10.0 million. As of June 30, 2018, we had not utilized this facility. The interest rate on the facility is 4.50% plus the 3-month U.S. dollar LIBOR and interest is payable on a quarterly basis. The 3-month U.S. dollar LIBOR rate was 2.31175% on June 29, 2018. The facility has no fixed term, however, it may be terminated by either party with six weeks written notice.

As of June 30, 2018, we had outstanding long-term debt, net of deferred fees, of ZAR 680.1 million (approximately \$49.5 million translated at exchange rates applicable as of June 30, 2018) under our South African facilities. Interest due on the facility is based on the Johannesburg Interbank Agreed Rate, or JIBAR, in effect from time to time plus a margin of (i) 2.25% for the Facility A loan, (ii) 3.5% for the Facility B loan, (iii) 2.25% for the Facility C loan and (iv) 2.75% for the Facility D loan. The JIBAR rate has been set at 6.96% for the period to September 29, 2018. Principal repayments on the outstanding Facility A and Facility B loans are due in four quarterly installments of ZAR 125.0 million each commencing September 29, 2018. Principal repayment on the Facility C loan is to be determined by the Lenders based on the date of the repayment of any borrowings under the Facility A loan. Principal repayments on the Facility D loan are due in seven quarterly installments, of ZAR 26.3 million each, commencing on September 29, 2018. Voluntary prepayments are permitted without early repayment fees or penalties.

On June 28, 2018, DNI entered into a Revolving Credit Facility Agreement under which DNI obtained a ZAR 200.0 million revolving credit facility with a term of three years to June 2021 to finance the acquisition and/or requisition of telecommunication towers. We had not utilized the revolving credit facility as of June 30, 2018.

We have a unique cash flow cycle due to the funding mechanism under our SASSA contact 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, 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 and through Transact24 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 2018 increased to \$132.6 million (ZAR 1.7 billion) from \$97.2 million (ZAR 1.3 billion) for fiscal 2017. Excluding the impact of interest received, interest paid on our Korean and South Africa debt and taxes presented in the table below, the increase relates primarily to the receipt of certain working capital loans outstanding, offset partially by the expansion of our South African lending book and weaker trading activity during fiscal 2018 compared to 2017. During fiscal 2018, we paid interest of \$7.2 million and \$0.4 million, respectively, under our South African and South Korean debt facilities.

Cash flows from operating activities for fiscal 2017 decreased to \$97.2 million (ZAR 1.3 billion) from \$116.6 million (ZAR 1.7 billion) for fiscal 2016. Excluding the impact of interest received, interest paid under our Korean debt and taxes presented in the table below, the decrease relates primarily to the growth of Masterpayment's working capital finance offering and the separation payment made to our former chief executive officer, offset by an increase in cash from operating activities resulted from improved trading activity during fiscal 2017. During fiscal 2017, we paid interest of \$1.5 million under our South Korean debt facility.

During fiscal 2018, we made a first provisional tax payment of \$17.7 million (ZAR 231.2 million) and a second provisional tax payment of \$17.0 million (ZAR 225.9 million) related to our 2018 tax year in South Africa. We also paid taxes totaling \$4.9 million in other tax jurisdictions, primarily South Korea.

During fiscal 2017, we made a first provisional tax payment of \$18.2 million (ZAR 252.0 million) and a second provisional tax payment of \$17.2 million (ZAR 221.7 million) related to our 2017 tax year in South Africa. We paid dividend withholding taxes of \$1.5 million (ZAR 21.3 million). We also paid taxes totaling \$8.1 million in other tax jurisdictions, primarily South Korea.



Taxes paid during fiscal 2018, 2017 and 2016 were as follows:

<b>Table 12</b>	<b>Year ended June 30,</b>					
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2018</b>	<b>2017</b>	<b>2016</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	17,739	18,192	15,956	231,200	251,968	239,939
Second provisional payments	17,008	17,197	13,733	225,887	221,734	207,329
Taxation paid related to prior years	1,859	1,624	3,436	24,432	22,365	46,840
Taxation refunds received	(430)	(1,414)	(176)	(5,480)	(19,481)	(2,402)
Dividend withholding taxation	-	1,471	4,183	-	21,300	60,000
<b>Total</b>						
South African	36,176	37,070	37,132	476,039	497,886	551,706
Foreign, primarily South Korea	4,889	8,095	4,991	63,261	109,800	74,844
<b>Total tax paid</b>	<b>41,065</b>	<b>45,165</b>	<b>42,123</b>	<b>539,300</b>	<b>607,686</b>	<b>626,550</b>

We expect to pay additional second provisional payments in South Africa of approximately \$1.4 million (ZAR 19.0 million translated at exchange rates applicable as of June 30, 2018) related to our 2018 tax year in the first quarter of fiscal 2019.

### *Cash flows from investing activities*

During fiscal 2018, we paid approximately \$151.0 million (ZAR 2.0 billion) for a 15% interest in Cell C, \$88.7 million (ZAR 1.2 billion) for a 55% interest in DNI, \$51.9 million for a 35% interest in Bank Frick, and \$9.0 million for a 7.625% interest in a listed note. Fiscal 2018 includes capital expenditure of \$9.7 million (ZAR 124.7 million), primarily for the acquisition of payment processing terminals in Korea and ATMs in South Africa.

During fiscal 2017, we paid approximately \$25.8 million for an approximate 13.5% interest in MobiKwik; provided a \$10.0 million loan to Finbond; provided a \$2.0 million loan to KZ One and paid approximately \$2.9 million and \$1.7 million, respectively, net of cash received, to acquire 100% of each of Malta FS and Pros Software's ordinary shares. Fiscal 2017 includes capital expenditure of \$11.2 million (ZAR 152.5 million), primarily for the acquisition of payment processing terminals in Korea. Our Korean capital expenditures have declined due to regulatory changes in South Korea, which prohibit the provision of payment equipment to the majority of merchants.

During fiscal 2016, we paid approximately \$14.8 million and \$1.7 million, respectively, net of cash received, to acquire 60% of Masterpayment and approximately 56% of Transact24 s ordinary shares. We also exercised our rights under the Finbond rights offer and paid approximately \$8.9 million (ZAR 136.1 million) to acquire an additional 40,733,723 shares of common stock of Finbond. Fiscal 2016 includes capital expenditure of \$35.8 million (ZAR 514.9 million), primarily for the acquisition of payment processing terminals in Korea and the rollout of ATMs in South Africa.

***Cash flows from financing activities***

During fiscal 2018, we utilized approximately \$113.2 million (ZAR 1.46 billion) of our South African facility to partially fund our investments in Cell C and DNI and utilized approximately \$0.3 million of our Korean facility to pay a portion of our quarterly interest due. We made accumulated scheduled South African debt facility payments of \$60.5 million (ZAR 776.3 million) and made a \$16.6 million payment to settle our outstanding South Korean debt facility in full. We also utilized \$44.9 million of our overdraft facilities and repaid \$62.9 million of these facilities.

During fiscal 2017, we sold 5 million shares of our common stock for \$45.0 million and received approximately \$2.9 million from the exercise of stock options. We also paid approximately \$45.3 million to repurchase 4,407,360 shares of our common stock and also paid \$0.5 million, on July 1, 2016, related to settlement of amounts outstanding related to the repurchases at the end of June 2016. We also made a \$28.5 million unscheduled repayment of our Korean debt, made a scheduled \$7.4 million Korean debt repayment, utilized approximately \$0.8 million of our Korean borrowings to pay quarterly interest due and utilized approximately \$16.2 million of our CHF facilities. In addition, we paid a guarantee fee of \$1.1 million related to the guarantee issued by RMB and paid a dividend of approximately \$2.1 million to certain of our non-controlling interests.

During fiscal 2016, we received approximately \$107.7 million from the issue of 9,984,311 shares of our common stock and approximately \$3.8 million from the exercise of stock options. We made scheduled Korean long-term debt repayments of approximately \$8.7 million, and utilized approximately \$2.1 million of our Korean borrowings to pay quarterly interest due. We also acquired 2,426,704 shares of our common stock and paid approximately \$26.6 million during fiscal 2016 and the remaining \$0.5 million on July 1, 2016, related to these repurchases and, in June 2016, paid approximately \$11.2 million for all of the shares of Masterpayment that we did not already own.

**Contractual Obligations**

The following table sets forth our contractual obligations as of June 30, 2018:

	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Long-term debt obligations (A)	53,474	47,446	6,028	-	-
Contingent amount related to DNI investment (B)	29,143	-	29,143	-	-
Operating lease obligations	12,157	5,531	4,662	1,964	-
Capital lease obligations	495	446	49	-	-
Purchase obligations	5,619	5,619	-	-	-
Capital commitments	1,081	1,081	-	-	-
Other long-term obligations (C)(D)	11,358	-	-	-	11,358
<b>Total</b>	<b>113,327</b>	<b>60,123</b>	<b>39,882</b>	<b>1,964</b>	<b>11,358</b>

- (A) Includes \$50.0 million of long-term debt and interest payable at the rate applicable on June 30, 2018, under our South Africa debt facility.
- (B) Under the amended DNI transaction agreements, we are obliged to pay to DNI an additional amount not exceeding ZAR 400 million (\$29.1 million) in cash, subject to DNI achieving certain performance targets. The present value of the ZAR 400 million, or ZAR 373.6 million (\$27.2 million), is included in other long-term liabilities on our consolidated balance sheet as of June 30, 2018.
- (C) Includes policyholder liabilities of \$2.2 million related to our insurance business. All amounts translated at exchange rates applicable as of June 30, 2018.
- (D) We have excluded cross-guarantees in the aggregate amount of \$7.9 million issued as of June 30, 2018, to Nedbank to secure guarantees it has issued to third parties on our behalf as the amounts that will be settled in cash are not known and the timing of any payments is uncertain.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Capital Expenditures**

Capital expenditures for the years ended June 30, 2018, 2017 and 2016 were as follows:

<b>Operating Segment</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2018</b>	<b>2017</b>	<b>2016</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>
South African transaction processing	3,988	2,473	5,101	51,269	33,669	73,374
International transaction	4,397	7,745	28,029	56,527	105,446	403,174

processing  
 Financial  
 inclusion and  
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1,264	977	2,667	16,250	13,302	38,363
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**Consolidated**

<b>total</b>	9,649	11,195	35,797	124,046	152,417	514,911
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Our capital expenditures for fiscal 2018, 2017 and 2016, 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, 2018, of \$1.1 million related mainly to ATMs required to maintain and expand our operations. We expect to fund these expenditures through internally-generated funds. In addition to these capital expenditures, we expect that capital spending for fiscal 2019 will also relate to expanding our operations in South Korea South Africa.

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

We seek to manage our exposure to currency exchange, translation, interest rate, customer concentration, credit, and equity price and liquidity risks as discussed below.

