NET 1 UEPS TECHNOLOGIES INC
Form 10-K
August 23, 2012

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

# FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **June 30, 2012**

**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** | **98-0171860** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

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

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

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| **Common Stock, par value $0.001 per share** | **NASDAQ Global Select Market** |

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 [X]**

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 [X]**

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 [X] 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 [X] No [ ]**

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

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

| | | | |
|---|---|---|---|
| [ ] | Large accelerated filer | [X] | Accelerated filer |
| [ ] | Non-accelerated filer<br>(Do not check if a smaller reporting company) | [ ] | Smaller reporting company |

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

**Yes [ ] No [X]**

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of December 31, 2011 (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 $286,757,561. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of August 21, 2012, 45,548,902 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 2012 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

**NET 1 UEPS TECHNOLOGIES, INC.**

**INDEX TO ANNUAL REPORT ON FORM 10-K**
**Year Ended June 30, 2012**

# 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 plac undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Annual Report. We undertake no obligation to release publicly any revisions to the forward-looking statements after the date of this Annual Report. You should carefully review the risk factors described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by us in our 2013 fiscal year, which runs from July 1, 2012 to June 30, 2013.

## ITEM 1. BUSINESS

### Overview

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

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

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

Our technology is widely used in South Africa today, where we distribute pension and welfare payments, using our UEPS/EMV technology, to over nine million recipients across the entire country, process debit and credit card payment transactions on behalf of retailers that we believe represent nearly 65% of retailers within the formal retail sector in South Africa 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 that processes monthly payments for approximately 1,250 employer groups representing over 850,000 employees. Our MediKredit service provides the majority of funders and providers of healthcare in South Africa with an on-line real-time management system for healthcare transactions. We perform a similar service in the US through our XeoHealth subsidiary.

Internationally, though KSNET, the second largest transaction processor by volume in Korea, we offer card processing, payment gateway and banking value-added services in that country. The acquisition of KSNET during the second quarter of fiscal 2011, expands our international footprint as well as diversifies our revenue, earnings and product portfolio. We have also concluded deals for the provision of MVC services and/or licenses with customers in Mexico, Spain and India.

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

**Market Opportunity**

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

The use of cash, however, presents significant risks. In the case of 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.

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

With over 25 million cards issued in more than ten developing countries around the world, our track record and scale uniquely positions us to continue further geographical penetration of our technology in additional emerging countries.

*Online transaction processing services:* The rapid global growth of retail credit and debit card transactions is reflected in the April 2012 Nilson Report, according to which worldwide annual general purpose card purchase dollar volume increased 17.5% to $15.4 trillion in 2011, while transaction volume increased by 11.7% to 161.3 billion transactions and cards issued increased by 12.4% to 6.5 billion cards during the same period. General purpose cards include the major card network brands such as MasterCard, Visa, China UnionPay and American Express. In South Africa we operate the largest bank-independent transaction processing service through EasyPay, where we have developed a suite of value-added services such as bill payment, airtime top-up, gift card, money transfer and pre-paid utility purchases that we offer as a complete solution to merchants and retailers. In Korea, through KSNET, we operate the second largest transaction processor by volume, where we provide card processing, banking value-added services and payment gateway functionality to the retail industry. Our expertise in on-line transaction processing and value-added services provides us with the opportunity to participate globally in this rapidly growing market segment.

*Mobile Payments:* Despite lacking access to formal financial services, large proportions of the under-banked customer segment own and utilize mobile phones. The World Bank s research has confirmed the rising popularity of using mobile phones to transfer money and 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 expanded to 16 percent of the market in Sub-Saharan Africa, where traditional banking has been hampered by transportation and other infrastructure problems.

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

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

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

## Our Key Products

### *The UEPS Technology*

#### UEPS

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 POS as all of the relevant information necessary to perform and record transactions reside on the smart cards.

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

Our UEPS technology includes functionality that allows the following:

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

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

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

#### UEPS/EMV

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 point of service.

***Payment Transaction Management***

Our payment transaction management service incorporates the entire electronic funds transfer, or EFT, and non-EFT transactions suites, allowing merchants to accept a range of payment tokens/instruments and banks to acquire those payment tokens/instruments. This encompasses conventional magnetic-stripe cards, credit, debit and private label cards, and contact and contact-less smart cards with PIN and/or biometric cardholder verification.

The service utilizes a complex set of processing rules defined by the card associations, central banks and local issuers governing the acceptance or rejection of the payment token/instrument presented to a merchant. These rules are applied for goods or services and vary by merchant category as background tasks of the transaction management service.

We provide a complete end-to-end reconciliation and settlement service to our business partners, including dynamic reconciliation, report and screen-query tools for down-to-store-level management and control purposes, backed by 24x7x365 monitoring and support, reconciliation, settlement, reporting, full disaster recovery and redundancy services.

Our flexible transaction management solutions enable simple integration to various hardware platforms and pay-point applications within large retail groups, smaller stores and franchises. These platforms include: retail POS, EFT terminals, standalone PCs, self service terminals and kiosks, ATMs, mobile phones and the internet.

We also provide a range of value-added services as part of our transaction management offering, such as bill payments, gift cards, prepaid airtime, prepaid utilities and money transfers.

***Healthcare Transaction Management***

We offer financial and clinical risk management solutions to both funders and providers of healthcare, through online real-time management of healthcare transactions. Our adaptable healthcare claims processing and managed care services are designed to accommodate the complex benefit design as well as other processing requirements of our clients and our functionality extends to all healthcare claim types, including pharmacy, doctor, public and private hospital claims. Our service is enabled by our proprietary claims processing and managed care systems that adjudicate medical claims allowing patients and healthcare providers to have immediate and accurate information on the financial and clinical impacts of, and payment responsibilities for services and products provided by healthcare providers.

Our proprietary software allows for real-time claim adjudication involving the submission of an electronic data interchange claim and receipt of a response with the adjudication details within seconds. Our system allows for real-time messaging with an immediate response to an enquiry within a single, synchronous communication session. Our intellectual property incorporates rule stacking technology that allows for the creation of a rule for a specific patient for a specific healthcare product or service, which rule is then used to adjudicate against in real-time. This unique technology offers complex rule applications in a scalable and flexible manner on all medical claim types it is a heuristic computerized framework that dynamically creates scenario-specific rules.

***Payroll Transaction Management***

Our payroll transaction management service offers employers an easy and flexible method of making payments to creditors arising from payroll processing. Our solution enhances the electronic movement of money in the business and financial community, assisting our clients to manage net pay, third party, garnishee order and creditor payments correctly, promptly and securely. In addition, we provide the relevant information to the recipient organization via predefined schedules or payment remittance advices, thus simplifying the process of reconciliation.

***Mobile Virtual Card***

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

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

The MVC solution uses the mobile phone to generate virtual cards offline. The mobile phone is the most available, cost-effective, secure and portable platform for generating virtual cards for remote payments (online, phone and catalogue orders). Following a simple registration process, the virtual card application is activated over-the-air, enabling the phone to generate virtual card numbers completely off-line. MVCs are used like traditional plastic credit or debit cards, except that as soon as the transaction is authorized, the generated card number expires immediately. While MVC has been focused primarily on card not present transactions for internet payments in our initial deployments, we have the ability to customize the software as industry acceptance increases to incorporate new trends such as presentation through NFC or Quick Response, or QR, Codes.

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

The benefits of MVC include, for:

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

***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 customers with competitive microfinance, life insurance and money transfer products based on our understanding of their risk profiles, earning and spending patterns, demographics and lifestyle requirements.

***Hardware solutions***

We provide hardware solutions that have been developed to optimize the performance of our payment and transaction processing solutions. These hardware solutions include;

- *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, 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.
- *Chip and GSM licensing* - We supply chip cards into the South African and other international markets. We work with mobile network operators, card manufacturers and semiconductor manufacturers to provide card technology, solutions and software that enable mobile telephony, mobile transactions and value-added services to take place in a trusted, secure and convenient manner. These chip products and technology include operating system and application development, card manufacture and production, from concept and design through, printing, packaging and distribution. At the core of our chip business is the strategy of licensing chip software to a wide spectrum of other industry participants.
- *POS solutions* We supply our secure, integrated POS payment products and systems, including:
  - o FlexiLANE An in-store controller ideally suited to multi-lane retail and petroleum station environments. The in- store controller forms an interfacing and concentration layer between a group of distributed terminal devices and a centralized payment and value-added service, or VAS, aggregator. This helps large retailers and petroleum companies to overcome the challenges associated with processing multiple transactions from multiple access devices using multiple tender types;
  - o FlexiGATE A terminal and payment gateway that manages the routing of all FlexiLANE traffic and enables retailers to supply VAS such as airtime top-up, electricity payment and bill payment;
  - o FlexiPOS An innovative retail solution that allows the retailer's various payment and VAS solution requirements to be streamlined into a single payment terminal. FlexiPOS transforms the POS terminal into a convenient and consumer friendly place of purchase, place of payment and place of service; and

- EMV Net1 s payment expertise helps ensure that retailers together with their acquirers meet the requirements of upgrading software, terminals and security for conformity with the latest international chip card standards.
- Ingenico POS equipment

• *Virtual top-up* - our VTU solution facilitates mobile phone-based prepaid airtime vending. The VTU technology enables prepaid cell phone users to purchase additional airtime simply, securely and conveniently. The vendor uses its GSM handset to purchase bulk airtime from a mobile network operator. Airtime value, as opposed to a virtual voucher, is then transferred directly from the vendor s cellular handset to that of the customer. When the vendor runs out of airtime value, it is a simple task to purchase more to resell to customers.

**Our Strategy**

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

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

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

- *Government focus on expansion of social benefits* As a result of the South African government s focus on the provision of social grants as a core element of its social assistance and poverty alleviation policies, and our new five-year contract to distribute such grants on a national basis, we believe that we are in a position to provide services to over 50% of the country s adult population. Through our national distribution platform and relationships with a number of leading companies across multiple industries, we believe we can provide many of the services consumed by our cardholders who would otherwise have to rely on the informal sector.

- *Government focus on implementing a national health insurance system* The South African government is in the process of designing a national health insurance system to bring affordable quality health care to all South Africans. Through our MediKredit healthcare rules adjudication engine and transaction processing switch, we believe we are well-placed to assist the South African government with a secure, real time solution for the high volume of anticipated healthcare transactions that the envisaged new system will generate.

- *Increasing adoption of existing services* Our technology supports a variety of other products and smart card to smart card, or S2S, services that expand the use of our technology and provide us with new sources of transaction-based revenues. During the last several years, we have introduced these new products and services in South Africa for existing and newly-enrolled cardholders. We have installed our POS terminals in thousands of mostly rural merchant locations throughout the country which allows beneficiaries to receive their grants at these locations and transact business with the retailers using our smart card. During fiscal 2012, we processed 19.0 million transactions with a total value of ZAR 13.4 billion at these merchant locations.

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

  - <u>*Acceptance of UEPS cards in traditional POS terminals and bank ATMs*</u> We have enabled our cards to be compliant with international EMV standards, which will allow our cardholder base to purchase goods and services at merchant POS locations that currently accept MasterCard-branded cards and all South African ATMs. This additional functionality will allow us to expand significantly the number of terminals and ATMs that use our smart card, capturing fees from new transactions and positioning our cards to be used by a larger share of the banked population.

  - 

*Value-added services through multiple EasyPay channels* EasyPay is the largest bank-independent financial switch and merchant processor in South Africa for credit and debit card transactions. EasyPay processed 425 million transactions with a total value of ZAR 92.9 billion during fiscal 2012. Our technology also allows us to provide a variety of additional, value-added payment services, such as bill payment, prepaid mobile top-up, prepaid utility services and gift cards, that we can sell into our existing card holder base as well as to new customers. We have developed additional platforms to access EasyPay s offerings such as a self service kiosks, or EasyPay Kiosk, and web and mobile phone applications to create a larger, seamless, value-added payments eco- system.

o *Third-party payments from payroll processing through FIHRST* Through our FIHRST service, we offer employers an easy and flexible method of making payments to employees and payroll-related creditors. By combining the FIHRST service and the EasyPay product suite, we can provide employees with the ability to pay their bills or purchase prepaid airtime and utilities as a payroll deduction or by providing them with credit facilities.

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

- *Leveraging our new payment technologies to gain access to developed 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, such as our MVC application for mobile telephones that is designed to eliminate fraud associated with card not present credit card transactions, which are those effected by telephone or over the internet. We have introduced this technology, as well as our XeoRules™ healthcare management system in the United States, and we plan to expand our offering into Western Europe and other developed economies.

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

**Our Clusters and Business Units**

Our company is organized into the following clusters and within each cluster, separate business units.

***Transactional Solutions Cluster***

**Cash Paymaster Services ( CPS )**

Our CPS business unit deploys our UEPS Social Grant Distribution technology to distribute social welfare grants on a monthly basis to over nine million beneficiaries in South Africa. These social welfare grants are distributed on behalf of SASSA. During our 2012, 2011 and 2010 fiscal years, we derived 41%, 47%, and 66% of our revenues respectively, from CPS social welfare grant distribution business.

CPS provides a secure and affordable transacting channel between social welfare grant beneficiaries, SASSA and formal businesses. CPS enrolls social welfare grant beneficiaries by issuing them a UEPS/EMV smart card that digitally stores their biometric fingerprint templates on the smart card, enabling them to access their social welfare grants securely at any time or place. The smart card is issued to the beneficiary on site and utilizes optical fingerprint sensor technology to identify and verify a beneficiary. The beneficiary simply inserts a smart card into the POS device and is prompted to present his fingerprint. If the fingerprint matches the one stored on the smart card, the smart card is loaded with the value created for that particular smart card. Additionally, during enrolment we capture the beneficiary s voice print to perform biometric verification when using channels such as ATMs and traditional POS terminals that normally do not have fingerprint readers.

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

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

This business unit has been allocated to our South African transaction-based activities and smart card accounts reporting segments.

**KSNET**

Our KSNET business unit is a significant payment solutions provider in Korea, has the broadest product offering in the country, a base of approximately 220,000 merchants and an extensive direct and indirect sales network. KSNET is based in Seoul, Korea. KSNET s core operations comprise of three project offerings, namely card value-added network, or 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 Korea. Over 90% of KSNET s revenue comes from the provision of payment processing services to merchants and card issuers through its card VAN.

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

- *Card VAN* KSNET s card VAN offering manages credit and other non-cash alternative payment mechanisms for retail transaction processing for a wide range of merchants and every credit card issuer in 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 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 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. KSNET is currently the only card VAN provider that also provides PG services in Korea. PG offers us an attractive growth opportunity as e-commerce transactions represent an increasing share of payments, driven by increased wire-line and wireless broadband penetration, an increasing number of merchants moving online, and the enhanced security of online transactions driving consumer acceptance. We believe that KSNET can become the leading provider in the PG industry by leveraging its existing merchant base and entering into new markets earlier than competitors.
- *Banking VAN* KSNET s banking VAN operations currently include account transaction processing services, payment and collections to banks, corporate firms, governmental bodies, and educational institutions. We distinguish card VAN from banking VAN because in the Korean VAN market, banking VAN is recognized as a distinct service from card VAN. We are the only card VAN provider that also provides banking VAN services. Because the banking VAN business industry is at a nascent stage, the market at this time is relatively small.

This business unit has been allocated to our international transaction-based activities reporting segment.

**EasyPay**

Our EasyPay business unit operates the largest bank-independent financial switch in Southern 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 over 350 different bill issuers including major local authorities, telephone companies, utilities, medical service providers, traffic departments, mail order companies, banks and insurance companies;
- *EasyPay prepaid electricity* This service enables local utility companies such as Eskom Holdings Limited and a growing number of local authorities on a national basis to sell prepaid electricity to their customers;
- *Prepaid airtime* EasyPay vends airtime at retail POS terminals for all the South African mobile telephone network operators;
- *Electronic gift voucher* EasyPay supports the electronic generation, issuance and redemption of paper or card-based gift vouchers;
- *EasyPay licenses* EasyPay enables the issuance of new South African Broadcasting television licenses and the capturing of existing license details within retail environments via a web-based user interface;

- *Third party switching and processing support* EasyPay switches transactions from retail POS systems to the relevant back-end systems;
- *Hosting services* EasyPay s infrastructure supports the hosting of payment or back-up servers and applications on behalf of third parties, including utility companies;
- *EasyPay Kiosk* We have developed a biometrically enabled self service kiosk that allows our EasyPay customers to access all the value-added services provided by EasyPay and to create and load their EasyPay virtual wallets with value; and
- *EasyPay Web and Mobile* This service enables EasyPay customers to access all the value-added services provided by EasyPay, such as bill payments and the purchase of prepaid airtime and utilities through a secure website that may be accessed through personal computers or through mobile handsets.

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

This business unit has been allocated to our South African transaction-based activities reporting segment.

**MediKredit/ XeoHealth**

Our MediKredit business unit operates and markets our Healthcare Transaction Management systems and solutions in South Africa and is based in Johannesburg, South Africa. We estimate that MediKredit s products affect 4.2 million of the seven million health-insured lives in South Africa. We also service the claims-processing needs of certain public hospitals, 100 medical scheme plans and ten of the major healthcare administrators in South Africa. Our functionality caters for all healthcare claim types which include pharmacy, doctor, private and public hospital claims.

MediKredit has been allocated to our South African transaction-based activities reporting segment.

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

XeoHealth has been allocated to our international transaction-based activities reporting segment.

**FIHRST**

FIHRST offers South African employers our payroll transaction management service and is based in Johannesburg, South Africa. FIHRST currently processes payments exceeding R77.7 billion on behalf of our clients every year, enabling salaries departments to achieve greater levels of efficiency and employee service. We have been chosen as the preferred payments partner by more than 1,250 employer groups of all sizes across all sectors of the economy, representing 850,000 employees. FIHRST is recognized by and works in partnership with the majority of third party payroll organizations including pension fund and medical aid administrators.

This business unit has been allocated to our South African transaction-based activities reporting segment.

**Universal Electronic Technological Solutions ( UETS )**

Our UETS business unit is based in Johannesburg, South Africa and focuses on the sale, implementation and support of our UEPS technology, ranging from large scale, national projects to smaller, product specific regional projects. UETS focuses on identifying, defining and activating an entry point to commence operations in Africa (excluding South Africa), and in Iraq.

UETS markets the following solutions and products:

- The UEPS national switching, settlement, clearing and smart card solutions offering interoperability with existing banking infrastructure;
- Wave 2 opportunities, such as financial services in countries with an established UEPS infrastructure;
- Individual stand-alone UEPS applications, with processing outsourced to Net1 regional offices, similar to the model deployed for the payment of welfare grants in Iraq;
- UEPS mobile banking solutions targeted at banks and/or mobile operators;
- E-Government applications such as multi-purpose national identity cards and national welfare & healthcare solutions; and
- Secure verification of existing EMV Debit / credit card transactions using Net1 s biometric identification technology.

Our UETS team also provides business development support in territories where UEPS systems have been sold and implemented, such as Ghana, Malawi, Namibia and Botswana.

This business unit has been allocated to our international transaction-based activities and hardware, software and related technology sales reporting segments.

**Mobile Virtual Card**

Our Net1 Virtual Card business unit is managed from Johannesburg, South Africa with business development support branches in the USA, Austria, India and Indonesia. Our MVC technology provides a completely secure, off-line payment solution for card not present transactions, such as payments made for internet purchases, The MVC technology runs as a application on any mobile phone and utilizes Net1 s patented cryptographic card generator to secure any payment transaction. The advent of new technologies such as NFC or QR Codes also enables the utilization of our MVC technology for card present payments.

Our launch customer in the US, MetroPCS, is one of the top five US wireless carriers. MetroPCS offers our MVC technology under the VCPay™ brand as an application that is pre-loaded on new smart phones. We believe our VCPay application is the first mobile phone-based prepaid program with no requirement for the user to have a physical card or bank account. In addition, we have entered into agreements with MoneyGram International, a global money transfer company, and GreenDot Corporation, a major issuer of prepaid credit cards in the United States, to enable subscribers to load their prepaid virtual accounts with cash at any of MoneyGram s and GreenDot s 100,000 US agents, which are located in most communities including many grocery, pharmacy and convenience store chains, or electronically via their bank accounts or via direct deposit.

We have also concluded deals for the provision of MVC services and/or licenses with customers in Mexico, Spain and India.

This business unit has been allocated to our international transaction-based activities reporting segments.

***Hardware and Software Sales Cluster***

We have dedicated business units responsible for the development, production, marketing, maintenance and support of our Hardware Solutions. These business units are:

- *Cryptographic solutions* based in Johannesburg and Durban, South Africa, this business unit manages our Incognito range of PIN encryption devices, card acceptance modules and hardware security modules. These solutions are used globally by numerous customers in the financial, retail, telecommunication, utilities and petroleum sectors and by all other Net1 business units that operate payment and transaction processing services.
- *Chip and GSM licensing* this business unit is a supplier of chip cards and GSM licenses into the South African and other international markets. We operate our own small factory in Johannesburg, South Africa and license numerous mobile network operators, card manufacturers and semiconductor manufacturers to provide card technology, solutions and software that enable mobile telephony, mobile transactions and value-added services.
- *POS solutions* based in Johannesburg, South Africa, our POS Solutions business unit is responsible for marketing in South Africa our secure, integrated POS payment products and systems.
- *VTU* based in Johannesburg, South Africa, our VTU business unit is responsible for the global marketing and support of our VTU solution.
- *Smart card-based payment systems in Europe and other* based in Vienna, Austria, our Net1 UTA business unit provides smart card-based payment systems to banks, enterprises and government authorities in Russia, Ukraine, Uzbekistan and Oman.

These business units have been allocated to our hardware, software and related technology sales reporting segment.

***Financial Services Cluster***

**Finance Holdings**

This business unit is responsible for identifying financial services products that can be provided to our UEPS cardholders in South Africa and then marketing and implementing the provision of those products. We currently provide micro-loans to our UEPS cardholders who receive social welfare grants through our system in the KwaZulu-Natal and Northern Cape provinces. We provide the loans ourselves and generate revenue from the service fees charged on these loans.

Our wage payment system offers wage earners a UEPS card that allows them to receive payment, transact and access other financial services in a secure, cost-effective way.

**SmartLife**

SmartLife is a licensed South African life insurance company and provides us with an opportunity to offer relevant insurance products directly to our existing customer and employee base in South Africa. We intend to offer this customer base a full spectrum of products applicable to this market segment, including credit life, group life, funeral and education insurance policies. SmartLife commenced activities in the second quarter of fiscal 2012.

Prior to its acquisition by us, Smart Life had been administered as a ring-fenced life-insurance license by a large South African insurance company, had not written any new insurance business for a number of years and had reinsured all of its risk exposure under its life insurance products. SmartLife has been allocated to our financial services operating segment.

These business units have been allocated to our financial services reporting segment.

***Corporate Cluster***

The Corporate Cluster 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 has now been certified by EMV, which facilitates our traditionally proprietary UEPS system to interoperate with the global EMV standard and allows card holders to transact at any EMV-enabled point of sale terminal or ATM. The new UEPS/EMV technology is currently being deployed on an extensive scale in South Africa through the issuance of MasterCard-branded UEPS/EMV cards to our social welfare grant customers. We estimate that we process less than 1% of all global payment transactions in the international marketplace.

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

The payment of social welfare grants in South Africa is determined through a highly competitive tender process managed by SASSA. The participants in SASSA s tender processes have historically included the local banks, other payment processors, SAPO and mobile operators. We compete primarily on the basis of the innovative nature and security of our technology as well as the broadest distribution footprint. We are able to load social welfare grants on behalf of the South African government directly onto a biometrically secured UEPS/EMV smart card in rural areas where there is little or no infrastructure or in semi-urban areas through our merchant acquiring system. Our UEPS/EMV-enabled smart cards are therefore used as a means of identification, security and as a transacting instrument. Grants loaded onto our UEPS/EMV-enabled smart cards can be used both online and offline and beneficiaries pay no monthly account or transaction fees. The usefulness of a traditional bank card to its holder is dependent on the availability of a branch network, ATM infrastructure and merchants accepting the card. Access to bank branches, ATMs and merchants accepting traditional bank cards are limited or non-existent in the rural areas of South Africa. We believe the security, functionality and simplicity of our UEPS/EMV smart card provides us with a unique ability to service these rural areas of South Africa, as well as all urban areas through the existing POS and ATM infrastructure. Our technology eliminates the risk associated with receiving social welfare grants in cash as well as the costs associated with transaction fees charged by banks when beneficiaries exceed the minimum number of free transactions per month.

We believe that SASSA considers the technology utilized, pricing of the payment service rendered and other factors such as black economic empowerment, or BEE, rating as the most important factors when considering potential service providers. We compete with other service providers on these aspects through SASSA s tender processes, when applicable, or through contract extension negotiations. Following the award of the SASSA tender to us in January 2012 to pay all social welfare grants in South Africa for a period of five years commencing April 1, 2012, we believe that the next competitive tender process will commence during 2016.

We have identified 10 major card VAN companies in Korea, of which KSNET is one of the four largest. The other three large VAN companies are NICE Information & Telecommunication Inc., First Data Korea Limited and Korea Information & Communications Company, Limited. Entities operating in the VAN industry in Korea compete on pricing and customer service.

EasyPay s competitors include BankservAfrica, UCS, eCentric and Transaction Junction. BankservAfrica is the largest transaction processor in South Africa which processes all transactions on behalf of the South African banks and claims to process in excess of 2.6 billion transactions valued at trillions of rands annually. During fiscal 2012, EasyPay processed 425 million transactions with a total value of ZAR 92.9.

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

**Research and Development**

During fiscal 2012, 2011 and 2010, we incurred research and development expenditures of $3.9 million, $5.7 million and $7.6 million, respectively. These expenditures consist primarily of the salaries of our software engineers and developers. Our research and development activities relate primarily to the continual revision and improvement of our core UEPS and UEPS/EMV software and its functionality and the design and development of our MVC concept. For example, we continually advance our security protocols and algorithms as well as develop new UEPS features that we believe will enhance the attractiveness of our product and service offerings. Our research and development efforts also focus on taking advantage of improvements in the hardware platforms that are not proprietary to us but which form part of our system.

**Intellectual Property**

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

**Financial Information about Geographical Areas and Operating Segments**

Note 22 to our consolidated financial statements included in this annual report contains detailed financial information about our operating segments for fiscal 2012, 2011 and 2010. During fiscal 2012, we reallocated certain of our operating activities among these segments, as described under Management s Discussion and Analysis of Financial Condition and Results of Operations.

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 | | |
|---|---|---|---|---|---|---|
| | **2012** | **2011** | **2010** | **2012** | **2011** | **2010** |
| South Africa | $ 272,063 | $ 264,485 | $ 267,478 | $ 140,308 | $ 115,809 | $ 111,430 |
| Korea | 114,096 | 68,392 | - | 224,272 | 258,791 | - |
| Europe | 2,413 | 10,465 | 12,301 | 38 | 139 | 42,489 |
| Rest of world | 1,692 | 78 | 585 | 6,873 | 6,817 | 8,081 |
| Total | $ 390,264 | $ 343,420 | $ 280,364 | $ 371,491 | $ 381,556 | $ 162,000 |

**Employees**

As of June 30, 2012, we had 4,851 employees, which included approximately 2,500 temporary employees contracted to assist with our SASSA implementation. On a segmental basis, 206 employees were part of our management, 4,080 were employed in South African transaction-based activities, 178 were employed in international transaction-based activities, 12 were employed in financial services and 375 were employed in smart card, hardware, software and related technology sales and corporate activities.

We expect our employee base to remain at approximately 5,000 people for most of fiscal 2013 until we have concluded the implementation of our SASSA contract. Once complete, we expect our permanent employee base to stabilize around approximately 3,000 employees.

On a functional basis, four of our employees were part of executive management, 181 were employed in sales and marketing, 225 were employed in finance and administration, 321 were employed in information technology and 4,120 were employed in operations.

As of June 30, 2012, approximately 90 of the 4,080 employees we have in South Africa who were performing transaction-based activities were members of the South African Commercial Catering and Allied Workers Union and approximately 157 of the 179 employees we have in Korea who perform international transaction-based activities were members of the KSNET Union. We believe we have a good relationship with our employees and these unions.

**Corporate history**

Net1 was incorporated in Florida in May 1997. Until June 2004, Net1 was a development stage company and its business consisted only of holding a license to payment systems intellectual property and an exclusive marketing agreement for the UEPS technology outside South Africa, Namibia, Botswana and Swaziland. In June 2004, Net1 acquired Net1 Applied Technologies Holdings Limited, or Aplitec, a public company listed on the JSE Limited, or JSE. Aplitec owned the payment systems intellectual property in South Africa, Namibia, Botswana and Swaziland and one of its subsidiaries was the other party to the marketing agreement described above. The primary purpose of the Aplitec transaction was to consolidate all intellectual property into one company, to establish a first-mover advantage in developing economies for the commercialization of the UEPS technology, and to exploit market opportunities for growth through strategic alliances and acquisitions. The transaction permitted Aplitec s shareholders to reinvest the sale proceeds in Net1, but under South African exchange control regulations, those shareholders were not permitted to hold Net1 s securities directly. In 2005, Net1 completed an initial public offering and listed on the Nasdaq Stock Market. In October 2008, Net1 listed on the JSE, in a secondary listing, which enabled the former Aplitec shareholders (as well as South African residents generally) to hold Net1 common stock directly.