**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 U.S. 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 U.S. dollar and the euro, on the other hand. We had no outstanding foreign exchange contracts as of June 30, 2018 and 2017, respectively.

**Translation Risk**

Translation risk relates to the risk that our results of operations will vary significantly as the U.S. dollar is our reporting currency, but we earn most of our revenues and incur most of our expenses in ZAR. The U.S. 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 lending 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 African debt facilities bear interest at JIBAR, plus a margin which varies from 2.25% to 3.5% . As interest rates, and specifically JIBAR, are outside our control, there can be no assurance that future increases in interest rates, specifically JIBAR, will not adversely affect our results of operations and financial condition. As of June 30, 2018, JIBAR was 6.96% .

The following table illustrates the effect on our annual expected interest charge, translated at exchange rates applicable as of June 30, 2018, as a result of changes in JIBAR rates. The effect of a hypothetical 1% (i.e. 100 basis points) increase and a 1% decrease in each of JIBAR rates as of June 30, 2018, are shown. The selected 1% hypothetical change does not reflect what could be considered the best or worst case scenarios.

<b>Table 15</b>	<b>As of June 30, 2018</b>		
	<b>Annual expected interest charge (\$ 000)</b>	<b>Hypothetical change in JIBAR</b>	<b>Estimated annual expected interest charge after hypothetical change in JIBAR (\$ 000)</b>
Interest on South Africa long-term debt	4,836	1%	5,334
		(1%)	4,338

We generally maintain limited investments 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 BB+ (or its equivalent) or better, as determined by credit rating agencies such as Standard & Poor's, Moody's and Fitch Ratings.

**Microlending credit risk**

We are exposed to credit risk in our microlending activities, which provide unsecured short-term loans to qualifying customers. We manage this risk by performing an affordability test for each prospective customer and assigning 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. As of June 30, 2018, we did not have any equity securities that were exchange-traded and held as available for sale. Historically, exchange-traded equity securities held as available for sale were expected to be held for an extended period of time and we were 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 exchange-traded equity securities may fluctuate for a variety of reasons and, 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.

We monitor these investments for impairment and make appropriate reductions in carrying value when an impairment is deemed to be other-than-temporary.

We have invested in approximately 28.5% of the issued share capital of Finbond which are exchange-traded equity securities, however, from April 1, 2016, we have accounted for them using the equity method. The fair value of these securities as of June 30, 2018, represented approximately 6% of our total assets, including these securities.

## **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-72 of this Annual Report on Form 10-K.

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

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, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were not effective as of June 30, 2018 due to the material weakness in internal control over financial reporting as described below.

### ***Internal Control over Financial Reporting***

Internal control over financial reporting is a process designed by, or under the supervision of, our chief executive officer and our chief financial officer, or persons performing similar functions, and effected by our 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 U.S. 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 our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the company are being made only in accordance

with authorizations of our officers and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our 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 2013. Based on this evaluation and as described below, management concluded that our internal control over financial reporting was not effective as of June 30, 2018. As permitted by the rules of the SEC, management has excluded DNI from its evaluation for the year ended June 30, 2018, the year of acquisition. Deloitte & Touche (South Africa), our independent registered public accounting firm, has issued an audit report on our internal control over financial reporting, excluding DNI. As of June 30, 2018, DNI's total assets, including acquired intangible assets, represented approximately 22% of our consolidated total assets and approximately 6% of consolidated total current assets. We completed the acquisition of our majority interest in DNI on June 28, 2018 and, accordingly, we began consolidating DNI on June 30, 2018. Therefore, the consolidation of DNI did not have an impact on our consolidated statement of operations for the year ended June 30, 2018, except to the extent of equity accounted earnings, including the amortization of intangibles assets, net of deferred taxes of \$7.0 million.

In their audit report, Deloitte & Touche (South Africa) identified a material weakness in respect of the internal control related to our recognition of revenue from our SASSA contract during the three months ended June 30, 2018. As discussed in "Item 3—Legal Proceedings—Constitutional Court order regarding extension of contract with SASSA for 12 months," our SASSA contract was extended by, and is currently subject to the ongoing oversight of, the Constitutional Court. Specifically, Deloitte & Touche (South Africa) concluded that our procedures and controls did not appropriately assess the documentation specific to the provision of cash payment services during the three months ended June 30, 2018, which should have resulted in management concluding that there was no evidence of an arrangement at a fixed and determinable price other than that noted in the Court order extension. Given the unique circumstances of the litigation surrounding this contract, particularly the oversight role adopted by the Court and the role played by other government institutions in determining the price to be paid to us for our provision of cash payment services, the revenue recognition assessment for the three months ended June 30, 2018 was complex. While we were in the process of preparing our financial statements for the year ended June 30, 2018, the legal proceedings remained ongoing with frequent and substantial developments, and we were anticipating an imminent ruling from the Court regarding SASSA's obligation to pay us. In addition, after the end of our fiscal year and during July and August 2018, our management actively engaged in discussions with our audit committee in regard to the appropriateness of recognizing the cash payment services revenue. Before we submitted our financial statements to our audit committee for approval, Deloitte & Touche (South Africa) advised us of their conclusion that there was no evidence of an arrangement at a fixed and determinable price other than that noted in the Court order extension and that therefore, the revenue in question should not be recognized. Although management has a good faith belief that, prior to the conclusion of our closing process, management would have reached the same conclusion, we concur with Deloitte's opinion that our internal control over financial reporting was not effective as of June 30, 2018. The effectiveness of our internal control over financial reporting as of June 30, 2018 has been audited by Deloitte & Touche (South Africa), an independent registered public accounting firm, as stated in their report which is included herein.

*Remediation of Material Weakness*

In the event that we are faced with a similar set of circumstances in the future, we will appoint an independent expert to assist us in determining the appropriate accounting treatment.

*Changes in Internal Control over Financial Reporting*

Except as described above, there were no changes in our internal control over financial reporting during the most recent fiscal quarter ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As stated above, management has excluded DNI from its evaluation of the effectiveness of internal control over financial reporting for the year ended June 30, 2018, the year of acquisition but continues to evaluate DNI's internal control over financial reporting. See Item 1A Risk Factors 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." for additional information.

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

### **To the Board of Directors and Shareholders of Net 1 UEPS Technologies, Inc. Johannesburg, South Africa**

We have audited the internal control over financial reporting of Net 1 UEPS Technologies, Inc. and subsidiaries (the “Company”) as of June 30, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effect of the material weakness identified below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of June 30, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended June 30, 2018, of the Company and our report dated September 12, 2018, expressed an unqualified opinion on those financial statements.

As described in Management’s Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at DNI-4PL (Pty) Ltd, which was acquired on June 28, 2018 and whose financial statements constitute approximately 22% and 6% of consolidated total assets and current assets, respectively, of the consolidated financial statement amounts as of and for the year ended June 30, 2018. Accordingly, our audit did not include the internal control over financial reporting at DNI-4PL (Pty) Ltd.

### **Basis for Opinion**

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company’s internal control over financial reporting is a process designed 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Material Weakness**

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 the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment:

A material weakness in internal control over financial reporting results from the lack of control, which allowed for the misinterpretation and misapplication of Accounting Standards Codification ("ASC") 605, Revenue, the resulting in revenue for services rendered to be recorded prior to all necessary revenue recognition criteria being met.

Specifically, the company's procedure and control did not appropriately assess the court order and related documentation specific to the provision of cash payment services, which should have resulted in the Company concluding that there is no evidence of an arrangement at a fixed and determinable price other than that noted in the court order extension.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended June 30, 2018, of the Company, and this report does not affect our report on such financial statements.

**/s/ Deloitte & Touche**  
**Registered Auditors**  
**Johannesburg, South Africa**

**September 12, 2018**

National Executive: \*LL Bam Chief Executive Officer \*TMM Jordan Deputy Chief Executive Officer; Clients and Industries \*MJ Jarvis Chief Operating Officer \*AF Mackie Audit & Assurance \*N Sing Risk Advisory DP Ndlovu Tax & Legal TP Pillay Consulting \*JK Mazzocco Talent & Transformation MG Dicks Risk Independence & Legal \*KL Hodson Corporate Finance \*TJ Brown Chairman of the Board

A full list of partners and directors is available on request \*Partner and Registered Auditor

**ITEM 9B. OTHER INFORMATION**

None.

**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 2018 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 2018 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**

The information required by this Item is incorporated by reference to the sections of our definitive proxy statement for our 2018 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 2018 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 2018 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-72.

<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, 2018 and 2017</u>	<u>F-3</u>
<u>Consolidated statements of operations for the years ended June 30, 2018, 2017 and 2016</u>	<u>F-4</u>
<u>Consolidated statements of comprehensive income for the years ended June 30, 2018, 2017 and 2016</u>	<u>F-5</u>
<u>Consolidated statements of changes in equity for the years ended June 30, 2018, 2017 and 2016</u>	<u>F-6</u>
<u>Consolidated statements of cash flows for the years ended June 30, 2018, 2017 and 2016</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	<u>Amended and Restated Articles of Incorporation</u>		8-K	3.1	December 1, 2008
3.2	<u>Amended and Restated By-Laws of Net 1 UEPS Technologies, Inc.</u>		8-K	3.2	November 5, 2009
4.1	<u>Form of common stock certificate</u>		S-1	4.1	June 20, 2005
10.1*	<u>Form of Restricted Stock Agreement</u>		10-K	10.13	August 23, 2012
10.2*	<u>Form of Stock Option Agreement</u>		10-K	10.14	August 23, 2012
10.3*	<u>Form of Restricted Stock Agreement (non-employee directors)</u>		10-K	10.15	August 23, 2012
10.4*	<u>Form of Indemnification Agreement</u>		10-K	10.32	August 25, 2016
10.5*	<u>Form of non-employee director agreement</u>		10-K	10.5	August 24, 2017
10.6*	<u>Amended and Restated 2015 Stock Incentive Plan of Net 1 UEPS Technologies, Inc.</u>		14A	A	October 2, 2015
10.7*	<u>Service Agreement between KSNET, Inc. and Phil-Hyun Oh dated October 27, 2017</u>		8-K	10.79	November 1, 2017
10.8*	<u>Service Agreement between Net1 Applied Technologies Korea and Phil-Hyun Oh dated October 27, 2017</u>		8-K	10.80	November 1, 2017
10.9*	<u>Contract of Employment, effective March 1, 2018, between Net1 Applied Technologies South Africa Proprietary Limited and Alexander Michael Ramsay Smith</u>		8-K	10.80	March 1, 2018
10.10*	<u>Restrictive Covenants Agreement, effective March 1, 2018, between Net1 Applied Technologies South Africa Proprietary Limited</u>		8-K	10.81	March 1, 2018