**Available information**

We maintain an Internet website at www.net1.com. 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 posted on our website is not incorporated into this Annual Report on Form 10-K.

**Executive Officers and Significant Employees of the Registrant**

***Executive officers***

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

| Name | Age | Title |
| --- | --- | --- |

| | | |
|---|---|---|
| Dr. Serge C.P. Belamant | 58 | Chief executive officer, chairman and director |
| Mr. Herman G. Kotze | 42 | Chief financial officer, treasurer, secretary and director |
| Mr. Phil-Hyun Oh | 53 | Chief executive officer and president, KSNET, Inc. |
| Mr. Nitin Soma | 45 | Senior vice president information technology |

*Dr. Belamant* is one of the founders of our company and has been our chief executive officer since October 2000 and the chairman of our board since February 2003. He was also chief executive officer of Aplitec. Dr. Belamant also serves on the boards of a number of other companies that perform welfare distribution services and the provision of microfinance to customers. Dr. Belamant spent ten years working as a computer scientist for Control Data Corporation where he won a number of international awards. Later, he was responsible for the design, development, implementation and operation of the Saswitch ATM network in South Africa that rates today as the third largest ATM switching system in the world. Dr. Belamant has patented a number of inventions, including our original funds transfer system patent, ranging from biometrics to gaming-related inventions.

Dr. Belamant has more than 30 years of experience in the fields of operations research, security, biometrics, artificial intelligence and online and offline transaction processing systems. Dr. Belamant holds a PhD in Information Technology and Management.

*Mr. Kotze* has been our chief financial officer, secretary and treasurer since June 2004. From January 2000 until June 2004, he served on the board of Aplitec as group financial director. Mr. Kotzé joined Aplitec in November 1998 as a strategic financial analyst. Mr. Kotzé is a member of the South African Institute of Chartered Accountants.

*Mr. Oh* has served as chief executive officer and president of KSNET since 2007. Prior to that, he was the Managing Partner at Dasan Accounting Firm and was the Head of the Investment Banking Division at Daewoo Securities. Mr. Oh is responsible for the day to day operations of KSNET and as its chief executive officer and president is instrumental in setting and implementing its strategy and objectives.

*Mr. Soma* has served as our Senior Vice President of Information Technology since June 2004. Mr. Soma joined Aplitec in 1997. He specializes in transaction switching and interbank settlements. Mr. Soma represented Nedcor Bank in assisting with the technical specifications for the South African Interbank Standards. He is also responsible for the ATM settlement process to balance ATMs with the host as well as balance the host with different card users. Mr. Soma designed the Stratus Back-End System for Aplitec, and is responsible for the Nedbank Settlement System for the Point of Sales Devices. Mr. Soma has over 15 years of experience in the development and design of smart card payment systems.

***Significant employees***

**Business Functions:**

*Dr. Gerhard Claassen* (53): General Manager Cryptographic Solutions Dr. Claassen joined us in August 2000 and is responsible for the marketing and business development of our cryptographic solutions consisting of the internally developed Incognito range of security solutions, as well as ToDos authenticators and the Cybertrust PKI products.

*Wimpie du Plessis* (60): Managing director: MediKredit Mrs. du Plessis joined us in January 1999 and is responsible for the marketing and business development of our MediKredit and XeoHealth offerings worldwide.

*K. H. Kang* (46): Division Director - Marketing Division 2 Mr. Kang joined us in December 1994 and is responsible for KSNET s market division that focuses primarily on banking VAN, PG and market development.

*M. B. Lee* (47): Division Director - Marketing Division 1 Mr. Lee joined us in August 1994 and is responsible for KSNET s market division that focuses primarily on card VAN.

*Igor Medan* (39): Joint Managing Director: Net1 UTA Mr. Medan has been the Joint Managing Director of Net1 UTA since 2011. Net1 UTA is responsible for the marketing and business development of our payment solutions in Russia, the CIS, Oman, India, Asia and Latin America.

*Nanda Pillay* (41): General Manager: CPS and EasyPay Mr. Pillay joined us in May 2000 and is responsible for our South African operations, consisting of CPS and EasyPay.

*Armando Piedra* (39): Joint Managing Director: Net1 UTA Mr. Piedra has been the Joint Managing Director of Net1 UTA since 2011. Net1 UTA is responsible for the marketing and business development of our payment solutions in Russia, the CIS, Oman, India, Asia and Latin America.

*James Sneedon* (43): Business Unit Leader: VTU Mr. Sneedon joined us January 2001 and is responsible for the marketing and business development of our VTU products.

*Brenda Stewart* (54): Managing director: Net1 Universal Electronic Technological Solutions Mrs. Stewart joined us in 1997 and is responsible for the marketing and business development of our UEPS solutions in Africa (excluding South Africa) and Iraq.

*Trevor Smit* (54): Managing director: FIHRST Mr. Smit joined us in May 2007 and is responsible for the marketing and business development of our FIHRST offering.

*Chris van der Walt* (50): Managing director: SmartLife Mr. van der Walt joined us in July 2011 and is responsible for the marketing and business development of our insurance offerings through SmartLife.

**Support functions:**

*Chris Britz* (51): Vice President - Group production, repairs & maintenance Mr. Britz joined us in April 2001 and is responsible for the group s production facilities, as well as all internal and external repairs and maintenance of terminals and other hardware.

*Lawrie Chalmers* (51): Vice President - Group Human Resources Mr. Chalmers joined us in April 1998 and is responsible for the group s South African human resources activities, including recruitment, payroll, training and industrial relations.

*Y. H. Cho* (46): Head of research director Mr. Cho joined us in July 1999 and is responsible for KSNET s information technology department.

*M. Y. Jun* (44): Head of Strategy, Planning and Finance Mr. Jun joined us in September 2000 and is responsible for KSNET s financial function, including financial accounting, taxation and statutory reporting.

*Dhruv Chopra* (38): Vice President: Investor Relations Mr. Chopra is responsible for managing our investor relations function globally.

*Paul Encarnacao* (36): Vice President Finance Mr. Encarnacao joined us in June 2004 and is responsible for the preparation of the group s generally accepted accounting principles in the United States of America, or US GAAP, consolidated accounts and statutory reports.

*Alan Keschner* (51): Vice President: Joint Ventures and Investments Mr. Keschner joined us in January 2012 and provides governance support to our joint ventures as our representative on the various boards of directors.

*Warren Segall* (47): Vice President: Compliance Mr. Segall joined us in July 2006 and is our compliance officer.

*Cara van Straaten* (51): Group Financial Controller Ms. Van Straaten joined us in July 2004 and is responsible for the group s South African financial function, including financial accounting, taxation and statutory reporting.

## 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

***We derive a majority of our revenues from our new contract with SASSA for the distribution of pension and welfare benefits in all of South Africa s nine provinces. While the new contract has substantially increased the number of beneficiaries to whom we distribute benefits, it has also increased our dependence on our pension and welfare business while also reducing our operating margin, at least in the short term. Further, if we cannot successfully leverage an expanded beneficiary base to provide recipients with additional financial and other services, our financial performance may suffer.***

On January 17, 2012, SASSA awarded us a tender to provide payment services for social grants in all of South Africa s nine provinces for a period of five years. On February 3, 2012, we entered into a new contract, together with a related service level agreement, with SASSA. Under our prior SASSA contract, we provided payment services in only five provinces.

Although our revenues from our new SASSA contract have increased as a result of the larger number of beneficiaries we now serve, we also have incurred and will continue to incur significant increases in operating expenses. We have made significant capital expenditures to build out our infrastructure across South Africa, primarily in the additional four provinces. As a result, despite the higher volumes of payments, these additional expenses have resulted in lower operating margins in our pension and welfare business. We could also encounter delays or unexpected expenses during the implementation phase of the contract, which could adversely affect us and require additional management time and attention. While our goal is to offset the additional increases in operating expenses and capital expenditures by expanding the scope and volumes of financial and other services we can provide to our beneficiaries, we may not be successful in doing so, which could adversely affect our business, results of operations, operating cash flow and financial condition.

Moreover, the expansion of our service offering to all nine South African provinces has increased our dependence on our contract with SASSA, which is and will continue to be our largest customer. For the fiscal year ended June 30, 2012, our pension and welfare accounted for approximately 41% of our revenues. If we were to lose all or part of these revenues for any reason, our business would suffer significantly.

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

In order to meet our obligations under our SASSA contract, we are required to deposit government funds, which will ultimately be used to pay social welfare grants, with financial institutions in South Africa before commencing the payment cycle. If these financial institutions are unable to meet their commitments to us, in a timely manner or at all, we would be unable to discharge our obligations under our SASSA contract and could be subject to 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.

***Two of the unsuccessful tenderors have challenged SASSA s award of the tender to us.***

On February 8, 2012, AllPay filed an application in the North Gauteng High Court of South Africa seeking to set aside the award of the SASSA tender to us. AllPay was one of the unsuccessful bidders during the recent SASSA tender process and was a former contractor to SASSA. We are included as one of several respondents in this proceeding. As a respondent, we are entitled to oppose the application, which we are doing. When SASSA publicly announced the award of the tender to us in January 2012, it stated that it had conducted the tender in accordance with all relevant legislation. The matter was argued before the High Court on May 29 to 31, 2012, and we expect that judgment will be handed down during the first quarter of fiscal 2013. Any of the parties to the proceeding will thereafter be entitled to apply to the High Court for leave to appeal the judgment and, provided that such leave is granted, the appeal process could take several months to be finalized. We cannot predict when the proceeding will be resolved or its ultimate outcome.

On February 3, 2012, another unsuccessful bidder and former SASSA contractor, Empilweni Payout Services (Pty) Ltd, requested SASSA to provide it with all reasons for the award and information that we provided to SASSA in connection with the tender process. Empilweni filed a High Court application to compel SASSA to provide such reasons and information. We opposed the application but SASSA provided certain of the requested information to Empilweni pursuant to an agreed court order. No further action is expected in this proceeding.

In addition, on March 22, 2012, Empilweni filed an urgent High Court application to interdict and restrain SASSA from taking any steps to implement our appointment as a service provider of SASSA in the province of Mpumalanga, pursuant to the award of the tender. On March 27, 2012 the High Court ruled that the matter was not urgent and accordingly it was struck from the court roll. If Empilweni wants to proceed, it would have to do so on a non-urgent basis. Empilweni has taken no further steps to advance this proceeding since March 27, 2012.

If AllPay s challenge is successful, the contract could be set aside. If Empilweni advances proceedings and is successful a portion of the contract could be set aside. It is also possible that other unsuccessful bidders may challenge the award. Our management may be required to expend significant time and resources in an attempt to defeat these challenges.

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

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

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

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

Acquisitions of businesses or other material operations and the integration of these acquisitions will require significant attention from our senior management which may divert their attention from our day to day business. The difficulties of integration may be increased by the necessity of coordinating geographically dispersed organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures. We also may not be able to maintain key employees or customers of an acquired business or realize cost efficiencies or synergies or other benefits that we anticipated when selecting our acquisition candidates. In addition, we may need to record write-downs from future impairments of goodwill or other intangible assets, which could reduce our future reported earnings. Finally, acquisition candidates may have liabilities or adverse operating issues that we fail to discover through due diligence prior to the acquisition.

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

As of June 30, 2012, we had approximately $94 million of outstanding indebtedness, which we incurred to finance the KSNET acquisition. These loans are secured by substantially all of KSNET s assets, a pledge by Net1 Korea of its entire equity interest in KSNET and a pledge by the immediate parent of Net1 Korea (also one of our subsidiaries) of its entire equity interest in Net1 Korea. The terms of the loan facility require Net1 Korea and its consolidated subsidiaries to maintain certain specified financial ratios (including a leverage ratio and a debt service coverage ratio) and restrict their ability to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make capital expenditures above specified levels, engage in certain business combinations and engage in other corporate activities. Although these covenants only apply to our Korean subsidiaries, these security arrangements and covenants may reduce our operating flexibility or our ability to engage in other transactions that may be beneficial to us. If we are unable to comply with these covenants, we could be in default and the indebtedness could be accelerated. If this were to occur, we might not be able to obtain waivers of default or to refinance the debt with another lender and as a result, our business and financial condition would suffer.

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

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

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

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

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

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

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

***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.***

The incumbent South African retail banks have created a common banking product, generally referred to as a Mzansi account, for unbanked South Africans, which offers limited transactional capabilities at reduced charges, when compared to the accounts traditionally offered by these banks. According to the FinScope survey, which is an annual survey conducted by the FinMark Trust, a non-profit independent trust, approximately 4.4 million and 3.5 million people in South Africa claimed to use a Mzansi account in 2009 and 2008, respectively. As the competition to bank the unbanked in South Africa intensifies with the Mzansi account and other similar product offerings, we may not be successful in marketing our low-cost banking product to our target population.

Moreover, as our product offerings increase and gain market acceptance in South Africa, the banks and SAPO may seek governmental or other regulatory intervention if they view us as disrupting their funds transfer or other businesses.

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

Our primary competitors in the payment processing market include other independent processors, as well as financial institutions, independent sales organizations, and, potentially card networks. Many of our competitors are companies who are larger than we are and have greater financial and operational resources than we have.

These factors may allow them to offer better pricing terms or incentives to customers, which could result in a loss of our potential or current customers or could force us to lower our prices as well. Either of these actions could have a significant effect on our revenues and earnings.

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

***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.

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

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

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

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

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

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

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

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

***We may have difficulty managing our growth, especially as we expand our business internationally.***

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

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

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

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

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

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

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

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

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

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

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

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

The South African rand, or ZAR, is the primary operating currency for our business operations while our financial results are reported in US dollars. This means that as long as the ZAR remains our primary operating currency, depreciation in the ZAR against the US dollar, and to a lesser extent, the Korean won, would negatively impact our reported revenue and net income, while a strengthening of the ZAR would have the opposite effect. Depreciation in the ZAR may negatively impact the prices at which our stock trades. The US dollar/ZAR exchange rate has historically been volatile and we expect this volatility to continue. We provide detailed information about historical exchange rates in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Currency Exchange Rate Information.

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

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

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

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

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

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

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

The South African government, through the Broad-Based Black Economic Empowerment Act, 2003, established a legislative framework for the promotion of BEE. The law recognizes two distinct mechanisms for the achievement of BEE objectives compliance with codes of good practice, which have already been issued, and compliance with industry-specific transformation charters. Although the charter that will likely apply to our company has not yet been finalized, we believe it is likely that the charter will not differ substantially from the codes of good practice. Achievement of BEE objectives is measured by a scorecard which establishes a weighting to various components of BEE. One component of BEE is achieving a certain percentage of shareholdings by black South Africans in South African businesses over a period of years. This shareholding component carries the highest BEE scorecard weighting. Other components include procuring goods and services from black-owned businesses or from businesses that have earned good BEE scores and achieving certain levels of black South African employment. Compliance with the codes and applicable charters are not enforced through civil or criminal sanction, but compliance does affect the ability of a company to secure contracts in the public and private sectors.