10.11*	<u>and Alexander Michael Ramsay Smith</u> <u>Employment Agreement, effective March 1,</u> <u>2018, between Net 1 UEPS Technologies, Inc.</u> <u>and Alexander Michael Ramsay Smith</u>	8-K	10.82	March 1, 2018
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10.12*	<u>Restrictive Covenants Agreement, effective March 1, 2018, between Net 1 UEPS Technologies, Inc. and Alexander Michael Ramsay Smith</u>	8-K	10.83	March 1, 2018
10.13*	<u>Separation and Release of Claims Agreement, dated May 24, 2017, by and between the Company and Serge C.P. Belamant</u>	8-K	10.61	May 30, 2017
10.14	<u>Distribution Agreement, dated July 1, 2002, between Net 1 UEPS Technologies, Inc. and Net 1 Investment Holdings (Pty) Limited</u>	S-4	10.1	February 3, 2004
10.15	<u>Patent and Technology Agreement, dated June 19, 2000, by and between Net 1 Holdings S.a.r.l. and Net 1 UEPS Technologies, Inc.</u>	S-4	10.2	February 3, 2004
10.16	<u>Technology License Agreement between Net 1 Investment Holdings (Proprietary) Limited and Visa International Service Association</u>	S-1	10.12	May 26, 2005
10.17	<u>Product License Agreement between Net 1 Holdings S.a.r.l. and Net 1 Operations S.a.r.l.</u>	S-4/A	10.8	April 21, 2004
10.18	<u>Non Exclusive UEPS License Agreement between Net 1 Investment Holdings (Proprietary) Limited and SIA Netcards</u>	S-4/A	10.10	April 21, 2004
10.19	<u>Assignment of Copyright and License of Patents and Trade Marks between MetroLink (Proprietary) Limited and Net 1 Products (Proprietary) Limited</u>	S-1	10.18	May 26, 2005
10.20	<u>Agreement between Nedcor Bank Limited and Net 1 Products (Proprietary) Limited</u>	S-1/A	10.16	July 19, 2005
10.21	<u>Patent and Technology Agreement by and among Net 1 Investment Holdings (Proprietary) Limited, Net 1 Applied Technology Holding Limited and Nedcor Bank Limited</u>	S-1	10.19	May 26, 2005
10.22	<u>Patent and Technology Agreement by and among Net 1 Holdings S.a.r.l., Net 1 Applied Technology Holdings Limited and Nedcor Bank Limited</u>	S-1/A	10.19	July 19, 2005
10.23	<u>Agreement by and among Nedbank Limited, Net 1 UEPS Technologies, Inc., and Net 1 Applied Technologies South Africa Limited</u>	S-1/A	10.20	July 19, 2005
10.24	<u>Contract for the Payment of Social Grants dated February 3, 2012 between CPS and SASSA</u>	8-K	99.1	February 6, 2012
10.25	<u>Service Level Agreement dated February 3, 2012 between CPS and SASSA</u>	8-K	99.2	February 6, 2012
10.26	<u>Addendum dated March 31, 2017, to the Contract and related Service Level Agreement for the Payment of Social Grants dated February 3, 2012 between South African Social Security Agency and Cash Paymaster Services (Pty) Ltd.</u>	8-K	10.59	March 31, 2017

10.27	<u>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</u>	10-Q	10.25	May 9, 2013
10.28	<u>Addendum to the Lease Agreement made and entered into by and between Buzz Trading 199 (Pty) Ltd and Net 1 Applied Technologies South Africa (Pty) Ltd dated November 18, 2016</u>	10-Q	10-60	May 4, 2017

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10.29	<u>Proposed Agreement of Lease between Buzz Trading 199 (Pty) Ltd and Net 1 Applied Technologies South Africa Limited dated October 12, 2017</u>	10-Q	10.79	February 8, 2018
10.30	<u>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.</u>	8-K	10.25	December 10, 2013
10.31	<u>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.</u>	8-K	10.26	December 10, 2013
10.33	<u>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 as of December 18, 2013</u>	8-K	10.27	December 19, 2013
10.34	<u>Letter from Nedbank Limited to Net1 Applied Technologies South Africa Proprietary Limited and certain of its subsidiaries, dated December 7, 2016</u>	8-K	10.50	December 9, 2016
10.35	<u>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.</u>	10-Q	10.28	February 6, 2014
10.36	<u>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.</u>	10-Q	10.29	February 6, 2014
10.37	<u>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.</u>	8-K	10.30	March 18, 2014
10.38	<u>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</u>	8-K	10.31	March 18, 2014

<u>and Mazwi Yako.</u>	
10.39 <u>Subscription and Sale of Shares Agreement dated August 27, 2014, between Net 1 UEPS Technologies, Inc., Net 1 Applied Technologies South Africa (Proprietary) Limited, Business Venture Investments No 1567 (Proprietary) Limited (RF), Mosomo Investment Holdings (Proprietary) Limited and Cash Paymaster Services (Proprietary) Ltd</u>	10-Q      10.29      November 6, 2014
10.40 <u>Subscription Agreement, dated April 11, 2016, among the Company and the IFC Investors</u>	8-K      10.31      April 12, 2016

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10.41	<u>Policy Agreement, dated April 11, 2016, among the Company and the IFC Investors</u>	8-K	10.32	April 12, 2016
10.42	<u>Subscription Agreement, dated October 4, 2016, between Net1 Applied Technologies South Africa Proprietary Limited and Blue Label Telecoms Limited</u>	8-K	10.33	October 6, 2016
10.43	<u>Stock Purchase Agreement, dated October 6, 2016, between Net 1 UEPS Technologies, Inc. and N2 Partners Ltd.</u>	8-K	10.34	October 6, 2016
10.44	<u>Stock Purchase Agreement, dated October 6, 2016, between Net 1 UEPS Technologies, Inc. and Draper Gain Investments Ltd.</u>	8-K	10.35	October 6, 2016
10.45	<u>First Addendum to Subscription Agreement, dated October 20, 2016, between Net1 Applied Technologies South Africa (Pty) Ltd and Blue Label Telecoms Limited</u>	8-K	10.36	October 25, 2016
10.46	<u>Common Terms Agreement, dated October 20, 2016, among Net1 Applied Technologies South Africa Proprietary Limited, Net 1 UEPS Technologies, Inc. and FIRSTRAND Bank Limited (acting through its Rand Merchant Bank Division)</u>	8-K	10.37	October 25, 2016
10.47	<u>Senior Facility A Agreement, dated October 20, 2016, between Net1 Applied Technologies South Africa Proprietary Limited and FIRSTRAND Bank Limited (acting through its Rand Merchant Bank Division)</u>	8-K	10.38	October 25, 2016
10.48	<u>Senior Facility B Agreement, dated October 20, 2016, between Net1 Applied Technologies South Africa Proprietary Limited and FIRSTRAND Bank Limited (acting through its Rand Merchant Bank Division)</u>	8-K	10.39	October 25, 2016
10.49	<u>Senior Facility C Agreement, dated October 20, 2016, between Net1 Applied Technologies South Africa Proprietary Limited and FIRSTRAND Bank Limited (acting through its Rand Merchant Bank Division)</u>	8-K	10.40	October 25, 2016
10.50	<u>Subordination Agreement, dated October 20, 2016, among Net1 Applied Technologies South Africa Proprietary Limited, Net1 UEPS Technologies, Inc., the persons listed in Schedule 1 thereto, the persons listed in Schedule 2 thereto, the persons listed in Schedule 3 thereto and FIRSTRAND Bank Limited (acting through its Rand Merchant Bank Division)</u>	8-K	10.41	October 25, 2016
10.51	<u>Security Cession &amp; Pledge, dated October 20, 2016, given by Net1 Applied Technologies South Africa Proprietary Limited in favor of FIRSTRAND Bank Limited (acting through its</u>	8-K	10.42	October 25, 2016

Rand Merchant Bank Division), and each of the other secured creditors set forth therein.

10.52 Amendment No. 1 to Stock Purchase Agreement, dated November 3, 2016, between Net 1 UEPS Technologies, Inc. and N2 Partners Ltd.

8-K 10.43 November 4, 2016

10.53	<u>Amendment No. 1 to Stock Purchase Agreement, dated November 3, 2016, between Net 1 UEPS Technologies, Inc. and Draper Gain Investments Ltd.</u>	8-K	10.44	November 4, 2016
10.54	<u>Amended and Restated Subscription Agreement, dated November 16, 2016, between Net1 Applied Technologies South Africa Proprietary Limited and Blue Label Telecoms Limited</u>	8-K	10.45	November 18, 2016
10.55	<u>Amendment Letter from FIRSTRAND Bank Limited (acting through its Rand Merchant Bank Division) to Net1 Applied Technologies South Africa Proprietary Limited, dated November 15, 2016</u>	8-K	10.46	November 18, 2016
10.56	<u>Bank Guarantee issued by FIRSTRAND Bank Limited (acting through its Rand Merchant Bank Division) in favor of Blue Label Telecoms Limited, dated November 15, 2016</u>	8-K	10.47	November 18, 2016
10.57	<u>Amendment No. 2 to Stock Purchase Agreement, dated November 16, 2016, between Net 1 UEPS Technologies, Inc. and N2 Partners Ltd.</u>	8-K	10.48	November 18, 2016
10.58	<u>Amendment No. 2 to Stock Purchase Agreement, dated November 16, 2016, between Net 1 UEPS Technologies, Inc. and Draper Gain Investments Ltd.</u>	8-K	10.49	November 18, 2016
10.59	<u>First Addendum to Amended and Restated Subscription Agreement, dated February 28, 2017, between Net1 Applied Technologies South Africa Proprietary Limited and Blue Label Telecoms Limited</u>	8-K	10.50	March 2, 2017
10.60	<u>Amendment Letter from FIRSTRAND Bank Limited (acting through its Rand Merchant Bank Division) to Net1 Applied Technologies South Africa Proprietary Limited to Net1 Applied Technologies South Africa Proprietary Limited, dated February 28, 2017</u>	8-K	10.51	March 2, 2017
10.61	<u>Side Letter from FIRSTRAND Bank Limited (acting through its Rand Merchant Bank Division) to Net1 Applied Technologies South Africa Proprietary Limited, dated February 28, 2017</u>	8-K	10.52	March 2, 2017
10.62	<u>Bank Guarantee issued by FIRSTRAND Bank Limited (acting through its Rand Merchant Bank Division) in favor of Blue Label Telecoms Limited, dated February 28, 2017</u>	8-K	10.53	March 2, 2017
10.63	<u>First Amendment and Restatement Agreement, dated March 15, 2017, by and among Net1 Applied Technologies South Africa Proprietary Limited, Net 1 UEPS Technologies, Inc. and</u>	8-K	10.54	March 20, 2017

FIRSTRAND Bank Limited (acting through its  
Rand Merchant Bank Division)