Thus, it will be important for us to achieve applicable BEE objectives. Failing to do so could jeopardize our ability to maintain existing business, including our South African pension and welfare business, or to secure future business.

In 2012, we entered into a Broad Based Black Economic Empowerment transaction pursuant to which we granted an option to purchase up to 8,955,000 shares of our common stock to a special purpose vehicle that represents a consortium of black South Africans, community groups and the Net1 Foundation (the BBBEE consortium ). The option is exercisable at a price of US$8.96 per share at any time until April 19, 2013. One of the primary purposes of entering into this transaction was to improve our BEE score. However, to date the option granted to the BBBEE consortium has not been exercised and if it expires unexercised or it is exercised only in part, we may not achieve the objectives we sought to achieve when we entered into the transaction. Refer to Note 16 to our consolidated financial statements.

We have taken a number of actions as a company to increase empowerment of black South Africans, including the BBBEE transaction discussed above. However, it is possible that these actions may not be sufficient to enable us to achieve applicable BEE objectives. In that event, in order to avoid risking the loss of our government and private contracts, we may have to seek to comply through other means, including by selling or placing additional shares of Net1 or of our South African subsidiaries to black South Africans. Such sales of shares could have a dilutive impact of your ownership interest, which could cause the market price of our stock to decline.

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

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

Although Net1 is a US corporation and is not itself subject to South African exchange control regulations, these regulations do restrict the ability of our South African subsidiaries to raise and deploy capital outside the Common Monetary Area, to borrow money in currencies other than the South African rand and to hold foreign currency. Exchange control restrictions may also affect the ability of these subsidiaries to pay dividends to Net1 unless the affected subsidiary can show that any payment of such dividend will not place it in an over-borrowed position. As of June 30, 2012, approximately 59% 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; (iv) repatriate to South Africa profits of foreign operations; and (v) limit our business 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.***

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

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

Emerging markets such as South Africa, as well as some of the other markets into which we have recently begun to expand, including African countries outside South Africa, South America, Southeast Asia and Central and Eastern Europe, are subject to greater risks than more developed markets. While we focus our business primarily on emerging markets because that is where we perceive there to be the greatest opportunities to market our products and services successfully, the political, economic and market conditions in many of these markets present risks that could make it more difficult to operate our business successfully.

Some of these risks include:

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

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

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

## Risks Relating to Government Regulation

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

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

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

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

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

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

The South African retail banking market is highly regulated. Under current law and regulations, our South African social welfare grant distribution and wage payment business activities in the unbanked market requires us to be registered as a bank in South Africa or to have access to an existing banking license. We are not currently so registered, but we have entered into an agreement with Grindrod Bank Limited that enables us to implement our social welfare grant distribution and wage payment solution in compliance with the relevant laws and regulations. If the agreement were to be terminated, we would not be able to operate these services unless we were able to obtain access to a banking license through alternate means.

In addition, the South African Financial Advisory and Intermediary Services Act, 2002, requires persons who give advice regarding the purchase of financial products or who act as intermediaries between financial product suppliers and consumers in South Africa to register as financial service providers. We have applied for a license under this Act in order to continue to provide advice and intermediary services in respect of the financial products on which we advise and the payment processing services we provide in South Africa on behalf of insurers and other financial product suppliers. If we fail to obtain this license, we may be stopped from continuing this part of our business in South Africa.

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

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

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

We are subject to regulations in a number of the countries in which we operate relating to the collection, use, retention, security and transfer of personally identifiable information about the people who use our products and services, in particular, personal financial and health information. New laws in this area have been passed by several jurisdictions, and other jurisdictions are considering imposing additional restrictions. The interpretation and application of user data protection laws are in a state of flux. These laws may be interpreted and applied inconsistently from country to country and our current data protection policies and practices may not be consistent with those interpretations and applications. Complying with these varying requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

Any failure, or perceived failure, by us to comply with any regulatory requirements or international privacy or consumer protection-related laws and regulations could result in proceedings or actions against us by governmental entities or others, subject us to significant penalties and negative publicity and adversely affect us. In addition, as noted above, we are subject to the possibility of security breaches, which themselves may result in a violation of these laws.

## Risks Relating to our Common Stock

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

Our stock price has experienced recent significant volatility. During the 2012 fiscal year, our stock price ranged from a low of $5.77 to a high of $11.21. 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:

- the extent to which we are able to implement our new SASSA contract successfully;
- fluctuations in currency exchange rates, particularly the US dollar/ZAR exchange rate;
- quarterly variations in our operating results, especially if our operating results fall below the expectations of securities analysts and investors;
- announcements of acquisitions, disposals or impairments of intangible assets;
- the timing of or delays in the commencement, implementation or completion of major projects;
- large purchases or sales of our common stock;
- general conditions in the markets in which we operate; and
- economic and financial conditions.

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

There is a concentration of ownership of our outstanding common stock because approximately 41% of our outstanding common stock is owned by two shareholders. Based on their most recent SEC filings disclosing ownership of our shares, International Value Advisers, LLC, or IVA, and investment entities affiliated with General Atlantic LLC beneficially owned 27.2% and 14.1% of our outstanding common stock, respectively. General Atlantic also has the right to representation on our board of directors although it is not currently exercising that right.

In addition, pursuant to a Broad Based Black Economic Empowerment transaction described above, we have granted an option to purchase up to 8,955,000 shares of our common stock, equal to 19.7% of our current issued and outstanding shares, to the BBBEE consortium. The option is exercisable at US$8.96 per share at any time until April 19, 2013. The BBBEE consortium is currently represented on our board by invitation and has the right to representation on our board if and so long as it owns more than 10% of our outstanding common stock.

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

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

We may require additional financing to fund future operations, including expansion in current and new markets, programming development and acquisition, capital costs and the costs of any necessary implementation of technological innovations or alternative technologies, or to fund acquisitions. Because of the exposure to market risks associated with economies in emerging markets, we may not be able to obtain financing on favorable terms or at all. If we raise additional funds by issuing equity securities, the percentage ownership of our current shareholders will be reduced, and the holders of the new equity securities may have rights superior to those of the holders of shares of common stock, which could adversely affect the market price and voting power of shares of common stock. If we raise additional funds by issuing debt securities, the holders of these debt securities would similarly have some rights senior to those of the holders of shares of common stock, and the terms of these debt securities could impose restrictions on operations and create a significant interest expense for us.

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

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

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

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

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

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

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

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

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

While Net1 is incorporated in the state of Florida, United States, the company is headquartered in Johannesburg, South Africa and substantially all of the company s assets are located outside the United States.

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

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

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

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

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We lease our corporate headquarters facility which consists of approximately 83,000 square feet in Johannesburg, South Africa. We also lease properties throughout South Africa, a 12,088 square foot manufacturing facility in Lazer Park, a 14,230 square foot manufacturing facility in Brakpan and 96 depot facilities. We also lease additional office space in Johannesburg, Pretoria, Cape Town and Durban, South Africa; Vienna, Austria; Seoul, Republic of Korea; Moscow, Russia; New York, New York and Fredrick, Maryland. These leases expire at various dates through 2017.

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

**ITEM 3. LEGAL PROCEEDINGS**

On February 8, 2012, AllPay Consolidated Investment Holdings (Pty) Ltd filed an application in the North Gauteng High Court of South Africa seeking to set aside the award of the SASSA tender to us. AllPay was one of the unsuccessful bidders during the recent SASSA tender process and was a former contractor to SASSA. We are included as one of several respondents in this proceeding. As a respondent, we are entitled to oppose the application, which we are doing. When SASSA publicly announced the award of the tender to us in January 2012, it stated that it had conducted the tender in accordance with all relevant legislation. The High Court heard this matter on May 29 to 31, 2012. We expect that it will hand down a decision during the first quarter of fiscal 2013. Any of the parties to the proceeding will thereafter be entitled to apply to the High Court for leave to appeal the judgment and, provided that such leave is granted, the appeal process could take several months to be finalized. We cannot predict when the proceeding will be resolved or its ultimate outcome.

On February 3, 2012, another unsuccessful bidder and former SASSA contractor, Empilweni Payout Services (Pty) Ltd, requested SASSA to provide it with all reasons for the award and information that we provided to SASSA in connection with the tender process. Empilweni filed a High Court application to compel SASSA to provide such reasons and information. We opposed the application but SASSA provided certain of the requested information to Empilweni pursuant to an agreed court order. No further action is expected in this proceeding.

In addition, on March 22, 2012, Empilweni filed an urgent High Court application to interdict and restrain SASSA from taking any steps to implement our appointment as a service provider of SASSA in the province of Mpumalanga, pursuant to the award of the tender. On March 27, 2012 the High Court ruled that the matter was not urgent and accordingly it was struck from the court roll. If Empilweni wants to proceed, it would have to do so on a non-urgent basis. Empilweni has taken no further steps to advance this proceeding since March 27, 2012.

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

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

## ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

*Market Information*

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

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

| Period | High | Low |
|---|---|---|
| Quarter ended September 30, 2010 | $15.04 | $10.72 |
| Quarter ended December 31, 2010 | $12.97 | $10.35 |
| Quarter ended March 31, 2011 | $12.31 | $8.24 |
| Quarter ended June 30, 2011 | $8.92 | $7.29 |
| Quarter ended September 30, 2011 | $9.00 | $5.77 |
| Quarter ended December 31, 2011 | $8.59 | $5.80 |
| Quarter ended March 31, 2012 | $11.21 | $6.71 |
| Quarter ended June 30, 2012 | $10.33 | $7.79 |

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 17, 2012, there were 19 shareholders of record of our common stock. A substantially greater number of holders of our common stock are street name or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions. Our transfer agent in South Africa is Link Market Services South Africa (Pty) Ltd, 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein, 2001, South Africa.

*Dividends*

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

*Issuer Purchases of Equity Securities*

We did not purchase any shares of our common stock during the fourth quarter of fiscal 2012. We currently have $97,848,570 available under our $100 million Board of Directors approved share repurchase authorization. The authorization has no expiration date.

The table below presents our common stock purchased during fiscal 2012 per quarter:

| | Total number | Average price paid per |
|---|---|---|

| Period | of shares purchased | share (US dollars) |
|---|---|---|
| First | 180,656 | 6.25 |
| Second | - | - |
| Third | - | - |
| Fourth | - | - |
| Total fiscal 2012 | 180,656 | 6.25 |

*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, 2007, in each of our common stock, the S&P 500 companies, and the companies in the NASDAQ Industrial Index.

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected historical consolidated financial data should be read together with Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8 Financial Statements and Supplementary Data. The following selected historical financial data as of June 30, 2012 and 2011, and for the three years ended June 30, 2012 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, 2010, 2009 and 2008 and for the years ended June 30, 2009 and 2008, have been derived from our consolidated financial statements, which are not included herein. The selected historical financial data as of each date and for each period presented have been prepared in accordance with US GAAP. These historical results are not necessarily indicative of results to be expected in any future period.

**Consolidated Statements of Operations Data**
*(in thousands, except per share data)*

| | Year Ended June 30 | | | | |
|---|---|---|---|---|---|
| | **2012** | **2011(1)** | **2010** | **2009** | **2008** |
| Revenue | $ 390,264 | $ 343,420 | $ 280,364 | $ 246,822 | $ 254,056 |
| Cost of goods sold, IT processing, servicing and support | 141,000 | 109,858 | 72,973 | 70,091 | 67,486 |
| Selling, general and administrative(2) | 137,404 | 119,692 | 80,854 | 64,833 | 65,362 |
| Equity instrument granted pursuant to BBBEE transaction (3) | 14,211 | - | - | - | - |
| Depreciation and amortization | 36,499 | 34,671 | 19,348 | 17,082 | 10,822 |
| Profit on sale of microlending business | - | - | - | 455 | - |
| Impairment losses(4) | - | 41,771 | 37,378 | 1,836 | - |
| Operating income | 61,150 | 37,428 | 69,811 | 93,435 | 110,386 |
| Foreign exchange gain related to short-term investment(5) | - | - | - | 26,657 | - |
| Interest (expense) income, net | (769) | (1,018) | 9,069 | 10,828 | 15,722 |
| Income before income taxes | 60,381 | 36,410 | 78,880 | 130,920 | 126,108 |
| Income tax expense(6) | 15,936 | 33,525 | 40,822 | 42,744 | 39,192 |
| Income from continuing operations | 44,651 | 2,647 | 38,990 | 86,601 | 86,695 |
| Net income attributable to Net1 | 44,651 | 2,647 | 38,990 | 86,601 | 86,695 |
| Income from continuing operations per share: | | | | | |
| Basic | $ 0.99 | $ 0.06 | $ 0.84 | $ 1.53 | $ 1.50 |
| Diluted | $ 0.99 | $ 0.06 | $ 0.84 | $ 1.53 | $ 1.49 |

(1) KSNET was acquired effective November 1, 2010, and our reported results for fiscal 2011 include KSNET revenues of $68.4 million and a net loss of $4.1 million, after acquisition-related intangible assets amortization, deferred taxes related to acquisition-related intangible asset amortization and interest related to financing obtained to partially fund the acquisition.
(2) Selling, general and administrative expense includes a charge of $2.8 million (2012), $1.7 million (2011), $5.5 million (2010), $4.9 million (2009) and $3.8 million (2008), respectively, in respect of stock-based compensation.
(3) On April 19, 2012, we issued an option to purchase 8,955,000 shares of our common stock to a BEE consortium pursuant to a BBBEE transaction that we entered into on January 25, 2012. The fair value of the option was determined as approximately $14.2 million and has been expensed in full.
(4) Customer relationships acquired in the acquisition of Net1 UTA were impaired in fiscal 2011. Goodwill related to the hardware, software and related technology sales segment was impaired during fiscal 2010, and goodwill related to the financial services segment was impaired during fiscal 2009.
(5) The foreign exchange gain related to a short-term investment in the form of an asset swap arrangement which matured during fiscal 2009.

(6) The fully-distributed tax rate for fiscal 2012 was 28%, for fiscal 2011, 2010 and 2009 it was 34.55% and for fiscal 2008 it was 35.45% . Our income tax expense for fiscal 2012 includes the effects of the change in South African tax law to impose a 15% dividends withholding tax (a tax levied and withheld by a company on distributions to its shareholders) to replace the 10% Secondary Taxation on Companies (a tax levied directly on a company on dividend distributions) ( STC ) (refer to Note 19 of our consolidated financial statements). Our income tax expense for fiscal 2012 also includes a valuation allowance of $8.2 million related to foreign tax credits we believe we may not recover (refer to Note 19 of our consolidated financial statements). Our income tax expense for fiscal 2011 includes valuation allowances related to our Net1 UTA business of $8.9 million and a reversal of $10.4 million related to the customer impairment loss. Our income tax expense for fiscal 2009 and 2008 includes the impact of the change in the fully-distributed rate during those fiscal years of approximately $3.5 million and $5.4 million, respectively.

**Additional Operating Data:**
*(in thousands, except percentages)*

| | Year ended June 30, | | | | |
|---|---|---|---|---|---|
| | **2012(1)** | **2011(1)** | **2010(1)** | **2009** | **2008** |
| Cash flows provided by operating activities | $ 20,406 | $ 66,223 | $ 68,683 | $ 106,768 | $ 118,760 |
| Cash flows used in investing activities | $ 292,539 | $ 323,685 | $ 90,186 | $ 107,856 | $ 3,903 |
| Cash flows provided by (used in) financing activities . | $ 231,907 | $ 183,269 | $ (48,478) | $ (40,248) | $ 2,864 |
| Operating income margin | 16% | 11% | 25% | 38% | 43% |

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

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

| | As of June 30, | | | | |
|---|---|---|---|---|---|
| | **2012** | **2011** | **2010** | **2009** | **2008** |
| Cash and cash equivalents | $ 39,123 | $ 95,263 | $ 153,742 | $ 220,786 | $ 272,475 |
| Total current assets before settlement assets | 175,236 | 213,421 | 226,429 | 290,294 | 345,734 |
| Goodwill (1) | 182,737 | 209,570 | 76,346 | 116,197 | 76,938 |
| Intangible assets (1) | 93,930 | 119,856 | 68,347 | 75,890 | 22,216 |
| Total assets | 955,893 | 781,645 | 472,090 | 499,487 | 454,071 |
| Total current liabilities before settlement obligations | 75,367 | 104,396 | 57,927 | 77,809 | 76,503 |
| Total long-term debt | 79,760 | 111,776 | 4,343 | 4,185 | 3,766 |
| Total Net1 equity | $ 341,515 | $ 323,006 | $ 285,878 | $ 373,217 | $ 340,328 |

(1) Refer to Note 9 to our consolidated financial statements for discussion of the movement in our goodwill and intangible assets during fiscal 2011.

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

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

### Overview

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

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

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

Our technology is widely used in South Africa today, where we distribute pension and welfare payments, using our UEPS/EMV technology, to over nine million recipients across the entire country, process debit and credit card payment transactions on behalf of retailers that we believe represent nearly 65% of retailers within the formal retail sector in South Africa 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 that processes monthly payments for approximately 1,250 employer groups representing over 850,000 employees. Our MediKredit service provides the majority of funders and providers of healthcare in South Africa with an on-line real-time management system for healthcare transactions. We perform a similar service in the US through our XeoHealth subsidiary.

Internationally, though KSNET, the second largest transaction processor by volume in Korea, we offer card processing, payment gateway and banking value-added services in that country. The acquisition of KSNET during the second quarter of fiscal 2011, expands our international footprint as well as diversifies our revenue, earnings and product portfolio. We have also concluded deals for the provision of MVC services and/or licenses with customers in Mexico, Spain and India.

**Sources of Revenue**

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

We have structured our business and our business development efforts around four related but separate approaches to deploying our technology. In our most basic approach, we act as a supplier, selling our equipment, software, and related technology to a customer. As an example, in Ghana, we sold a complete UEPS to the Central Bank, which owns and operates the resulting transaction settlement system. The revenue and costs associated with this approach are reflected in our hardware, software and related technology sales 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 and wages on behalf of employers 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 smart card accounts, South African transaction-based activities and financial services segments. We have adopted a variation of this approach in Iraq, where we operate a UEPS system on an outsourced basis on behalf of a consortium consisting of the Iraqi government and local Iraqi banks, in return for transaction fees based on the volume and value of transactions processed through the system.

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

Through KSNET, we earn most of our revenue from payment processing services we provide to approximately 220,000 merchants and to card issuers in Korea through our value-added network. In the US, we earn transaction fees from our customers utilizing our XeoRules on-line real-time management system for healthcare transactions. We also generate fees from our customers who utilize our VCPay technology to generate a unique, one-time use prepaid virtual card number to securely purchase goods and services or perform bill payments in any card not present environment. The revenue and costs at KSNET, XeoHealth and VCPay as well as those from our Iraqi contract, are reflected in our international transaction-based activities segment.

We also generate fees from transaction processing for both funders and providers of healthcare in South Africa and from providing a payroll transaction management service to South African companies. In both cases, the revenue and costs associated with these services are reflected in our South African transaction-based activities segment.

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

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

**Business Developments during Fiscal 2012**

***South Africa***

*SASSA contract*

On January 17, 2012, SASSA awarded us a tender to provide payment services for social grants in all of South Africa s nine provinces for a period of five years. On February 3, 2012, we entered into a new contract, together with a related service level agreement, with SASSA pursuant to which we pay, on behalf of SASSA, social grants to all persons nationally who are entitled to receive such grants, for a firm price of ZAR16.44 per beneficiary paid, or ZAR 14.42 net of VAT. The new pricing terms became effective on April 1, 2012, upon the March 31, 2012 expiration of our then-existing contract with SASSA to provide social grant distribution in five provinces. Thus, our fiscal 2012 results of operations include three quarters of operations under the prior contract, which contained a standard pricing formula for all five provinces based on a transaction fee per beneficiary paid, regardless of the number or amount of grants paid per beneficiary, calculated on a guaranteed minimum number of beneficiaries per month.

We commenced the implementation of our new contract during the third quarter of fiscal 2012. The implementation is being conducted in two phases. The first phase involved issuing approximately 2.5 million MasterCard-branded debit cards to beneficiaries that we did not serve under our previous contract in order to establish the payment process to pay all social grants in the country. We commenced the national grant payment process for approximately 9.2 million beneficiaries on April 2, 2012 and thus successfully completed the first phase of implementation.

The second phase requires us to re-enroll all social grant beneficiaries in South Africa. This enrollment process will require us to capture the personal and biometric information of each beneficiary and issue each grant recipient with our latest MasterCard-branded UEPS/EMV combination smart cards. These smart cards can be used across all elements of the South African National Payment System, including at ATMs and POSs, in addition to our current UEPS merchant acquiring system and mobile pay points. We commenced the second phase of the enrollment process in early July 2012 and plan to be substantially complete by March 2013.

In order to complete the first phase of the implementation on time, we hired approximately 2,500 temporary employees required to assist with the first phase of the beneficiary enrollment process. Once we have completed the second phase, we expect our permanent employee base to increase from pre-new contract levels by approximately 900 people. Additionally, following the conclusion of the new service level agreement, we paid certain of our executives and key employees special bonuses of $5.4 million (ZAR 41.8 million) in recognition of their contributions to the compilation of the successful SASSA tender, the development of the new technologies and the support provided for the implementation of the tender award.

During fiscal 2012 we incurred direct implementation expenses (excluding the bonuses discussed above) of approximately $10.9 million (ZAR 83.9 million) including staff, travel, premises hire for enrollment, stationery, delivery and advertising costs. We are unable to quantify the value of time spent by our executives and pension and welfare operations managers and staff that service the five provinces in which we operated under the previous contract and that have assisted in the implementation of the national award. We also incurred approximately $21.2 million in capital expenditures, primarily to acquire registration workstations, payment vehicles and the branch infrastructure required for the national implementation. We anticipate cumulative capital expenditures related to the ramp of our national contract to be in the $45 to $50 million range, of which roughly two-thirds should be incurred by the end of the second quarter of fiscal 2013.

See Item 1A Risk Factors and Item 3 Legal Proceedings for more information and the risks associated with ou SASSA contract, the recently initiated new tender process and for an update on litigation between us and SASSA.

*Issue of option pursuant to Broad Based Black Economic Empowerment transaction*

On April 19, 2012, we issued a one-year option to purchase 8,955,000 shares of our common stock to a BEE consortium pursuant to the previously-announced BEE transaction that we entered into on January 25, 2012. While we believe that this transaction will improve our BEE rating, and therefore provide us with additional business opportunities in South Africa, additional steps may become necessary to achieve these goals.

For a discussion of additional risks associated with compliance with the South African Broad Based Black Economic Empowerment Act, please see the risk factor entitled If we do not achieve applicable black economic empowerment objectives in our South African businesses, we risk losing our government and private contracts. In addition, it is possible that we may be required to achieve black shareholding of our company in a manner that could dilute your ownership. in Item 1A.

*Acquisition of SmartLife*

On July 1, 2011, we acquired SmartLife, a South African long-term insurance company, for ZAR 13 million (approximately $1.8 million) in cash. Prior to its acquisition by us, Smart Life had been administered as a ring-fenced life-insurance license by a large South African insurance company, had not written any new insurance business for a number of years and had reinsured all of its risk exposure under its life insurance products. SmartLife has been allocated to our financial services operating segment.

The acquisition of SmartLife provides us with an opportunity to offer relevant insurance products directly to our existing customer and employee base in South Africa. We intend to offer this customer base a full spectrum of products applicable to this market segment, including credit life, group life, funeral and education insurance policies.

*Acquisition of Eason prepaid airtime and electricity business*

On October 3, 2011, we acquired the South African prepaid airtime and electricity businesses of Eason & Son, Ltd, or Eason, an Irish private limited company, for approximately $4.5 million in cash. The principal assets acquired comprise customer and supplier lists, accounts receivable books, inventory, point of service terminals and a perpetual license to utilize Eason s internally developed transaction-based system software, namely EBOS. The business has been integrated with EasyPay and has been allocated to our South African transaction-based activities operating segment. We expect over time to integrate all of our prepaid offerings onto the EBOS system.

*South African transaction processors, excluding pension and welfare*

FIHRST continues to grow its market share in the employer and employee payment processing space via the offering of our expanded services and the acquisition of new employer and employee groups. MediKredit signed agreements with new providers, including public hospitals, private hospitals and specialist doctors, and has commenced adjudication and processing activities for these providers.

*Partnership with MasterCard*

Following our EMV certification and subsequent strategic decision to issue MasterCard-branded UEPS/EMV cards to our welfare recipients in South Africa as part of our SASSA contract, we entered into a partnership with MasterCard to facilitate the interoperability of our UEPS technology with the traditional EMV payment system to address the financial services needs of the unbanked population in South Africa and a number of other emerging African countries by leveraging the UEPS/EMV technology.

*Partnership with Vodacom*

As part of our national SASSA rollout in South Africa, we have partnered with Vodacom, one of the largest mobile operators in the country and a subsidiary of Vodafone Group, to issue welfare recipients with a free Vodacom SIM card in addition to our UEPS/EMV smart card as a way to communicate monthly with beneficiaries regarding grant information, a free phone call for voice biometric verification, and a channel to distribute customized marketing offers via SMS for various products and services.

**Outside South Africa**

***KSNET***

The KSNET management team has commenced a number of strategic initiatives in the Republic of Korea to maintain and expand our current market share and to grow into adjacent markets. In fiscal 2012, KSNET increased the number of merchants it served by 20,000 as a result of its strategic marketing initiatives to target the small and medium merchant market segment, and currently serves approximately 220,000 merchants. The competitive value added network environment in Korea has resulted in a nominal anticipated loss of operation margin, which we expect to continue for the foreseeable future, and expect further nominal margin loss in the short to medium-term. However, management expects that its efforts to penetrate the small and medium sized merchant base as well as the introduction of additional services that leverage the existing infrastructure may improve the unit s margin profile over time.

***XeoHealth***

During the second quarter of fiscal 2012, we commenced processing 4010 and 5010 data, including capitation information and creating state reporting claims files for Community Behavioral Health, or CBH, a not-for-profit corporation contracted by the City of Philadelphia to provide behavioral health services for Philadelphia Medicaid recipients. XeoHealth licenses its XeoRules SaaS offering to CBH including implementation services. XeoHealth has recognized implementation revenue during the implementation phase and recurring transaction-based revenue from December 2011 from this contract.

Additionally, XeoHealth has been subcontracted by Cognosante LLC, a U.S. provider of health IT services to state and federal agencies and regional health organizations, to assist with the provision of recovery audit contractor, or RAC, services to the North Dakota Department of Human Services, Medical Services Division. XeoHealth will earn a fee based on a percentage of the final recoveries identified by our XeoRules claims auditing service for the past five years, as well as the desk review recovery referrals identified through our XeoRules engine until June 30, 2013. In addition to the North Dakota RAC, XeoHealth has also been subcontracted by Cognosante to provide both the automated audit as well the analysis services as required by the RAC for the State of Missouri Medicaid.

XeoHealth will be compensated based on a percentage of the final recoveries identified by our XeoRules claims re-adjudicating service for the audit period of three years, as well as the desk review recovery referrals identified through our XeoRules engine. We expect XeoHealth to commence providing RAC services by September 2012.

XeoRules is XeoHealth s internally developed 5010 and ICD-10 enabled real-time claims adjudication engine. XeoRules significantly reduces the time and radically improves the efficiency and accuracy of healthcare claims adjudication and data processing. We continue to enjoy significant interest from various participants in the U.S. healthcare industry in our solution for the current and newly updated Health Insurance Portability and Accountability Act-mandated electronic data interchange transactions.

***Mobile Virtual Card***

We launched our VCPay offering in the United States during fiscal 2011. Our mobile phone-based virtual payment card application is designed to eliminate fraud in card not present transactions. During the first quarter of fiscal 2012, we engaged the services of a specialist advisory firm to assist us with the general management of our VCPay initiatives in the US, the identification of the various strategic channels for VCPay deployment and the commercialization of VCPay in our targeted industry verticals.

The Banamex VCPay initiative in Mexico is currently in the system integration testing phase, with hardware having been deployed and prepared for launch in the second quarter of fiscal 2013. We believe that this first implementation of our VCPay technology in Latin America, spearheaded by one of the largest financial institutions in the region, as a catalyst to increase the footprint of VCPay services in the region.

Late in fiscal 2012, we have signed additional MVC deployments with new customers in Spain and India.

***The African Continent and Iraq***

During fiscal 2012, NUETS recorded revenue from transaction fees under its contract with the government of Iraq. NUETS has entered the second phase of its initiative in Ghana and now generates recurring income in the form of hardware and software maintenance fees. According to data from our customer, Ghana Interbank Payment and Settlement Systems, during the first six months of calendar 2012, value and volume of transactions involving e-Zwich increased ten-fold since January 1, 2012 and as additional payment infrastructure is deployed, usage is expected to increase further. Although we do not receive a transaction fee from our system in Ghana, we believe that the increase in usage demonstrates the attractiveness of our technology in countries outside South Africa.