10.64 Amended and Restated Common Terms  
Agreement, dated October 20, 2016, as  
amended and restated on March 15, 2017, by  
and among Net1 Applied Technologies South  
Africa Proprietary Limited, Net 1 UEPS  
Technologies, Inc. and FIRSTRAND Bank  
Limited (acting through its Rand Merchant  
Bank Division)

8-K 10.55 March 20, 2017



10.65	<u>Senior Facility A Agreement dated October 20, 2016, as amended and restated on March 15, 2017, by and between Net1 Applied Technologies South Africa Proprietary Limited and FIRSTRAND Bank Limited (acting through its Rand Merchant Bank Division)</u>	8-K	10.56	March 20, 2017
10.66	<u>Senior Facility B Agreement dated October 20, 2016, as amended and restated on March 15, 2017, by and between Net1 Applied Technologies South Africa Proprietary Limited and FIRSTRAND Bank Limited (acting through its Rand Merchant Bank Division)</u>	8-K	10.57	March 20, 2017
10.67	<u>Senior Facility C Agreement dated October 20, 2016, as amended and restated on March 15, 2017, by and between Net1 Applied Technologies South Africa Proprietary Limited and FIRSTRAND Bank Limited (acting through its Rand Merchant Bank Division)</u>	8-K	10.58	March 20, 2017
10.68	<u>Equity Implementation Agreement, dated as of June 19, 2017, by and among 3C Telecommunications Proprietary Limited, The Prepaid Company Proprietary Limited, Net1 Applied Technologies South Africa Proprietary Limited, the parties identified on Schedule 1.1.52 thereto, Albanta Trading 109 Proprietary Limited, Cedar Cellular Investment 1 (RF) Proprietary Limited, Magnolia Cellular Investment 2 (RF) Proprietary Limited, Yellowwood Cellular Investment 3 (RF) Proprietary Limited, and Cell C Proprietary Limited.</u>	8-K	10.67	June 26, 2017
10.69	<u>Subscription Agreement, dated as of June 19, 2017, by and between Net1 Applied Technologies South Africa Proprietary Limited and Cell C Proprietary Limited.</u>	8-K	10.68	June 26, 2017
10.70	<u>Cell C Shareholders Agreement, dated as of June 19, 2017, by and between Albanta Trading 109 Proprietary Limited, the parties identified on Schedule 1.1.55 thereto, The Prepaid Company Proprietary Limited, Net1 Applied Technologies South Africa Proprietary Limited, Cedar Cellular Investment 1 (RF) Proprietary Limited, Magnolia Cellular Investment 2 (RF) Proprietary Limited, Yellowwood Cellular Investment 3 (RF) Proprietary Limited, and Cell C Proprietary Limited</u>	8-K	10.69	June 26, 2017
10.71	<u>Additional Subscription Agreement dated June 23, 2017, among Net1 Applied Technologies South Africa Proprietary Limited and AJD</u>	10-K	10.66	August 24, 2017

Holdings and Richmark Holdings Proprietary Limited, in relation to and including as a party DNI ? 4PL Contracts Proprietary Limited

10.72 Framework Agreement dated June 23, 2017, among Net1 Applied Technologies South Africa Proprietary Limited, Peter Kennedy Gain, AJD Holdings, Richmark Holdings Proprietary Limited and DNI ? 4PL Contracts Proprietary Limited

10-K 10.67 August 24, 2017

10.73	<u>Shareholders Agreement dated June 23, 2017 among Net1 Applied Technologies South Africa Proprietary Limited, AJD Holdings and Richmark Holdings Proprietary Limited, in relation to and including as a party DNI 4PL Contracts Proprietary Limited</u>	10-K	10.68	August 24, 2017
10.74	<u>Subscription Agreement dated June 23, 2017 among Net1 Applied Technologies South Africa Proprietary Limited, AJD Holdings and Richmark Holdings Proprietary Limited, in relation to and including as a party DNI 4PL Contracts Proprietary Limited</u>	10-K	10.69	August 24, 2017
10.75	<u>Memorandum of Incorporation DNI 4PL Contracts Proprietary Limited</u>	10-K	10.70	August 24, 2017
10.76	<u>Tranche I Subscription Agreement, dated March 8, 2018, among Net1 Applied Technologies South Africa Proprietary Limited and DNI 4PL Contracts Proprietary Limited.</u>	8-K	10.86	March 9, 2018
10.77	<u>Tranche II Subscription Agreement, dated March 8, 2018, among Net1 Applied Technologies South Africa Proprietary Limited and DNI 4PL Contracts Proprietary Limited.</u>	8-K	10.87	March 9, 2018
10.78	<u>Net1 Loan Agreement, dated March 8, 2018, among Net1 Applied Technologies South Africa Proprietary Limited and DNI 4PL Contracts Proprietary Limited.</u>	8-K	10.88	March 9, 2018
10.79	<u>Common Terms Agreement, dated July 21, 2017, among Net1 Applied Technologies South Africa Proprietary Limited, Net 1 UEPS Technologies, Inc., the parties listed in Part I of Schedule 1 thereto, as the original guarantors, FirstRand Bank Limited (acting through its Rand Merchant Bank division), as an arranger, Nedbank Limited (acting through its Corporate and Investment Banking division), as an arranger, the parties listed in Part II of Schedule 1 thereto, as the original lenders, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent.</u>	8-K	10.70	July 26, 2017
10.80	<u>Senior Facility A Agreement, dated July 21, 2017, among Net1 Applied Technologies South Africa Proprietary Limited, FirstRand Bank Limited (acting through its Rand Merchant Bank division) and Nedbank Limited (acting through its Corporate and Investment Banking division), as lenders, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent.</u>	8-K	10.71	July 26, 2017
10.81		8-K	10.72	July 26, 2017

Senior Facility B Agreement, dated July 21, 2017, among Net1 Applied Technologies South Africa Proprietary Limited, FirstRand Bank Limited (acting through its Rand Merchant Bank division) and Nedbank Limited (acting through its Corporate and Investment Banking division), as lenders, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent.

73

10.82 <u>Senior Facility C Agreement, dated July 21, 2017, among Net1 Applied Technologies South Africa Proprietary Limited, FirstRand Bank Limited (acting through its Rand Merchant Bank division) and Nedbank Limited (acting through its Corporate and Investment Banking division), as lenders, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent.</u>	8-K	10.73	July 26, 2017
10.83 <u>Subordination Agreement, dated July 21, 2017, among Net1 Applied Technologies South Africa Proprietary Limited, Net 1 UEPS Technologies, Inc., the parties listed in Schedule 1 thereto, as subordinated creditors, the parties listed in Schedule 2 thereto, as intergroup debtors, the parties listed in Schedule 3 thereto, as senior creditors, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent.</u>	8-K	10.74	July 26, 2017
10.84 <u>Security Cession &amp; Pledge, dated July 21, 2017, by Net1 Applied Technologies South Africa Proprietary Limited in favor of FirstRand Bank Limited (acting through its Rand Merchant Bank division), as a secured creditor, Nedbank Limited (acting through its Corporate and Investment Banking division), as a secured creditor, and each of the other Secured Creditors (as defined therein).</u>	8-K	10.75	July 26, 2017
10.85 <u>Letter, dated July 26, 2017, to Net1 Applied Technologies South Africa Proprietary Limited from FirstRand Bank Limited (acting through its Rand Merchant Bank division), in its capacity as arranger, original senior lender and facility agent, and Nedbank Limited (acting through its Corporate and Investment Banking division), in its capacity as arranger and original senior lender.</u>	8-K	10.76	July 29, 2017
10.86 <u>Master Implementation and Funds Flow Agreement, dated July 25, 2017, among Net1 Applied Technologies South Africa Proprietary Limited and the other parties listed in Schedule 1 thereto.</u>	8-K	10.77	July 31, 2017
10.87 <u>First Amendment and Restatement Agreement, dated March 9, 2018, among Net1 Applied Technologies South Africa Proprietary Limited, Net 1 UEPS Technologies, Inc., the parties listed in Part I of Schedule 1 thereto, as the original guarantors, FirstRand Bank Limited (acting through its Rand Merchant Bank division), as an arranger, Nedbank</u>	8-K	10.84	March 9, 2018

Limited (acting through its Corporate and Investment Banking division), as an arranger, the parties listed in Part II of Schedule 1 thereto, as the original lenders, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent.

10.88 <u>Senior Facility D Agreement, dated March 9, 2018, among Net1 Applied Technologies South Africa Proprietary Limited, FirstRand Bank Limited (acting through its Rand Merchant Bank division), as original lender, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent.</u>	8-K	10.85	March 9, 2018
10.89 <u>Revolving Credit Facility Agreement, dated June 28, 2018, among DNI-4PL Contracts Proprietary Limited, as borrower, FirstRand Bank Limited (acting through its Rand Merchant Bank division), as lender and agent, and K2018318388 (South Africa) (RF) Proprietary Limited, as debt guarantor.</u>	8-K	10.89	July 5, 2018
10.90 <u>Subordination Agreement, dated June 28, 2018, among the parties listed in Annexure A, FirstRand Bank Limited (acting through its Rand Merchant Bank division), as lender and agent, and K2018318388 (South Africa) (RF) Proprietary Limited, as debt guarantor.</u>	8-K	10.90	July 5, 2018
10.91 <u>Shareholder Guarantee, Cession and Pledge Agreement, dated June 28, 2018, among AJD Holdings Proprietary Limited, Richmark Holdings Proprietary Limited, DNI-4PL Contracts Proprietary Limited, as borrower, K2018318388 (South Africa) (RF) Proprietary Limited, as debt guarantor, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent.</u>	8-K	10.91	July 5, 2018
10.92 <u>Guarantee, Cession and Pledge Agreement, dated June 28, 2018, among the parties listed in Annexure A, as original cedents, K2018318388 (South Africa) (RF) Proprietary Limited, as debt guarantor, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent.</u>	8-K	10.92	July 5, 2018
10.93 <u>Debt Guarantor Management Agreement, dated June 28, 2018, among K2018318388 (South Africa) (RF) Proprietary Limited, as debt guarantor, FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent, DNI-4PL Contracts Proprietary Limited, as borrower, and TME Corporate Services (South Africa) Proprietary Limited, as administrator.</u>	8-K	10.93	July 5, 2018
10.94 <u>Counter-indemnity Agreement, dated June 28, 2018, between DNI-4PL Contracts Proprietary Limited, as borrower, and K2018318388 (South Africa) (RF) Proprietary Limited, as debt guarantor.</u>	8-K	10.94	July 5, 2018

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12	<u>Statement of Ratio of Earnings to Fixed Charges</u>	X			
14	<u>Amended and Restated Code of Ethics</u>		10-K	14	August 28, 2014
21	<u>Subsidiaries of Registrant</u>	X			
23	<u>Consent of Independent Registered Public Accounting Firm</u>	X			
31.1	<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>	X			
					75