NUETS continued to service its current customers on the African continent and in Iraq and continued its business development efforts, including responding to a number of tenders, in multiple countries on the African continent during the year. In addition, NUETS has developed a limited investment / software as a service business model and we expect to deploy the UEPS technology in selected African markets using this approach in the future.

Our partnership with MasterCard may also bring us additional business development opportunities for current or future MasterCard member banks who seek the offline and additional functionality incorporated in our new UEPS/EMV payment technology.

**Reallocation of certain activities among reporting segments**

During fiscal 2012, we made the following changes to our reporting segments:

- We have reallocated our EP Kiosk business unit to the South African transaction-based activities segment from the hardware, software and related technology sales segment, as the unit is no longer in pilot phase and now forms part of EasyPay;
- Following XeoHealth s first contract announcement, we have allocated its revenue and costs to the international transaction-based activities segment which were previously included in the South African transaction-based activities segment; and
- Revenue and administration costs related to our comprehensive financial services offerings are now all included in the financial services segment.

The tables below present our revenue and operating income, both as reported and as revised to reflect the reallocations described above, for each quarter of fiscal 2011:

Furthermore, the activities of Net1 UTA related primarily to the commercialization of our MVC offering during the first quarter of fiscal 2012 have been allocated to our international transaction-based activities operating segment.

Refer to Note 22 to our consolidated financial statements for a description of our operating segments and segment financial information for fiscal 2012, 2011 and 2010.

**Critical Accounting Policies**

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

***Deferred Taxation***

We estimate our tax liability through the calculations done for the determination of our current tax liability, together with assessing temporary differences resulting from the different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities which are disclosed on our balance sheet. Management then has to assess the likelihood that deferred tax assets are more likely than not to be realized in future periods. In the event it is determined that the deferred tax assets to be realized in the future would be in excess of the net recorded amount, an adjustment to the deferred tax asset valuation allowance would be recorded. This adjustment would increase income in the period such determination was made. Likewise, should it be determined that all or part of the net deferred tax asset would not be realized in the future, an adjustment to increase the deferred tax asset valuation allowance would be charged to income in the period such determination is made. In assessing the need for a valuation allowance, historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and practicable tax planning strategies are considered. During fiscal 2012, 2011, and 2010, we recorded increases to our valuation allowance of $12.0 million, $19.5 million and $5.0 million, respectively.

***Stock-based Compensation and Equity Instrument issued pursuant to BBBEE transaction***

***Stock-based compensation***

Management is required to make estimates and assumptions related to our valuation and recording of stock-based compensation charges under current accounting standards. These standards require all share-based compensation to employees to be recognized in the statement of operations based on their respective grant date fair values over the requisite service periods and also requires an estimation of forfeitures when calculating compensation expense. We utilize the Cox Ross Rubinstein binomial model to measure the fair value of stock options granted to employees and directors and recognize compensation cost on a straight line basis. Option-pricing models require estimates of a number of key valuation inputs including expected volatility, expected dividend yield, expected term and risk-free interest rate. Our management has estimated forfeitures based on historic employee behavior under similar compensation plans. No stock options were granted during fiscal 2010. The fair value of stock options is affected by the assumptions selected. Net stock-based compensation expense from continuing operations was $2.8 million, $1.7 million, and $5.7 million for fiscal 2012, 2011 and 2010, respectively. Net stock-based compensation expense for fiscal 2011, includes a reversal of $3.5 million related to a portion of the restricted stock granted in August 2007 that did not vest as the performance condition prescribed in the terms of the awards was not met.

***Equity instrument***

We recorded $14.2 million of expense associated with the issuance of equity instruments as part of the BBBEE transaction during fiscal 2012 as such awards were fully vested during the period.

***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 2012, 2011 and 2010, 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. For instance, during fiscal 2011, we recognized an impairment loss of approximately $41.8 million related to the entire carrying value of customer relationships acquired in the Net1 UTA acquisition in August 2008.

***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 value of our business as a whole and allocate this value across our reporting units based on the weighted average of the returns 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 2012 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.

***Accounts Receivable and Provision for Doubtful Debts***

We maintain a provision for doubtful debts related to our hardware, software and related technology sales and international transaction-based activities segments as a result of sales or rental of hardware, support and maintenance services provided; or sale of licenses to customers; or the provision of transaction processing services to our customers. Our policy is to regularly review the aging of outstanding amounts due from customers and adjust the provision based on management s estimate of the recoverability of the amounts outstanding. Management considers factors including period outstanding, creditworthiness of the customers, past payment history and the results of discussions by our credit department with the customer. We consider this policy to be appropriate taking into account factors such as historical bad debts, current economic trends and changes in our customer payment patterns. Additional provisions may be required should the ability of our customers to make payments when due deteriorate in the future. A significant amount of judgment is required to assess the ultimate recoverability of these receivables, including on-going evaluation of the creditworthiness of each customer.

***Research and Development***

Accounting standards require product development costs to be charged to expenses as incurred until technological feasibility is attained. Technological feasibility is attained when our software has completed system testing and has been determined viable for its intended use. The time between the attainment of technological feasibility and completion of software development has been short. Accordingly, we did not capitalize any development costs during the years ended June 30, 2012, 2011 or 2010, particularly because the main part of our development is the enhancement and upgrading of existing products.

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

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

**Recent Accounting Pronouncements**

*Recent accounting pronouncements adopted*

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

*Recent accounting pronouncements not yet adopted as of June 30, 2012*

Refer to Note 2 of our consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of June 30, 2012, including the expected dates of adoption and effects on financial condition, results of operations and cash flows.

**Currency Exchange Rate Information**

***Actual exchange rates***

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

| **Table 3** | **Year ended June 30,** | | |
|---|---|---|---|
| | **2012** | **2011 (1)** | **2010** |
| ZAR : $ average exchange rate | 7.7920 | 7.0286 | 7.6117 |
| Highest ZAR : $ rate during period | 8.6987 | 7.7809 | 8.3187 |
| Lowest ZAR : $ rate during period | 6.6096 | 6.4925 | 7.1731 |
| Rate at end of period | 8.2881 | 6.8449 | 7.6529 |
| | | | |
| KRW : $ average exchange rate | 1,130 | 1,113 | n/a |
| Highest KRW : $ rate during period | 1,202 | 1,169 | n/a |
| Lowest KRW : $ rate during period | 1,029 | 1,059 | n/a |
| Rate at end of period | 1,159 | 1,079 | n/a |

(1) KRW : $ average, highest and lowest exchange rates are from November 1, 2010 (KSNET acquisition date) to June 30, 2011.

***Translation exchange rates***

We are required to translate our results of operations from ZAR to US dollars on a monthly basis. Thus, the average rates used to translate this data for the years ended June 30, 2012, 2011 and 2010, 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:

| **Table 4** | | **Year ended June 30,** | |
|---|---|---|---|
| | **2012** | **2011** | **2010** |
| Income and expense items: $1 = ZAR | 7.7186 | 6.9962 | 7.6092 |
| Income and expense items: $1 = KRW | 1,104 | 1,121 | n/a |
| | | | |
| Balance sheet items: $1 = ZAR | 8.2881 | 6.8449 | 7.6529 |
| Balance sheet items: $1 = KRW | 1,159 | 1,079 | n/a |

**Results of Operations**

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

Fiscal 2012 results include SmartLife from July 1, 2011, and Eason from October 1, 2011 and KSNET, MediKredit and FIHRST. Fiscal 2011 results include MediKredit and FIHRST for the entire period and KSNET from November 1, 2010, but do not include Eason and SmartLife. Fiscal 2010 results include MediKredit and FIHRST from January 1, 2010 and March 31, 2010, respectively, and do not include KSNET, SmartLife and Eason.

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

***Fiscal 2012 Compared to Fiscal 2011***

The following factors had an influence on our results of operations during fiscal 2012 as compared with the same period in the prior year:

- ***Impact of new SASSA contract:*** Our new SASSA contract has resulted in higher revenues from SASSA during the fourth quarter of fiscal 2012. We commenced implementing the new contract during the third quarter of fiscal 2012 and incurred additional implementation and staff costs of approximately $10.9 million,excluding cash bonuses of $5.4 million which were paid as a result of the tender award to us;
- ***Unfavorable impact from the strengthening of the US dollar:*** The US dollar appreciated by 10% against the ZAR during fiscal 2012 which negatively impacted our reported results;
- ***Replacement of STC with a dividends withholding tax in South Africa:*** As a result of a change in South African tax law that replaces STC with a dividends withholding tax, our tax expense includes the positive impact of a $18.3 million deferred tax benefit;
- ***Foreign tax credit valuation allowance:*** Our tax expense includes the negative impact of a $8.2 million foreign tax credit valuation allowance;

- ***Fair value charge resulting from issue of equity instrument pursuant to BBBEE transaction:*** The fair value charge of $14.2 million related to our BBBEE transaction negatively impacted our reported results during fiscal 2012;
- ***Inclusion of revenue contribution from KSNET at lower operating margin (before acquired intangible asset amortization) than our legacy business:*** The inclusion of KSNET contributed to an increase in revenues for fiscal 2012; however, because KSNET has an operating margin (before acquired intangible asset amortization) that is lower than our legacy businesses, it reduced our overall operating margin. KSNET also contributed to the increase in selling, general and administration and depreciation and amortization expenses;
- ***Inclusion of revenue contribution from Eason at lower operating margin than our legacy business:*** The inclusion of the acquired Eason business from the second quarter of fiscal 2012 contributed to an increase in revenues for fiscal 2012; however, because Eason s prepaid airtime sales business has a operating margin (before acquired intangible asset amortization) that is lower than our legacy businesses, it reduced our overall operating margin;

- ***Intangible asset amortization related to acquisitions:*** We recorded additional intangible asset amortization related to the acquisitions of KSNET and Eason which was offset by the full impairment of Net1 UTA s intangibles in 2011;
- ***Profit on liquidation of SmartSwitch Nigeria:*** We recorded a non-cash profit of $4.0 million on the liquidation of SmartSwitch Nigeria in fiscal 2012; and
- ***Fiscal 2011 intangible asset impairment and transaction-related expenses:*** During 2011, we impaired intangible assets related to the Net1 UTA acquisition of $41.8 million and incurred transaction-related expenses of $5.7 million, primarily for the acquisition of KSNET.

**Consolidated overall results of operations**

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

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

**Table 5**

| | In United States Dollars (US GAAP) Year ended June 30, | | |
|---|---|---|---|
| | **2012** **$ 000** | **2011** **$ 000** | **% change** |
| Revenue | 390,264 | 343,420 | 14% |
| Cost of goods sold, IT processing, servicing and support | 141,000 | 109,858 | 28% |
| Selling, general and administration | 137,404 | 119,692 | 15% |
| Equity instrument issued pursuant to BBBEE transaction | 14,211 | - | nm |
| Depreciation and amortization | 36,499 | 34,671 | 5% |
| Impairment of intangible assets | - | 41,771 | (100)% |
| Operating income | 61,150 | 37,428 | 63% |
| Interest income | 8,576 | 7,654 | 12% |
| Interest expense | 9,345 | 8,672 | 8% |
| Income before income taxes | 60,381 | 36,410 | 66% |
| Income tax expense | 15,936 | 33,525 | (52)% |
| Net income before income (loss) from equity-accounted investments | 44,445 | 2,885 | nm |
| Income (Loss) from equity-accounted investments | 220 | (339) | (165)% |
| Net income | 44,665 | 2,546 | nm |
| Less (Add) net income (loss) attributable to non-controlling interest | 14 | (101) | (114)% |
| Net income attributable to Net1 | 44,651 | 2,647 | nm |

**Table 6**

| | In South African Rand (US GAAP) Year ended June 30, | | |
|---|---|---|---|
| | **2012** **ZAR** **000** | **2011** **ZAR** **000** | **% change** |
| Revenue | 3,012,292 | 2,402,634 | 25% |
| Cost of goods sold, IT processing, servicing and support | 1,088,322 | 768,589 | 42% |
| Selling, general and administration | 1,058,190 | 837,389 | 26% |
| Equity instrument issued pursuant to BBBEE transaction | 112,066 | - | nm |
| Depreciation and amortization | 281,722 | 242,565 | 16% |

| | | | |
|---|---|---|---|
| Impairment of intangible assets | - | 292,238 | (100% |
| Operating income | 471,992 | 261,853 | 80% |
| Interest income | 66,195 | 53,549 | 24% |
| Interest expense | 72,130 | 60,671 | 19% |
| Income before income taxes | 466,057 | 254,731 | 83% |
| Income tax expense | 123,004 | 234,548 | (48%) |
| Net income before income (loss) from equity-accounted investments | 343,053 | 20,183 | nm |
| Income (Loss) from equity-accounted investments | 1,698 | (2,372) | (172%) |
| Net income | 344,751 | 17,811 | nm |
| Less (Add) net income (loss) attributable to non-controlling interest | 108 | (707) | (115%) |
| Net income attributable to Net1 | 344,643 | 18,518 | nm |

Analyzed in ZAR, the increase in revenue was primarily due to the inclusion of KSNET, incremental revenue resulting from our new SASSA contract award, higher prepaid airtime sales resulting from the Eason acquisition, increase in the number of UEPS-based loans made, and higher utilization of our UEPS system in Iraq, offset by lower hardware and software sales.

Analyzed in ZAR, cost of goods sold, IT processing, servicing and support was higher primarily due to the inclusion of KSNET and incremental costs resulting from our new SASSA contract award.

The increase in selling, general and administration expense is the result of the KSNET acquisition and SASSA implementation costs of $10.9 million and cash bonuses of $5.4 million paid which was offset by lower stock-based compensation charge, primarily because the performance-based restricted stock granted in August 2007 was fully expensed in prior periods and due to the non-cash profit related to the liquidation of SmartSwitch Nigeria of $4.0 million. During fiscal 2011, selling, general and administration expense included transaction-related costs of $6.0 million (ZAR 42.3 million), primarily for the KSNET acquisition.

The grant date fair value of the equity instrument issued pursuant to our January 2012 BBBEE transaction was $14.2 million (ZAR 112.1 million) and has been expensed in full in fiscal 2012.

Our operating income margin for fiscal 2012 and 2011 was 16% and 11%, respectively. We discuss the components of the operating income margin under Results of operations by operating segment , however the increase is attributable to lower stock-based compensation charges and the non-cash profit related to the liquidation of SmartSwitch Nigeria of $4.0 million in fiscal 2012 compared with fiscal 2011 and transaction-related costs during fiscal 2011.

In ZAR, depreciation and amortization increased primarily as a result of an increase in depreciation related to assets used to service our obligations under our new SASSA contract and an increase in KSNET depreciation and intangible asset amortization, but was partially offset by the full impairment of Net1 UTA intangibles in 2011. The intangible asset amortization related to our various acquisitions has been allocated to our operating segments as presented in the tables below:

| **Table 7** | **Year ended June 30,** | |
|---|---|---|
| | **2012** | **2011** |
| | **$ 000** | **$ 000** |
| Amortization included in depreciation and amortization expense: | 19,557 | 21,692 |
| South African transaction-based activities | 6,171 | 5,702 |
| International transaction-based activities | 13,015 | 8,602 |
| Hardware, software and related technology sales | 371 | 7,388 |

| **Table 8** | **Year ended June 30,** | |
|---|---|---|
| | **2012** | **2011** |
| | **ZAR 000** | **ZAR 000** |
| Amortization included in depreciation and amortization expense: | 150,952 | 151,761 |
| South African transaction-based activities | 47,625 | 39,891 |
| International transaction-based activities | 100,458 | 60,181 |
| Hardware, software and related technology sales | 2,869 | 51,689 |

During fiscal 2011, customer relationships acquired as part of the Net1 UTA acquisition in August 2008 were reviewed for impairment following deteriorating trading conditions and uncertainty surrounding the timing and quantum of future net cash inflows. As a consequence of this review, we recognized an impairment loss of approximately $41.8 million related to the entire carrying value of customer relationships acquired. In addition, we reversed the deferred tax liability of $10.4 million associated with this intangible asset.

In ZAR, interest on surplus cash increased to $8.6 million (ZAR 66.2 million) from $7.7 million (ZAR 53.4 million). The increase resulted primarily from higher average daily ZAR cash balances offset by lower deposit rates resulting from the decrease in the South African prime interest rate from an average of approximately 9.29% to 9.00% per annum.

Interest expense increased to $9.3 million (ZAR 72.1 million) from $8.7 million (ZAR 60.7 million) due to the incurrence of long-term debt to fund a portion of the KSNET purchase price. Interest expense for fiscal 2012 and 2011 includes amortized debt facility fees of $0.4 million (ZAR 3.0 million) and $2.0 million (ZAR 13.7 million), respectively.

Total tax expense for fiscal 2012 decreased to $16.0 million (ZAR 123.0 million) from $33.5 million (ZAR 234.5 million). In fiscal 2012 our effective tax rate decreased to 26.4% from 92.1% . Our fiscal 2012 tax expense includes $18.3 million related to a change in South African tax law and the creation of a valuation allowance of $12.0 million related to foreign tax credits. The reduction in our effective tax rate was primarily due to the tax law change, a non-taxable profit on liquidation of SmartSwitch Nigeria, offset by an increase in non-deductible expenses, including stock-based compensation charges, an equity instrument issued pursuant to our BEE transaction and interest expenses related to our Korean long-term debt. Our fiscal 2011 tax expense includes the effect of the reversal of $10.4 million related to deferred tax liabilities related to impaired Net1 UTA customer relationships and a valuation allowances of $8.9 million related to Net1 UTA deferred tax assets.

Net earnings from equity-accounted investments for fiscal 2012 were $0.2 million (ZAR 1.7 million) compared with a loss of $0.3 million (ZAR 2.4 million) during fiscal 2011. We sold VinaPay in fiscal 2011 and in fiscal 2012 we did not account for the equity accounted losses in VTU Colombia as the accumulated losses have exceeded our initial investments. Net earnings from equity-accounted investments for fiscal 2012 was primarily due to an increase in transaction fees generated by SmartSwitch Namibia and SmartSwitch Botswana and due to the exclusion of VinaPay and VTU Colombia loss-making results.

**Results of operations by operating segment**

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

**Table 9** *In United States Dollars (US GAAP)*

| **Operating Segment** | **2012 $ 000** | **% of total** | **Year ended June 30, 2011 $ 000** | **% of total** | **% change** |
|---|---|---|---|---|---|
| Consolidated revenue: | | | | | |
| South African transaction-based activities | 201,207 | 52% | 189,206 | 55% | 6% |
| International transaction-based activities | 118,281 | 30% | 70,382 | 20% | 68% |
| Smart card accounts | 31,263 | 8% | 33,315 | 10% | (6%) |
| Financial services | 8,121 | 2% | 7,350 | 2% | 10% |
| Hardware, software and related technology sales | 31,392 | 8% | 43,167 | 13% | (27%) |
| **Total consolidated revenue** | 390,264 | 100% | 343,420 | 100% | 14% |
| Consolidated operating income (loss): | | | | | |
| South African transaction-based activities | 49,824 | 81% | 75,668 | 202% | (34%) |
| Operating income before amortization | 55,995 | | 81,370 | | (31%) |
| Amortization | (6,171) | | (5,702) | | 8% |
| International transaction-based activities | 1,257 | 2% | (220) | (1%) | (671%) |
| Operating income before amortization | 14,272 | | 8,382 | | 70% |
| Amortization | (13,015) | | (8,602) | | 51% |
| Smart card accounts | 12,820 | 21% | 15,140 | 40% | (15%) |
| Financial services | 4,636 | 8% | 4,999 | 13% | (7%) |
| Hardware, software and related technology sales | 3,619 | 6% | (48,372) | (129%) | (107%) |
| Operating income before amortization and impairment of intangibles | 3,990 | | 787 | | 407% |
| Impairment of intangibles | - | | (41,771) | | nm |
| Amortization of intangibles | (371) | | (7,388) | | (95%) |
| Corporate/eliminations | (11,006) | (18%) | (9,787) | (25%) | 12% |

| | | | | | |
|---|---|---|---|---|---|
| **Total consolidated operating income** | 61,150 | 100% | 37,428 | 100% | 63% |

**Table 10**

| | *In South African Rand (US GAAP)* Year ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2012 | | 2011 | | |
| **Operating Segment** | **ZAR 000** | **% of total** | **ZAR 000** | **% of total** | **% change** |
| Consolidated revenue: | | | | | |
| South African transaction-based activities | 1,553,036 | 52% | 1,323,723 | 55% | 17% |
| International transaction-based activities | 912,964 | 30% | 492,406 | 20% | 85% |
| Smart card accounts | 241,307 | 8% | 233,078 | 10% | 4% |
| Financial services | 62,683 | 2% | 51,422 | 2% | 22% |
| Hardware, software and related technology sales | 242,302 | 8% | 302,005 | 13% | (20%) |
| **Total consolidated revenue** | 3,012,292 | 100% | 2,402,634 | 100% | 25% |
| Consolidated operating income (loss): | | | | | |
| South African transaction-based activities | 384,572 | 81% | 529,388 | 202% | (27%) |
| Operating income before amortization | 432,197 | | 569,279 | | (24%) |
| Amortization | (47,625) | | (39,891) | | 19% |
| International transaction-based activities | 9,702 | 2% | (1,539) | (1%) | (730%) |
| Operating income before amortization | 110,160 | | 58,642 | | 88% |
| Amortization | (100,458) | | (60,181) | | 67% |
| Smart card accounts | 98,952 | 21% | 105,922 | 40% | (7%) |
| Financial services | 35,783 | 8% | 34,974 | 13% | 2% |
| Hardware, software and related technology sales | 27,934 | 6% | (338,420) | (129%) | (108%) |
| Operating income before amortization and impairment of intangibles | 30,803 | | 5,507 | | 459% |
| Impairment of intangibles | - | | (292,238) | | nm |
| Amortization of intangibles | (2,869) | | (51,689) | | (94%) |
| Corporate/eliminations | (84,951) | (18%) | (68,472) | (25%) | 24% |
| **Total consolidated operating income** | 471,992 | 100% | 261,853 | 100% | 80% |

**South African transaction-based activities**

In ZAR, the increases in segment revenue were primarily due to higher revenues earned, from April 1, 2012, under our new SASSA contract, higher prepaid airtime sales resulting primarily from the Eason acquisition and increased transaction volumes at MediKredit, offset by a lower contribution from EasyPay. Segment revenues include the transaction fees we earn through our merchant acquiring system and reflect the elimination of inter-company transactions.

Our operating income margin for the fiscal 2012 and 2011 was 25% and 40%, respectively, and has declined primarily due to SASSA implementation costs and cash bonuses paid and higher low-margin prepaid airtime sales and higher intangible asset amortization attributable to the Eason acquisition.

***Pension and welfare operations*:**

Our new contract discussed under Business Developments during Fiscal 2012 South Africa SASSA contract had a positive impact on revenue but decreased our operating margin. Our pension and welfare operations continue to generate the majority of our revenues and operating income in this operating segment and overall.

***South African transaction processors:***

The table below presents the total volume and value processed during fiscal 2012 and 2011 by our transaction processors:

**Table 11**

| Transaction processor | Total volume ( 000s) 2012 | 2011 | Total value $ ( 000) 2012 | 2011 | Total value ZAR ( 000) 2012 | 2011 |
|---|---|---|---|---|---|---|
| EasyPay(1) | 443,227 | 715,945 | 12,171,663 | 24,307,247 | 93,948,192 | 165,500,752 |
| Remaining core | 418,831 | 493,018 | 11,383,734 | 15,662,653 | 87,866,487 | 106,642,308 |
| Discontinued | 24,396 | 222,927 | 787,929 | 8,644,594 | 6,081,705 | 58,858,444 |
| MediKredit | 10,677 | 9,805 | 620,439 | 513,503 | 4,788,923 | 3,592,572 |
| FIHRST | 24,266 | 21,954 | 10,069,927 | 9,792,178 | 77,725,741 | 68,508,034 |

(1) includes Eason prepaid airtime and electricity volume and value from October 1, 2011 and reclassified to reflect the consolidation of value-added services through EasyPay and to reflect the remaining core processing activities.

We are refocusing EasyPay s activities on higher-margin value-added services and have terminated certain inefficient activities such as the hosting of processing servers for financial institutions. We have reclassified the 2011 transaction volumes and values in the table above to reflect the consolidation of value-added services through EasyPay and to reflect the remaining core processing activities.

Our results for fiscal 2012 include intangible asset amortization related to our Eason acquisition from October 2011 and MediKredit and FIHRST for the full year. Our results for fiscal 2011 include intangible asset amortization related to our MediKredit and FIHRST acquisitions for the full year.

***Continued adoption of our merchant acquiring system:***

The key statistics and indicators of our merchant acquiring system on a quarterly basis during the last 18 months in each of the five South African provinces where we distributed social welfare grants during the quarter are summarized in the table below.

The increase in the number of POS devices since June 30, 2011, is due to increased rental or purchase of POS devices by current merchants requesting additional equipment and new merchants joining our UEPS merchant acquiring system. The decrease in the number of participating UEPS retail locations is due to us cancelling contracts due to non-payment by the merchants. Under our normal credit control procedures we regularly scrutinize and review long outstanding debtors accounts, and after all efforts have been exhausted, we cancel our relationship with these defaulting merchants. The cancellation of these contracts has not, and should not, have a significant impact on our results of operations and as demonstrated by the key statistics below, we believe that our merchant acquiring system is functioning optimally.

| **Table 12** | | | **Three months ended** | | | |
|---|---|---|---|---|---|---|
| | **Mar 31, 2011** | **Jun 30, 2011** | **Sep 30, 2011** | **Dec 31, 2011** | **Mar 31, 2012** | **Jun 30, 2012** |
| Total POS devices installed as of period end | 4,835 | 4,921 | 4,867 | 5,034 | 4,976 | 6,353 |
| Number of participating UEPS retail locations as of period end | 2,541 | 2,482 | 2,438 | 2,485 | 2,416 | 2,477 |
| Value of transactions processed through POS devices during the quarter (1) (in $ 000) | 411,233 | 446,068 | 493,760 | 404,551 | 484,862 | 349,392 |
| Value of transactions processed through POS devices during the completed pay cycles for the quarter (2) (in $ 000) | 401,723 | 444,750 | 471,942 | 415,369 | 459,495 | 463,555 |
| Value of transactions processed through POS devices during the quarter (1) (in ZAR 000) | 2,920,454 | 3,037,006 | 3,523,339 | 3,282,747 | 3,773,295 | 2,843,719 |
| Value of transactions processed through POS devices during the completed pay cycles for the quarter (2) (in ZAR 000) | 2,852,913 | 3,028,036 | 3,367,648 | 3,370,534 | 3,575,890 | 3,772,900 |
| Number of grants paid through POS devices during the quarter (1) | 4,804,540 | 4,850,146 | 5,091,858 | 4,687,607 | 5,320,585 | 3,942,781 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Number of grants paid through POS devices during the completed pay cycles for the quarter (2) | 4,739,062 | 4,839,106 | 4,960,121 | 4,820,153 | 5,088,020 | 5,191,904 |
| Average number of grants processed per terminal during the quarter (1) | 995 | 994 | 1,040 | 947 | 1,063 | 696 |
| Average number of grants processed per terminal during the completed pay cycles for the quarter (2) | 981 | 992 | 1,014 | 974 | 1,017 | 917 |

(1) Refers to events occurring during the quarter (i.e., based on three calendar months).

(2) Refers to events occurring during the completed pay cycle.

Under our previous contract with SASSA to distribute social welfare grants in five South African provinces, we established a dedicated UEPS merchant acquiring system where our beneficiaries could load and spend their grants. Following SASSA s award of the new tender to us for the payment of all social grants in South Africa, we will issue each grant recipient with our latest MasterCard-branded UEPS/EMV combination smart cards. These smart cards can be used across all elements of the South African National Payment System, including at ATMs and POSs, in addition to our current UEPS merchant acquiring system and mobile pay points.

We will continue to supply our merchant acquiring solution to those merchants who are not already acquired, but given the availability of all EMV-enabled POS devices and ATMs to our beneficiaries on a national basis, we do not expect any further growth in the number and value of transactions processed through our own merchant acquiring network. We believe that the continued presentation of the above metrics in fiscal 2013 will not provide any meaningful information and will therefore discontinue this disclosure.

**International transaction-based activities**

KSNET continues to contribute the majority of our revenues in this operating segment. Operating margin for the segment is lower than most of our South African transaction-based businesses and was negatively impacted by start-up expenditures related to our XeoHealth launch in the United States, MVC activities at Net1 UTA and on-going losses at Net1 Virtual Card, but these expenses were partially offset by revenue contributions from KSNET, and to a lesser extent from XeoHealth and NUETS initiative in Iraq. Operating income margin for fiscal 2012 and 2011 was 1% and 0%, respectively.

Our results for fiscal 2012 include the intangible asset amortization related to our KSNET acquisition for the full year and for fiscal 2011 from November 1, 2011.