31.2	<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>	X
32	<u>Certification pursuant to 18 USC Section 1350</u>	X
101.INS	<u>XBRL Instance Document</u>	X
101.SCH	<u>XBRL Taxonomy Extension Schema</u>	X
101.CAL	<u>XBRL Taxonomy Extension Calculation Linkbase</u>	X
101.DEF	<u>XBRL Taxonomy Extension Definition Linkbase</u>	X
101.LAB	<u>XBRL Taxonomy Extension Label Linkbase</u>	X
101.PRE	<u>XBRL Taxonomy Extension Presentation Linkbase</u>	X

\* 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, as amended, 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/ Herman G. Kotzé

Herman G. Kotzé  
Chief Executive Officer and Director

Date: September 12, 2018

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

<u>NAME</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ Christopher S. Seabrooke</u> Christopher S. Seabrooke	Chairman of the Board and Director	September 12, 2018
<u>/s/ Herman G. Kotzé</u> Herman G. Kotzé	Chief Executive Officer and Director (Principal Executive Officer)	September 12, 2018
<u>/s/ Alex M.R. Smith</u> Alex M.R. Smith	Chief Financial Officer, Treasurer, Secretary and Director (Principal Financial and Accounting Officer)	September 12, 2018
<u>/s/ Paul Edwards</u> Paul Edwards	Director	September 12, 2018
<u>/s/ Alfred T. Mockett</u> Alfred T. Mockett	Director	September 12, 2018
<u>/s/ Alasdair J. K. Pein</u> Alasdair J. K. Pein	Director	September 12, 2018

**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, 2018 and 2017</u>	<u>F-3</u>
<u>Consolidated statements of operations for the years ended June 30, 2018, 2017 and 2016</u>	<u>F-4</u>
<u>Consolidated statements of comprehensive income for the years ended June 30, 2018, 2017 and 2016</u>	<u>F-5</u>
<u>Consolidated statements of changes in equity for the years ended June 30, 2018, 2017 and 2016</u>	<u>F-6</u>
<u>Consolidated statements of cash flows for the years ended June 30, 2018, 2017 and 2016</u>	<u>F-9</u>
<u>Notes to the consolidated financial statements</u>	<u>F-10</u>

F-1

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of Net 1 UEPS Technologies, Inc. and subsidiaries (the "Company") as of June 30, 2018 and 2017, 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, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2018, 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) (PCAOB), the Company's internal control over financial reporting as of June 30, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 12, 2018, expressed an adverse opinion on the Company's internal control over financial reporting because of a material weakness.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**/s/ Deloitte & Touche  
Registered Auditors  
Johannesburg, South Africa**

**September 12, 2018**

We have served as the Company's auditor since 2004.

National Executive: \*LL Bam Chief Executive Officer \*TMM Jordan Deputy Chief Executive Officer; Clients and Industries \*MJ Jarvis Chief Operating Officer \*AF Mackie Audit & Assurance \*N Sing Risk Advisory DP Ndlovu Tax & Legal TP Pillay Consulting \*JK Mazzocco Talent & Transformation MG Dicks Risk Independence & Legal \*KL Hodson Corporate Finance \*TJ Brown Chairman of the Board

A full list of partners and directors is available on request \*Partner and Registered Auditor



**NET 1 UEPS TECHNOLOGIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
as of June 30, 2018 and 2017

	2018	2017 (Restated <sup>A</sup> )
	(In thousands, except share data)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 90,054	\$ 258,457
Pre-funded social welfare grants receivable (Note 4)	2,965	2,322
Accounts receivable, net (Note 5)	109,683	111,429
Finance loans receivable, net (Note 5)	62,205	80,177
Inventory (Note 6)	12,887	8,020
Deferred income taxes (Note 2 and Note 19)	-	5,330
Total current assets before settlement assets	277,794	465,735
Settlement assets (Note 2)	149,047	640,455
Total current assets	426,841	1,106,190
PROPERTY, PLANT AND EQUIPMENT, net (Note 8)	27,054	39,411
EQUITY-ACCOUNTED INVESTMENTS (Note 9)	88,331	27,862
GOODWILL (Note 10)	283,240	188,833
INTANGIBLE ASSETS, net (Note 10)	131,132	38,764
DEFERRED INCOME TAXES (Note 2 and Note 19)	6,312	-
OTHER LONG-TERM ASSETS (Note 9 and Note 11)	256,380	49,696
<b>TOTAL ASSETS</b>	<b>1,219,290</b>	<b>1,450,756</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Short-term facilities (Note 12)	-	16,579
Accounts payable	35,055	15,136
Other payables (Note 13)	47,994	34,799
Current portion of long-term borrowings (Note 14)	44,695	8,738
Income taxes payable	5,742	5,607
Total current liabilities before settlement obligations	133,486	80,859
Settlement obligations (Note 2)	149,047	640,455
Total current liabilities	282,533	721,314
DEFERRED INCOME TAXES (Note 2 and Note 19)	46,606	11,139
LONG-TERM BORROWINGS (Note 14)	5,469	7,501
OTHER LONG-TERM LIABILITIES (Note 3 and Note 11)	38,580	2,795
<b>TOTAL LIABILITIES</b>	<b>373,188</b>	<b>742,749</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 24)</b>		
REDEEMABLE COMMON STOCK (Note 1 and Note 15)	107,672	107,672
<b>EQUITY</b>		
<b>COMMON STOCK (Note 15)</b>		
Authorized: 200,000,000 with \$0.001 par value;		
Issued and outstanding shares, net of treasury - 2018: 56,685,925;		
2017: 56,369,737	80	80
<b>PREFERRED STOCK</b>		
Authorized shares: 50,000,000 with \$0.001 par value;		
Issued and outstanding shares, net of treasury: 2018: -; 2017: -	-	-
ADDITIONAL PAID-IN CAPITAL	276,201	273,733
	(286,951)	(286,951)

TREASURY SHARES, AT COST: 2018: 24,891,292; 2017:			
24,891,292 (Note 15)			
ACCUMULATED OTHER COMPREHENSIVE LOSS (Note 16)	(159,237)		(162,569)
RETAINED EARNINGS	812,426		773,276
TOTAL NET1 EQUITY	642,519		597,569
NON-CONTROLLING INTEREST	95,911		2,766
<b>TOTAL EQUITY (Note 1)</b>	<b>738,430</b>		<b>600,335</b>
<b>TOTAL LIABILITIES, REDEEMABLE COMMON</b>			
<b>STOCK AND</b>			
<b>SHAREHOLDERS EQUITY</b>	<b>\$ 1,219,290</b>	<b>\$</b>	<b>1,450,756</b>

(A) Refer to Note 1.

See accompanying notes to consolidated financial statements.

**NET 1 UEPS TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**for the years ended June 30, 2018, 2017 and 2016**

	2018	2017	2016
	(In thousands, except per share data)		
REVENUE (Note 17)	\$ 612,889	\$ 610,066	\$ 590,749
Services rendered	538,429	533,279	514,847
Loan-based fees received	54,949	53,894	47,117
Sale of goods	19,511	22,893	28,785
EXPENSE			
Cost of goods sold, IT processing, servicing and support	304,536	292,383	290,101
Selling, general and administration	193,003	179,262	145,886
Depreciation and amortization	35,484	41,378	40,394
Impairment Loss (Note 10)	20,917	-	-
OPERATING INCOME	58,949	97,043	114,368
INTEREST INCOME	17,885	20,897	15,292
INTEREST EXPENSE	8,941	3,484	3,423
INCOME BEFORE INCOME TAXES	67,893	114,456	126,237
INCOME TAX EXPENSE (Note 19)	41,353	42,472	42,080
NET INCOME BEFORE EARNINGS FROM EQUITY- ACCOUNTED INVESTMENTS	26,540	71,984	84,157
EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	11,730	2,664	639
NET INCOME	38,270	74,648	84,796
LESS: NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST	(880)	1,694	2,342
NET INCOME ATTRIBUTABLE TO NET1	\$ 39,150	\$ 72,954	\$ 82,454
<b>Net income per share, in United States dollars:</b> (Note 20)			
Basic earnings attributable to Net1 shareholders	0.69	1.34	1.72
Diluted earnings attributable to Net1 shareholders	0.69	1.33	1.71

See accompanying notes to consolidated financial statements.



**NET 1 UEPS TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**for the years ended June 30, 2018, 2017 and 2016**

	2018	2017	2016
		(In thousands)	
NET INCOME	\$ 38,270	\$ 74,648	\$ 84,796
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>			
Net unrealized income on asset available for sale, net of tax (Note 16)	25,199	-	692
Movement in foreign currency translation reserve	(19,539)	30,466	(49,941)
Movement in foreign currency translation reserve related to equity-accounted investments	(2,426)	(2,697)	-
Release of gain on asset available for sale, net of taxes (Note 16)	-	-	(1,732)
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>3,234</b>	<b>27,769</b>	<b>(50,981)</b>
<b>COMPREHENSIVE INCOME</b>	<b>41,504</b>	<b>102,417</b>	<b>33,815</b>
Add (Less) comprehensive income attributable to non- controlling interest	978	(2,332)	(1,880)
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO NET1</b>	<b>\$ 42,482</b>	<b>\$ 100,085</b>	<b>\$ 31,935</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, 2016 (dollar amounts in thousands)

	Net 1 UEPS Technologies, Inc. Shareholders							Accumulated other comprehensive (loss) income
	Number of Shares	Amount	Number of Treasury Shares	Treasury Shares	Number of shares, net of treasury	Additional Paid-In Capital	Retained Earnings	
Balance - July 1, 2015	64,736,793	\$ 64	(18,057,228)	\$ (214,520)	46,679,565	\$ 213,896	\$ 617,868	\$ (139,180)
Issue of common stock that is redeemable for cash or other assets (Note 15)	9,984,311	10			9,984,311			
Repurchase of common stock (Note 15)			(2,426,704)	(27,107)	(2,426,704)			
Restricted stock granted (Note 18)	319,492				319,492			
Exercise of stock option (Note 18)	323,645				323,645	3,762		
Stock-based compensation charge (Note 18)						3,598		
Income tax benefit from vested stock awards						67		
Acquisition of non-controlling interest (Note 3 and Note 15)						(1,308)		
Transact24 acquisition (Note 3)	391,645				391,645	3,963		
Net income							82,454	
Other comprehensive loss (Note 16)								(50,510)
Balance - June 30, 2016	75,755,886	\$ 74	(20,483,932)	\$ (241,627)	55,271,954	\$ 223,978	\$ 700,322	\$ (189,700)

F-6

## NET 1 UEPS TECHNOLOGIES, INC.

## Consolidated Statement of Changes in Equity for the year ended June 30, 2017 (dollar amounts in thousands)

		Net 1 UEPS Technologies, Inc. Shareholders							Accumulated
		Number of Shares	Amount	Number of Treasury Shares	Treasury Shares	Number of shares, net of treasury	Additional Paid-In Capital	Retained Earnings	other comprehensive (loss) income
Balance	July 1, 2016	75,755,886	\$ 74	(20,483,932)	\$ (241,627)	55,271,954	\$ 223,978	\$ 700,322	\$ (1)
	Sale of common stock (Note 15)	5,000,000	5			5,000,000	44,995		
	Repurchase of common stock (Note 15)			(4,407,360)	(45,324)	(4,407,360)			
	Restricted stock granted (Note 18)	389,587				389,587			
	Exercise of stock option (Note 18)	321,026	1			321,026	2,878		
	Stock-based compensation charge (Note 18)						3,905		
	Reversal of stock compensation charge (Note 18)	(205,470)				(205,470)	(1,923)		
	Utilization of APIC pool related to vested restricted stock						(189)		
	Dividends paid to non-controlling interest								
	Stock based-compensation charge related to equity-accounted investment (Note 9)						89		
	Net income							72,954	
	Other comprehensive income (Note 16)								
Balance	June 30, 2017	81,261,029	\$ 80	(24,891,292)	\$ (286,951)	56,369,737	\$ 273,733	\$ 773,276	\$ (1)

F-7

## NET 1 UEPS TECHNOLOGIES, INC.

## Consolidated Statement of Changes in Equity for the year ended June 30, 2018 (dollar amounts in thousands)

	Net 1 UEPS Technologies, Inc. Shareholders							Accumulated other comprehensive (loss) income
	Number of Shares	Amount	Number of Treasury Shares	Treasury Shares	Number of shares, net of treasury	Additional Paid-In Capital	Retained Earnings	
Balance - July 1, 2017	81,261,029	\$ 80	(24,891,292)	\$ (286,951)	56,369,737	\$ 273,733	\$ 773,276	\$ (162,217)
Restricted stock granted (Note 18)	618,411				618,411			
Stock-based compensation charge (Note 18)						2,656		
Reversal of stock compensation charge (Note 18)	(302,223)				(302,223)	(49)		
Reversal of stock based- compensation charge related to equity-accounted investment (Note 9)						(139)		
Acquisition of DNI (Note 3)								
Net income							39,150	
Other comprehensive income (Note 16)								3,217
Balance - June 30, 2018	81,577,217	\$ 80	(24,891,292)	\$ (286,951)	56,685,925	\$ 276,201	\$ 812,426	\$ (159,000)

See accompanying notes to consolidated financial statements.

**NET 1 UEPS TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**for the years ended June 30, 2018, 2017 and 2016**

	2018	2017	2016
	(In thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 38,270	\$ 74,648	\$ 84,796
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	35,484	41,378	40,394
Earnings from equity-accounted investments (Note 9)	(11,730)	(2,664)	(639)
Interest on Cedar Cellular note (Note 9)	(769)	-	-
Fair value adjustment	(212)	(300)	519
Interest payable	(146)	20	1,829
Facility fee amortized	589	1,326	138
Gain on release from accumulated other comprehensive income (Note 7)	-	-	(2,176)
Loss (Gain) on fair value of DNI and Transact24 (Note 3)	4,614	-	(1,909)
Loss (Profit) on disposal of property, plant and equipment	40	(639)	(286)
Profit on disposal of business	(463)	-	-
Stock compensation charge, net of forfeitures (Note 18)	2,607	1,982	3,598
Dividends received from equity accounted investments	4,111	1,187	-
Impairment loss (Note 10)	20,917	-	-
Decrease (Increase) in accounts and finance loans receivable, and pre-funded grants receivable	31,390	(15,767)	(3,401)
(Increase) Decrease in inventory	(2,521)	3,025	1,001
Increase (Decrease) in accounts payable and other payables	10,595	(6,461)	(7,840)
Increase (Decrease) in taxes payable	1,137	(354)	763
Decrease in deferred taxes	(1,308)	(220)	(235)
<b>Net cash provided by operating activities</b>	<b>132,605</b>	<b>97,161</b>	<b>116,552</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures	(9,649)	(11,195)	(35,797)
Proceeds from disposal of property, plant and equipment	658	1,592	1,349
Investment in Cell C (Note 9)	(151,003)	-	-
Investment in equity of equity-accounted investments (Note 9)	(133,335)	-	-
Loans to equity-accounted investments (Note 9)	(10,635)	(12,044)	-
Repayment of loans by equity-accounted investments (Note 9)	9,180	-	-
Acquisition of held to maturity investment (Note 9)	(9,000)	-	-
Acquisitions, net of cash acquired (Note 3)	(6,202)	(4,651)	(15,767)
Investment in MobiKwik (Note 9)	-	(25,835)	-

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Acquisition of available for sale securities	-	-	(8,900)
Other investing activities, net	(361)	-	(5)
Net change in settlement assets (Note 2)	490,795	(61,938)	53,364
<b>Net cash provided by (used in) investing activities</b>	<b>180,448</b>	<b>(114,071)</b>	<b>(5,756)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Long-term borrowings utilized (Note 14)	113,157	800	2,107
Repayment of long-term borrowings (Note 14)	(77,062)	(37,318)	(8,716)
Repayment of bank overdraft (Note 12)	(62,925)	-	-
Proceeds from bank overdraft (Note 12)	44,900	16,176	-
Payment of guarantee fee (Note 14)	(754)	(1,145)	-
Proceeds from issue of common stock (Note 15 and Note 18)	-	47,879	111,444
Acquisition of treasury stock (Note 15)	-	(45,794)	(26,637)
Dividends paid to non-controlling interest	-	(2,067)	-
Acquisition of interests in non-controlling interests (Note 15)	-	-	(11,189)
Net change in settlement obligations (Note 2)	(490,795)	61,938	(53,364)
<b>Net cash (used in) provided by financing activities</b>	<b>(473,479)</b>	<b>40,469</b>	<b>13,645</b>
Effect of exchange rate changes on cash	(7,977)	11,254	(18,380)
<b>Net (decrease) increase in cash, cash equivalents and restricted cash</b>	<b>(168,403)</b>	<b>34,813</b>	<b>106,061</b>
<b>Cash, cash equivalents and restricted cash beginning of year</b>	<b>258,457</b>	<b>223,644</b>	<b>117,583</b>
<b>Cash, cash equivalents and restricted cash end of year</b>	<b>\$ 90,054</b>	<b>\$ 258,457</b>	<b>\$ 223,644</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, 2018, 2017 and 2016**

**(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 under-banked 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 and financial solutions. The Company's technology is widely used in South Africa today, where it distributes 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. The Company recently acquired DNI-4PL Proprietary Limited ( DNI ), the leading distributor of mobile subscriber starter packs for Cell C (Pty) Ltd ( Cell C ) in South Africa. Through KSNET, the Company offers card processing, payment gateway ( PG ) and banking value-added network services ( VAN ) in South Korea. The Company has card issuing and acquiring capabilities through Transact24 in Hong Kong and provides value added payment services to online retailers across Europe through Masterpayment in Germany. The Company leverages its strategic equity investments in Finbond Group Limited ( Finbond ) and Bank Frick & Co. AG ( Bank Frick ) (both regulated banks), and Cell C to introduce products to new customers and geographies.

### **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 ).

### **Reclassification of redeemable common stock outside of permanent equity**

During the three months ended December 31, 2017, the Company reclassified redeemable common stock out of total equity because redeemable common stock is required to be presented outside of permanent equity. The Company has restated these amounts in its consolidated balance sheet as at June 30, 2017, and each of the consolidated statement of changes in equity for the years ended June 30, 2018, 2017 and 2016. The reclassification resulted in a decrease in total equity by approximately \$107.7 million and an increase in redeemable common stock, presented outside of permanent equity, of approximately \$107.7 million. This reclassification had no impact on the Company's previously reported consolidated income, comprehensive income or cash flows.

## **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 as a result of these requirements during the years ended June 30, 2018, 2017 and 2016.

F-10

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**NET 1 UEPS TECHNOLOGIES, INC.**

**Notes to the consolidated financial statements**

**for the years ended June 30, 2018, 2017 and 2016**

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

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

**Business combinations**

The Company accounts for its business acquisitions under the acquisition method of accounting. The total value of the consideration paid for acquisitions is allocated to the underlying net assets acquired, based on their respective estimated fair values. The Company uses a number of valuation methods to determine the fair value of assets and liabilities acquired, including discounted cash flows, external market values, valuations on recent transactions or a combination thereof, and believes that it uses the most appropriate measure or a combination of measures to value each asset or liability. The Company recognizes measurement-period adjustments in the reporting period in which the adjustment amounts are determined.

**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 U.S. 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.

**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 microlending finance loans receivable and related service fees if a borrower is in arrears with repayments for more than three months or dies. The Company writes off working capital finance receivables and related fees when it is evident that reasonable recovery procedures, including where deemed necessary, formal legal action, have failed.

*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 net realizable value. Cost is determined on a first-in, first-out basis and includes transport and handling costs.

F-11

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements****for the years ended June 30, 2018, 2017 and 2016****(All amounts stated in thousands of United States Dollars, unless otherwise stated)****2. SIGNIFICANT ACCOUNTING POLICIES (continued)****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 8 years
Office equipment	2 to 10 years
Vehicles	3 to 8 years
Furniture and fittings	3 to 10 years
Buildings and structures	8 to 30 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.

**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 company. Under the equity method, the Company initially records the investment at cost and thereafter adjusts the carrying value of the investment to recognize the proportional share of the equity-accounted company's net income or loss. In addition, when an investment qualifies for the equity method (as a result of an increase in the level of ownership interest or degree of influence), the cost of acquiring the additional interest in the investee is added to the current basis of the Company's previously held interest and the equity method would be applied subsequently from the date on which the Company obtains the ability to exercise significant influence over the investee.

Any unrealized holding gains or losses in accumulated other comprehensive income related to an available for sale security that is subsequently required to be accounted for utilizing the equity method are recognized in earnings as of the date on which the investment qualifies for the equity method. 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. The Company reviews its equity-accounted investments for impairment whenever events or circumstances indicate that the carrying amount of the investment may not be recoverable.

**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.

F-12

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**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements****for the years ended June 30, 2018, 2017 and 2016****(All amounts stated in thousands of United States Dollars, unless otherwise stated)****2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Goodwill (continued)**

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

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.

**Debt and equity securities**

The Company is required to classify all applicable debt and equity securities as either trading securities, available-for-sale or held to maturity upon investment in the security. All other equity securities do not have readily determinable fair values and therefore are carried using the cost method of accounting.

***Trading***

Debt and equity securities acquired by the Company which it intends to sell in the short-term are classified as trading securities and are initially measured at fair value. These securities are subsequently measured at fair value and realized and unrealized gains and losses from these trading securities are included in the Company's consolidated statement of operations. Classification of a security as a trading security is not precluded simply because the Company does not intend to sell the security in the short term. The Company had no trading securities as of June 30, 2018 and 2017, respectively.