**Smart card accounts**

In ZAR, our revenue from this operating segment was higher because the number of smart card-based accounts has increased as a result of the SASSA award, however, our revenue per account has decreased. We have reduced our pricing for smart card accounts after taking into consideration the lower price and higher volumes of the new SASSA contract. The new pricing, effective from April 1, 2012, reduced the average revenue from R5.50 to R4.00 and the operating income margin from 45.45% to 28.50% . Operating income margin from providing smart card accounts for fiscal 2012 and 2011 was 41% and 45%, respectively.

In ZAR, revenue from the provision of smart card-based accounts increased in proportion to the increased number of beneficiaries serviced through our SASSA contract. A total number of 5,578,518 smart card-based accounts were active at June 30, 2012 compared to 3,561,105 active accounts as at June 30, 2011.

**Financial services**

UEPS-based lending contributes the majority of the revenue and operating income in this operating segment. Revenue increased primarily due to an increase in the number of loans granted. Our current UEPS-based lending portfolio comprises loans made to qualifying old age grant recipients in some of the provinces where we distribute social welfare grants. We continue to incur start-up expenditures related to our SmartLife business and other financial services offerings. SmartLife did not contribute significantly to our operating income in fiscal 2012 as it had not commenced operating activities under its new business model.

Operating income margin for the financial services segment decreased to 57% from 68%, primarily as a result of start-up expenditures related to SmartLife and other financial services offerings, which was offset by increased UEPS-based lending activities.

**Hardware, software and related technology sales**

In ZAR, the decrease in revenue was due to a lower contribution from all drivers of hardware and software sales. However, the increase in operating margin to 13% from 2% (before the intangible asset impairment) is attributable to the sale of more software and license revenues in 2012, which contribute higher margins compared to hardware sales. UETS was impacted by significantly lower hardware sales, primarily terminals and cards, as these sales are generally made on an ad hoc basis. The majority of these sales occur within the first two years after the commencement of a project, such as in Ghana and Iraq.

During fiscal 2011, customer relationships of $41.8 million acquired as part of the Net1 UTA acquisition was impaired.

Amortization of Prism intangible assets during fiscal 2012 and 2011, respectively, was approximately $0.4 million (ZAR 2.9 million) and $0.7 million (ZAR 4.6 million) and reduced our operating income.

As we expand internationally, whether through traditional selling arrangements to provide products and services (such as in Ghana and Iraq) or through joint ventures (such as with SmartSwitch Namibia and SmartSwitch Botswana), we expect to receive revenues from sales of hardware and from software customization and licensing to establish the infrastructure of POS terminals and smart cards necessary to enable utilization of the UEPS technology in a particular country. To the extent that we enter into joint ventures and account for the investment as an equity investment, we are required to eliminate our portion of the sale of hardware, software and licenses to the investees. The sale of hardware, software and licenses under these arrangements occur on an ad hoc basis as new arrangements are established, which can materially affect our revenues and operating income in this segment from period to period.

**Corporate/ Eliminations**

The increase in our corporate expenses resulted primarily from the equity instrument issued pursuant to our BBBEE transaction, offset by lower stock-based compensation charges, primarily because the performance-based restricted stock granted in August 2007 was fully expensed in prior periods and due to the $4.0 million profit related to the liquidation of SmartSwitch Nigeria. These expense reductions were offset by higher corporate head office-related expenses. In addition, the fiscal 2011 results include transaction related expenditures of $6.0 million (ZAR 42.3 million), primarily related to the acquisition of KSNET.

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

***Fiscal 2011 Compared to Fiscal 2010***

The following factors had an influence on our results of operations during fiscal 2011 as compared with the same period in the prior year:

- ***Impairment loss related to Net1 UTA customer relationships:*** We recorded an impairment loss of $41.8 million related to Net1 UTA s customer relationships;
- ***SASSA price and volume reductions:*** Our contract with SASSA that was in place during fiscal 2011 reduced our revenue and operating income as a result of price and volume reductions from our previous contract;
- ***Valuation allowances related to Net1 UTA deferred tax assets:*** During fiscal 2011, we recorded valuation allowances totaling $8.9 million related to Net1 UTA deferred tax assets;
- ***Favorable impact from the weakness of the US dollar:*** The US dollar depreciated by 8% compared to the ZAR during fiscal 2011 compared to fiscal 2010 which had a positive impact on our reported results;
- ***Increased revenue from KSNET at lower operating margins, before acquired intangible asset amortization, than our legacy business:*** Our KSNET acquisition in October 2010 positively impacted our revenue during fiscal 2011, however, because KSNET has an operating margin, before acquired intangible asset amortization, that is lower than our legacy businesses, it negatively impacted our operating margin. The inclusion of KSNET in our results also contributed to the increase in selling, general and administration and depreciation and amortization expenses;
- ***Increased transaction volumes at EasyPay:*** Our reported results were positively impacted by increased transaction volumes at EasyPay resulting from growth in value-added services and higher than expected activity at retailers during the Christmas season;
- ***Increased revenue from MediKredit and FIRHST at lower operating margins than other South African transaction- based activity business:*** Our MediKredit and FIHRST acquisitions positively impacted our revenue during fiscal 2011, however, because MediKredit generated an operating loss and FIHRST has operating margin that is lower than our other transaction-based activity businesses, they negatively impacted our operating margin. The inclusion of these businesses in our results also contributed to the increase in selling, general and administration expense;

- ***Increased user adoption in Iraq:*** Our reported results were positively impacted by increased transaction revenues at NUETS from the adoption of our UEPS technology in Iraq;
- ***Lower revenues and margins from hardware, software and related technology sales segment:*** Results for this segment were adversely impacted by lower revenues from all contributors;
- ***Intangible asset amortization related to acquisitions:*** Our reported results for fiscal 2011 were adversely impacted by additional intangible asset amortization related to the acquisitions of KSNET, MediKredit and FIHRST;
- ***Lower interest income and increased interest expense resulting from KSNET acquisition:*** We received lower interest income due to the payment of a portion of the KSNET purchase price in cash and increased interest expense due to the payment of a portion of the KSNET purchase price utilizing long-term debt and facility fees of approximately $2.0 million;
- ***Reversal of stock-based compensation charges:*** Our reported results were positively impacted by the reversal of stock-based compensation charge of $3.5 million (ZAR 24.5 million), primarily as a result of the forfeitures of a portion of the performance-based restricted stock granted in August 2007; and

- ***Transaction-related expenses included in selling, general and administration expense:*** During fiscal 2011, we incurred transaction-related expenses of $6.0 million, primarily for the acquisition of KSNET.

**Consolidated overall results of operations**

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

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

| **Table 13** | **In United States Dollars (US GAAP) Year ended June 30,** | | |
|---|---|---|---|
| | **2011 \$ 000** | **2010 \$ 000** | **% change** |
| Revenue | 343,420 | 280,364 | 22% |
| Cost of goods sold, IT processing, servicing and support | 109,858 | 72,973 | 51% |
| Selling, general and administration | 119,692 | 80,854 | 48% |
| Depreciation and amortization | 34,671 | 19,348 | 79% |
| Impairment loss | 41,771 | 37,378 | 12% |
| Operating income | 37,428 | 69,811 | (46)% |
| Interest income | 7,654 | 10,116 | (24)% |
| Interest expense | 8,672 | 1,047 | nm |
| Income before income taxes | 36,410 | 78,880 | (54)% |
| Income tax expense | 33,525 | 40,822 | (18)% |
| Net income before earnings (loss) from equity-accounted investments | 2,885 | 38,058 | (92)% |
| (Loss) Earnings from equity-accounted investments | (339) | 93 | (465)% |
| Net income | 2,546 | 38,151 | (93)% |
| Add: net loss attributable to non-controlling interest | (101) | (839) | (88)% |
| Net income attributable to Net1 | 2,647 | 38,990 | (93)% |

| **Table 14** | **In South African Rand (US GAAP) Year ended June 30,** | | |
|---|---|---|---|
| | **2011 ZAR 000** | **2010 ZAR 000** | **% change** |
| Revenue | 2,402,634 | 2,133,374 | 13% |
| Cost of goods sold, IT processing, servicing and support | 768,589 | 555,274 | 38% |
| Selling, general and administration | 837,389 | 615,243 | 36% |
| Depreciation and amortization | 242,565 | 147,225 | 65% |
| Impairment loss | 292,238 | 284,420 | 3% |
| Operating income | 261,853 | 531,212 | (51)% |
| Interest income | 66,177 | 76,976 | (14)% |
| Interest expense | 72,111 | 7,967 | nm |
| Income before income taxes | 254,731 | 600,221 | (58)% |
| Income tax expense | 234,548 | 310,627 | (24)% |
| Net income before earnings (loss) from equity-accounted investments | 20,183 | 289,594 | (93)% |
| (Loss) Earnings from equity-accounted investments | (2,372) | 708 | (435)% |

| | | | |
|---|---|---|---|
| Net income | 17,811 | 290,302 | (94)% |
| Add: net loss attributable to non-controlling interest | (707) | (6,384) | (89)% |
| Net income attributable to Net1 | 18,518 | 296,686 | (94)% |

Analyzed in ZAR, the increase in revenue and cost of goods sold, IT processing, servicing and support for fiscal 2011 was primarily due to the inclusion of KSNET, FIHRST and MediKredit, an increase in the number of UEPS-based loans made and increased transaction volumes at EasyPay. This increase was partially offset by lower revenues from our SASSA contract, and fewer sales from our hardware, software and related technology sales segment.

Included in fiscal 2011 selling, general and administration expense are transaction-related costs of $6.0 million (ZAR 42.3 million), primarily related to the KSNET acquisition. The increase in selling, general and administration expense was offset by a reversal of stock-based compensation charge of $3.5 million (ZAR 24.5 million), primarily as a result of forfeitures (based on failure to achieve the required vesting conditions) of a portion of performance-based restricted stock granted in August 2007. The net fiscal 2011 stock-based compensation charge was $1.7 million (ZAR 12.0 million), which is significantly lower than the fiscal 2010 charge of $5.7 million (ZAR 43.1 million). Fiscal 2010 selling, general and administration expenses include acquisition-related costs of $0.6 million (ZAR 4.7 million).

Our operating income margin decreased to 11% from 25% resulting primarily from the impairment of intangibles, as well as from the price and volumes reductions under our SASSA contract. We discuss the components of the operating income margin in more detail under Results of operations by operating segment .

In ZAR, depreciation and amortization increased during fiscal 2011 primarily as a result of intangible asset amortization related to the KSNET, MediKredit and FIHRST acquisitions. The intangible asset amortization related to our various acquisitions has been allocated to our operating segments as presented in the tables below:

| **Table 15** | **Year ended June 30,** | |
|---|---|---|
| | **2011** | **2010** |
| | **000** | **000** |
| Amortization included in depreciation and amortization expense: | 21,692 | 14,138 |
| South African transaction-based activities | 5,702 | 4,205 |
| International transaction-based activities | 8,602 | - |
| Hardware, software and related technology sales | 7,388 | 9,933 |

| **Table 16** | **Year ended June 30,** | |
|---|---|---|
| | **2011** | **2010** |
| | **ZAR 000** | **ZAR 000** |
| Amortization included in depreciation and amortization expense: | 151,761 | 107,588 |
| South African transaction-based activities | 39,891 | 31,999 |
| International transaction-based activities | 60,181 | - |
| Hardware, software and related technology sales | 51,689 | 75,589 |

During fiscal 2011, customer relationships acquired as part of the Net1 UTA acquisition in August 2008 were reviewed for impairment following deteriorating trading conditions and uncertainty surrounding the timing and quantum of future net cash inflows. As a consequence of this review, we recognized an impairment loss of approximately $41.8 million related to the entire carrying value of customer relationships acquired. In addition, we reversed the deferred tax liability of $10.4 million associated with this intangible asset.

During fiscal 2010, we recognized an impairment loss of approximately $37.4 million on goodwill allocated to the hardware, software and related technology sales segment as a result of deteriorating trading conditions of this segment, particularly at Net1 UTA, and uncertainty surrounding contract finalization dates which were expected to impact future cash flows.

Interest on surplus cash for fiscal 2011 decreased to $7.7 million (ZAR 53.4 million) from $10.1 million (ZAR 77.0 million) for fiscal 2010. The decrease resulted primarily from lower average daily ZAR cash balances during fiscal 2011 as a result of the payment of a portion of the KSNET purchase price in cash as well as lower deposit rates resulting from the decrease in the South African prime interest rate from an average of approximately 10.43% per annum for fiscal 2010 to 9.29% per annum for fiscal 2011.

Fiscal 2011 interest expense increased to $8.7 million (ZAR 60.5 million) from $1.0 million (ZAR 8.0 million) for fiscal 2010 due to the incurrence of long-term debt to fund a portion of the KSNET purchase price. Interest expense includes amortized debt facility fees of $2.0 million (ZAR 13.7 million).

Total tax expense for fiscal 2011 decreased to $33.5 million (ZAR 234.5 million) from $40.8 million (ZAR 310.6 million) in fiscal 2010. Deferred tax assets and liabilities are measured utilizing the enacted fully-distributed tax rate. Excluding the impact of reversal of the Net1 UTA customer relationships deferred tax liability and the Net1 UTA valuation allowances, our total tax expense decreased primarily due to lower taxable income resulting from the SASSA price and volume reductions and a decrease in overall profitability. As discussed above, our tax expense was reduced by the reversal of $10.4 million related to deferred tax liabilities related to impaired Net1 UTA customer relationships. Our tax expense increased due to valuation allowances of $8.9 million related to Net1 UTA deferred tax assets. Our effective tax rate for fiscal 2011 was 92.08%, compared to 51.8% for fiscal 2010. The change in our effective tax rate was primarily due to an increase in non-deductible expenses, including stock-based compensation charges, interest expenses related to our Korean debt facilities and acquisition-related expenses, and the Net1 UTA valuation allowance.

Net1 loss from equity-accounted investments for fiscal 2011 were $0.3 million (ZAR 2.4 million) compared with earnings of $0.1 million (ZAR 0.7 million) during fiscal 2010. Net loss from equity-accounted investments for fiscal 2011 was primarily due to waiver of interest and related currency effects at SmartSwitch Botswana offset by an increase in transaction fees generated by SmartSwitch Namibia and SmartSwitch Botswana. VTU Colombia and VinaPay incurred losses during fiscal 2011 and 2010, respectively. VinaPay was sold in April 2011.

**Results of operations by operating segment**

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

| **Table 17** | *In United States Dollars (US GAAP)* | | | | |
|---|---|---|---|---|---|
| | **Year ended June 30,** | | | | |
| **Operating Segment** | **2011 $ 000** | **% of total** | **2010 $ 000** | **% of total** | **% change** |
| Consolidated revenue: | | | | | |
| South African transaction-based activities | 189,206 | 55% | 191,362 | 68% | (1)% |
| International transaction-based activities | 70,382 | 20% | - | - | nm |
| Smart card accounts | | | | | |