***Available for sale***

Debt and equity securities acquired by the Company that have readily determinable fair values are classified as available for sale if the Company has not classified them as trading securities or if it does not have the ability or positive intent to hold the security until maturity. The Company is required to make an election to account for these securities as available for sale. These available for sale securities are initially measured at fair value. These securities are subsequently measured at fair value with unrealized gains and losses from available for sale investments in debt and equity securities reported as a separate component of accumulated other comprehensive income, net of deferred

income taxes, in shareholders' equity. The Company had an available for sale security as of June 30, 2018, refer to Note 9, and had no available for sale securities as of June 30, 2017.

***Held to maturity***

Debt securities acquired by the Company which it has the ability and the positive intent to hold to maturity are classified as held to maturity securities. The Company is required to make an election to classify these securities as held to maturity and these securities are carried at amortized cost. The amortized cost of held to maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity. Interest received from the held to maturity security together with this amortization is included in interest income in the Company's consolidated statement of operations. The Company had a held to maturity security as of June 30, 2018, refer to Note 9, and had no held to maturity securities as of June 30, 2017.

**NET 1 UEPS TECHNOLOGIES, INC.**

**Notes to the consolidated financial statements**

**for the years ended June 30, 2018, 2017 and 2016**

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

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

**Debt and equity securities (continued)**

*Impairment*

The Company's available for sale and held to maturity securities with unrealized losses are reviewed quarterly to identify other-than-temporary impairments in value.

In evaluating whether a decline in value of an equity security is other-than-temporary, the Company considers several factors including, but not limited to the following: (i) the extent and the duration of the decline; (ii) the reasons for the decline in value (i.e. credit event, currency or interest-rate related); and (iii) the financial condition of and near term-prospects of the issuer of the security. When it is determined that a decline in value of an equity securities is other-than-temporary, the carrying value of the security is reduced to its fair value, with a corresponding charge to earnings.

With regard to available for sale and held to maturity debt securities, the Company considers (i) the ability and intent to hold the debt security for a period of time to allow for recovery of value (ii) whether it is more likely than not that the Company will be required to sell the debt security; and (iii) whether it expects to recover the entire amortized cost basis of the debt security. The Company records an impairment loss in its consolidated statement of operations representing the difference between the debt securities carrying value and the current fair value as of the date of the impairment if the Company determines that it intends to sell the debt security or if that it is more likely than not that it will be required to sell the debt security before recovery of the amortized cost basis. However, an impairment loss is considered to have occurred if the Company determines that it does not intend to sell the debt security or that it is more likely than not that it will not be required to sell the debt security before the recovery of the amortized cost basis. In this instance, the impairment loss is split between a credit loss and a non-credit loss. The credit loss portion, which is measured as the difference between the debt security's cost basis and the present value of expected future cash flows, is recognized in the Company's consolidated statement of operations. The non-credit loss portion, which is measured as the difference between the debt security's cost basis and its current fair value, is recognized in other comprehensive income, net of applicable taxes.

**Policy reserves and liabilities**

*Reserves for policy benefits and claims payable*

The Company determines its reserves for policy benefits under its life insurance products using a model which estimates claims incurred that have not been reported and total present value of disability claims-in-payment at the balance sheet date. This model allows for best estimate assumptions based on experience (where sufficient) plus prescribed margins, as required in the markets in which these products are offered, namely South Africa. The best estimate assumptions include (i) mortality and morbidity assumptions reflecting the company's most recent experience and (ii) claim reporting delays reflecting Company specific and industry experience. Most of the disability claims-in-payment reserve is reinsured and the reported values were based on the reserve held by the relevant reinsurer. The values of matured guaranteed endowments are increased by late payment interest (net of the asset management fee and allowance for tax on investment income).

*Deposits on investment contracts*

For the Company's interest-sensitive life contracts, liabilities approximate the policyholder's account value.

**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 expected claims and benefits arising 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.



**NET 1 UEPS TECHNOLOGIES, INC.**

**Notes to the consolidated financial statements**

**for the years ended June 30, 2018, 2017 and 2016**

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

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

**Reinsurance contracts held (continued)**

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 consolidated statement of operations.

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

**Redeemable common stock**

Common stock that is redeemable (1) at a fixed or determinable price on a fixed or determinable date, (2) at the option of the holder, or (3) upon the occurrence of an event that is not solely within the control of Company is presented outside of total Net1 equity (i.e. permanent equity). Redeemable common stock is initially recognized at issuance date fair value and the Company does not adjust the issuance date fair value if redemption is not probable. The Company re-measures the redeemable common stock to the maximum redemption amount at the balance sheet date once redemption is probable. Reduction in the carrying amount of the redeemable common stock is only appropriate to the extent that the Company has previously recorded increases in the carrying amount of the redeemable equity instrument as the redeemable common stock may be not be carried at an amount that is less the initial amount reported outside of permanent equity.

Redeemable common stock is reclassified as permanent equity when presentation outside permanent equity is no longer required (if, for example, a redemption feature lapses, or there is a modification of the terms of the instrument). The existing carrying amount of the redeemable common stock is reclassified to permanent equity at the date of the event that caused the reclassification and prior period consolidated financial statements are not adjusted.

**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***

*Welfare benefit distribution and South African participating merchants*

The Company provides a welfare benefit distribution service in South Africa. Fee income received for these services is recognized in the statement of operations when distributions have been made to the recipient cardholders. With respect to services provided from April 1, 2018, the Company has recorded fee income from these services utilizing the price specified in the original contractual arrangement between the Company and SASSA. The Company has the right to request an increase, from the South African National Treasury, in the price charged under an order of the Constitutional Court of South Africa. The Company has made the appropriate submission to National Treasury and it has provided its recommendation, but this has not yet been ratified by the Constitutional Court.

F-15

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**NET 1 UEPS TECHNOLOGIES, INC.**

**Notes to the consolidated financial statements**

**for the years ended June 30, 2018, 2017 and 2016**

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

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

**Revenue recognition (continued)**

*Fees (continued)*

*Welfare benefit distribution and South African participating merchants (continued)*

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.

*Fees related to management of card issuance programs and utilization of ATMs*

The Company manages card issuance programs and owns ATMs in South Africa from which it generates fee revenue. Fee revenue generated from the provision of a bank account to customers is recognized monthly as charged. Fee revenue generated from card issuance programs includes interchange and other miscellaneous fees, which are recorded when cardholders transact at either a POS or an ATM. Fee revenue generated from the utilization of ATMs includes cash withdrawal, balance enquiry, insufficient funds and other miscellaneous ATM fees which are recorded when an ATM user performs a transaction at an ATM.

*Card VAN, banking VAN and payment gateway*

Card VAN services consist of services relating to the 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. The 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 value and 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 the terms of the contracts.

The Company charges commission fees to credit card companies for the authorization service provided based on the number of approvals transferred or on the value of transactions processed, as appropriate. 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. 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 ).

**NET 1 UEPS TECHNOLOGIES, INC.**

**Notes to the consolidated financial statements**

**for the years ended June 30, 2018, 2017 and 2016**

**(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)*

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.

Banking VAN is a division supporting a company's fund management process (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 under the contractual terms 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. The Company provides medical-related claims adjudication, reconciliation and settlement services ( medical-related claim service ) to customers, for which it charges fees. The Company provides a payment processing service to merchants for which it charges a transaction fee. All of 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.



**NET 1 UEPS TECHNOLOGIES, INC.**

**Notes to the consolidated financial statements**

**for the years ended June 30, 2018, 2017 and 2016**

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

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

**Revenue recognition (continued)**

*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.

*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.

*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 expenditure is charged to net income in the period in which it is incurred. During the years ended June 30, 2018, 2017 and 2016, the Company incurred research and development expenditures of \$1.8 million, \$2.0 million and \$2.3 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.



**NET 1 UEPS TECHNOLOGIES, INC.**

**Notes to the consolidated financial statements**

**for the years ended June 30, 2018, 2017 and 2016**

**(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, 2018, 2017 and 2016, using the enacted statutory tax rate in South Africa of 28%.

As of June 30, 2018, the Company intends to permanently reinvest its non-U.S. undistributed earnings of \$521.4 million in those non-U.S. 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.

***Impact of Tax Cuts and Jobs Act***

On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJA"), was enacted into law, significantly modifying U.S. federal tax laws. The United States Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 18 ( "SAB 118"), which provides guidance on accounting for the tax effects of the TCJA. SAB 118 provides a measurement period that should not extend beyond one year from the TCJA enactment date for companies to complete the accounting under GAAP tax guidance. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the TCJA for which the accounting under the GAAP tax guidance is complete. To the extent that a company's accounting for certain income tax effects of the TCJA is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply the GAAP tax guidance on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. Refer to Note 19 for additional information regarding the impact of the TCJA on the Company.

**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.

F-19

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**NET 1 UEPS TECHNOLOGIES, INC.**

**Notes to the consolidated financial statements**

**for the years ended June 30, 2018, 2017 and 2016**

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

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

**Stock-based compensation (continued)**

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 taxation expense in the statement of operations.

**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 and (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.

Settlement obligations comprise (1) amounts that the Company is obligated to disburse to recipient cardholders of social welfare grants, and (2) amounts that the Company is obligated to pay to customer employees, payroll-related payees and other payees designated by the customer.

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**

In August 2014, the Financial Accounting Standards Board ( FASB ) issued guidance regarding *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This guidance requires an entity to perform interim and annual assessments of its ability to continue as a going concern within one year of the date that its financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The guidance is effective for the Company beginning July 1, 2017. The adoption of this guidance did not have a material impact on the Company's financial statements disclosures.

In July 2015, the FASB issued guidance regarding *Simplifying the Measurement of Inventory*. This guidance requires entities to measure most inventory at the lower of cost and net realizable value, thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market (market in this context is defined as one of three different measures). The guidance will not apply to inventories that are measured by using either the last-in, first-out ( LIFO ) method or the retail inventory method ( RIM ). The guidance is effective for the Company beginning July 1, 2017. The adoption of this guidance did not have a material impact on the Company's financial statements.

**NET 1 UEPS TECHNOLOGIES, INC.**

**Notes to the consolidated financial statements**

**for the years ended June 30, 2018, 2017 and 2016**

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

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

**Recent accounting pronouncements adopted (continued)**

In November 2015, the FASB issued guidance regarding *Balance Sheet Classification of Deferred Taxes*. This guidance requires that deferred tax liabilities and assets are to be classified as non-current in the statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this update. This guidance is effective for the Company beginning July 1, 2017, and has been applied on a prospective basis. The adoption of this guidance has resulted in the reclassification of current deferred tax assets and liabilities as non-current deferred tax assets and liabilities in the consolidated balance sheet as of June 30, 2018. Prior period current deferred tax assets have not been reclassified as non-current in the consolidated balance sheet as of June 30, 2017.

In March 2016, the FASB issued guidance regarding *Improvements to Employee Share-Based Payment Accounting*. The guidance simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This guidance is effective for the Company beginning July 1, 2017. The adoption of this guidance did not have a material impact on the Company's financial statements. The Company has elected to continue to estimate the number of forfeitures when an award is made.

**Recent accounting pronouncements not yet adopted as of June 30, 2018**

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 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 was originally set to be effective for the Company beginning July 1, 2017, however in August 2015, the FASB issued guidance regarding *Revenue from Contracts with Customers, Deferral of the Effective Date*. This guidance defers the required implementation date specified in *Revenue from Contracts with Customers* to December 2017. Public companies may elect to adopt the standard along the original timeline.

The guidance is effective for the Company beginning July 1, 2018. The Company has determined that the adoption of this guidance on July 1, 2018, will not materially impact its financial statements, except for the additional footnote disclosures required. The Company has excluded DNI from this determination because it acquired DNI on June 30, 2018. The Company is currently assessing the impact of this guidance on its financial statements as they pertain to DNI.

In January 2016, the FASB issued guidance regarding *Recognition and Measurement of Financial Assets and Financial Liabilities*. The guidance primarily affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The guidance requires changes in the fair value of the Company's equity investments, with certain exceptions, to be recognized through net income rather than other comprehensive income. In addition, the guidance clarifies the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. This guidance is effective for the Company beginning July 1, 2018, and early adoption is not permitted, with certain exceptions. The amendments are required to be applied by means of a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption.

The Company will recognize a \$25.2 million, net of taxation of \$7.3 million (refer to Note 16) cumulative-effect adjustment from accumulated other comprehensive loss to retained earnings upon adoption of this guidance on July 1, 2018 related to its Cell C investment. In addition, upon adoption of this guidance on July 1, 2018, the Company will recognize any changes in the fair value of its investments in Cell C, which is carried at fair value, and any changes in One MobiKwik Systems Private Limited ( MobiKwik ), which is carried at cost, through net income.

F-21

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**NET 1 UEPS TECHNOLOGIES, INC.**

**Notes to the consolidated financial statements**

**for the years ended June 30, 2018, 2017 and 2016**

**(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, 2018 (continued)**

In February 2016, the FASB issued guidance regarding *Leases*. The guidance increases transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet. The amendments to current lease guidance include the recognition of assets and liabilities by lessees for those leases currently classified as operating leases. The guidance also requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. This guidance is effective for the Company beginning July 1, 2019. Early adoption is permitted. The Company expects that this guidance may have a material impact on its financial statements and is currently evaluating the impact of this guidance on its financial statements on adoption.

In June 2016, the FASB issued guidance regarding *Measurement of Credit Losses on Financial Instruments*. The guidance replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For trade and other receivables, loans, and other financial instruments, an entity is required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses, which reflects losses that are probable. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. This guidance is effective for the Company beginning July 1, 2020. Early adoption is permitted beginning July 1, 2019. The Company is currently assessing the impact of this guidance on its financial statements disclosure.

In June 2016, the FASB issued guidance regarding *Classification of Certain Cash Receipts and Cash Payments*. The guidance is intended to reduce diversity in practice and explains how certain cash receipts and payments are presented and classified in the statement of cash flows, including beneficial interests in securitization, which would impact the presentation of the deferred purchase price from sales of receivables. This guidance is effective for the Company beginning July 1, 2018, and must be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of this guidance on its financial statements and related disclosures.

In January 2017, the FASB issued guidance regarding *Clarifying the Definition of a Business*. This guidance provides a more robust framework to use in determining when a set of assets and activities is a business. Because the current definition of a business is interpreted broadly and can be difficult to apply, stakeholders indicated that analyzing transactions is inefficient and costly and that the definition does not permit the use of reasonable judgment. The amendments provide more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The guidance is effective for the Company beginning July 1, 2018. Early adoption is permitted. The Company is currently assessing the impact of this guidance on its financial statements and related disclosures.

In January 2017, the FASB issued guidance regarding *Simplifying the Test for Goodwill Impairment*. This guidance removes the requirement for an entity to calculate the implied fair value of goodwill (as part of step 2 of the current goodwill impairment test) in measuring a goodwill impairment loss. The guidance is effective for the Company beginning July 1, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently assessing the impact of this guidance.

In May 2017, the FASB issued guidance regarding *Compensation Stock Compensation (Topic 718): Scope of Modification Accounting*. The guidance amends the scope of modification accounting for share-based payment arrangements and provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under Accounting Standards Codification 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The guidance is effective for the Company beginning July 1, 2018. Early adoption is permitted. The Company is currently assessing the impact of this guidance on its financial statements and related disclosures.

In June 2018, the FASB issued guidance regarding *Improvements to Nonemployee Share-Based Payment Accounting*. The guidance simplifies the accounting for share-based payments granted to non-employees for goods and services and aligns the guidance for these share-based payments with guidance applicable to accounting for share-based payments granted to employees. The guidance is effective for the Company beginning July 1, 2019. Early adoption is permitted. The Company is currently assessing the impact of this guidance on its financial statements and related disclosures.



**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements****for the years ended June 30, 2018, 2017 and 2016****(All amounts stated in thousands of United States Dollars, unless otherwise stated)****3. ACQUISITIONS**

The cash paid, net of cash received related to the Company's various acquisitions during the years ended June 30, 2018, 2017 and 2016 is summarized in the table below:

	2018	2017	2016
DNI <sup>(1)</sup>	\$ 6,202	\$ -	\$ -
Masterpayment Financial Services Limited (formerly C4U-Malta Limited) ( Malta FS )	-	2,940	-
Pros Software Proprietary Limited ( Pros Software )	-	1,711	-
Transact24 Limited ( Transact24 )	-	-	1,666
Masterpayment AG ( Masterpayment )	-	-	14,101
Total cash paid, net of cash received	\$ 6,202	\$ 4,651	\$ 15,767

(1) represents the cash paid, net of cash acquired, to acquire a further 6% voting and economic interest, which resulted in the Company obtaining a controlling stake in DNI. As described below, the acquisition of DNI occurred in stages and DNI was accounted for using the equity method until June 30, 2018, being the point at which the Company obtained control over DNI. The total cash paid, net of cash acquired, to obtain a 55% voting and economic interest in DNI was \$85.7 million.

**2018 acquisition*****DNI***

The Company accounted for its interest in DNI using the equity method from August 1, 2017, until June 30, 2018, the date upon which it acquired further voting and economic interest in DNI, taking it to ownership of 55%. The transaction actually closed on June 28, 2018, however, for practical purposes the Company has used June 30, 2018, as the date from which it accounted for a controlling stake in DNI. Therefore, from June 30, 2018, the Company has consolidated DNI from June 30, 2018. Refer to Note 9, for additional information regarding DNI's contribution to the Company's reported results under the equity method.

On July 27, 2017, the Company subscribed for 44,999,999 ordinary A shares in DNI, representing a 45% voting and economic interest in DNI, for a subscription price of ZAR 945.0 million (\$72.0 million) in cash. On March 9, 2018, the Company subscribed for an additional 4,000,000 ordinary A shares in DNI for a subscription price of ZAR 89.3 million (\$7.5 million), in cash, which increased its voting and economic interest in DNI to 49%, but did not give it control. On March 9, 2018, the Company also agreed to subscribe for an additional 6,000,000 ordinary A shares in DNI for an aggregate subscription price of ZAR 126.0 million (\$9.2 million). The subscription was subject to certain suspensive conditions, including obtaining South African Competition Commission approval which was eventually obtained on June 21, 2018. Accordingly, on June 28, 2018, all conditions were met and the Company subscribed for 6,000,000 ordinary A shares in DNI for a subscription price of ZAR 126.0 million (\$9.2 million) in cash, increasing its voting and economic interest in DNI to 55%. Under the terms of its subscription agreements with DNI, the Company has agreed to pay to DNI an additional amount of up to ZAR 400.0 million (\$29.1 million, translated at exchange rates applicable as of June 30, 2018), in cash, subject to the achievement of certain performance targets by DNI. The Company expects to pay the additional amount during the first quarter of the year ended June 30, 2020, and has recorded an amount of ZAR 373.6 million (\$27.2 million), in other long-term liabilities in its consolidated balance sheet as of June 30, 2018, which amount represents the present value of the ZAR 400 million (\$29.1 million) to be paid (amounts translated at exchange rates applicable as of June 30, 2018). The present value of ZAR 373.6 million

(\$27.2 million) has been calculated using the following assumptions (a) the maximum additional amount of ZAR 400 million will be paid on August 1, 2019 and (b) an interest rate of 6.3 % (the rate used to calculate interest earned by the Company on its surplus South African funds) has been used to discount the ZAR 400.0 million to its present value as of June 30, 2018. Utilization of different inputs, or changes to these inputs, may result in significantly higher or lower fair value measurement.

As described in Note 9, on March 9, 2018, the Company obtained financing to partially fund the acquisition of the additional ordinary A DNI shares and Net1 Applied Technologies South Africa Proprietary Limited ( Net1 SA ) has pledged, among other things, its entire equity interest in DNI as security for the South African facilities described in Note 14.

**NET 1 UEPS TECHNOLOGIES, INC.****Notes to the consolidated financial statements****for the years ended June 30, 2018, 2017 and 2016****(All amounts stated in thousands of United States Dollars, unless otherwise stated)****3. ACQUISITIONS (continued)****2018 acquisition (continued)***DNI (continued)*

On March 9, 2018, the Company provided DNI with an interest-free loan of ZAR 126.0 million (\$10.6 million) which was repayable at the earlier of June 30, 2018, or within twenty days of the 6,000,000 ordinary A share subscription agreement (i) becoming unconditional, (ii) lapsing because the Competition Commission prohibits the subscription, or (iii) the agreement being cancelled for any reason. As described in Note 9, on March 9, 2018, the Company obtained financing to provide the loan to DNI. On June 28, 2018, DNI repaid the ZAR 126 million (\$9.2 million) loan in full and the Company used the proceeds from the repayment of the loan to fund the subscription for 6,000,000 ordinary A shares in DNI.

The preliminary purchase price allocation of the DNI acquisition, translated at the foreign exchange rates applicable on the date of acquisition, is provided in the table below:

	<b>DNI</b>
Cash and cash equivalents	\$ 2,979
Accounts receivable	16,977
Inventory	2,526
Property, plant and equipment	1,317
Equity-accounted investment - Speckpack(Note 9)	339
Goodwill (Note 10)	114,161
Intangible assets (Note 10)	104,003
Deferred tax assets	561
Other long-term assets(1)	