

NET 1 UEPS TECHNOLOGIES INC  
Form 10-Q  
February 06, 2014

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

**FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2013

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ To \_\_\_\_\_

Commission file number: **000-31203**

**NET 1 UEPS TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

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

**98-0171860**  
(IRS Employer  
Identification No.)

**President Place, 4<sup>th</sup> Floor, Cnr. Jan Smuts Avenue and Bolton Road**  
**Rosebank, Johannesburg 2196, South Africa**

(Address of principal executive offices, including zip code)

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

**Not Applicable**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

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

☐ Large accelerated filer ☒ Accelerated filer  
☐ Non-accelerated filer ☐ Smaller reporting company  
(do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES ☐ NO ☒

As of February 6, 2014 (the latest practicable date), 45,773,342 shares of the registrant's common stock, par value \$0.001 per share, net of treasury shares, were outstanding.

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**Part I. Financial Information****Item 1. Financial Statements**

**NET 1 UEPS TECHNOLOGIES, INC.**  
**Unaudited Condensed Consolidated Balance Sheets**

	Unaudited December 31, 2013	(A) June 30, 2013
	(In thousands, except share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 22,362	\$ 53,665
Pre-funded social welfare grants receivable (Note 2)	7,971	2,934
Accounts receivable, net of allowances of December: \$1,326; June: \$4,701	125,062	102,614
Finance loans receivable, net of allowances of December: \$1,813; June: \$-	42,847	8,350
Inventory (Note 3)	13,537	12,222
Deferred income taxes	5,001	4,938
Total current assets before settlement assets	216,780	184,723
Settlement assets (Note 4)	466,599	752,476
Total current assets	683,379	937,199
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of		
December: \$87,536; June: \$84,808	47,619	48,301
EQUITY-ACCOUNTED INVESTMENTS	1,290	1,183
GOODWILL (Note 6)	181,111	175,806
INTANGIBLE ASSETS, net (Note 6)	73,874	77,257
OTHER LONG-TERM ASSETS, including reinsurance assets (Note 7)	34,271	36,576
TOTAL ASSETS	1,021,544	1,276,322
LIABILITIES		
CURRENT LIABILITIES		
Bank overdraft (Note 8)	24,256	-
Accounts payable	13,689	26,567
Other payables	34,386	33,808
Current portion of long-term borrowings (Note 9)	14,108	14,209
Income taxes payable	3,479	2,275
Total current liabilities before settlement obligations	89,918	76,859
Settlement obligations (Note 4)	466,599	752,476
Total current liabilities	556,517	829,335
DEFERRED INCOME TAXES	18,261	18,727
LONG-TERM BORROWINGS (Note 9)	57,452	66,632
OTHER LONG-TERM LIABILITIES, including insurance policy liabilities (Note 7)	20,131	21,659
TOTAL LIABILITIES	652,361	936,353
COMMITMENTS AND CONTINGENCIES (Note 17)		
EQUITY		
COMMON STOCK (Note 10)		

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Authorized: 200,000,000 with \$0.001 par value;			
Issued and outstanding shares, net of treasury - December:			
45,773,342;			
June: 45,592,550	59		59
<b>PREFERRED STOCK</b>			
Authorized shares: 50,000,000 with \$0.001 par value;			
Issued and outstanding shares, net of treasury: December:			
-; June: -	-		-
ADDITIONAL PAID-IN-CAPITAL	164,060		160,670
TREASURY SHARES, AT COST: December: 13,455,090; June:			
13,455,090	(175,823)		(175,823)
ACCUMULATED OTHER COMPREHENSIVE LOSS	(96,103)		(100,858)
RETAINED EARNINGS	476,963		452,618
TOTAL NET1 EQUITY	369,156		336,666
NON-CONTROLLING INTEREST	27		3,303
<b>TOTAL EQUITY</b>	<b>369,183</b>		<b>339,969</b>
<b>TOTAL LIABILITIES AND</b>			
<b>SHAREHOLDERS EQUITY</b>	<b>\$ 1,021,544</b>	<b>\$</b>	<b>1,276,322</b>
(A) Derived from audited financial statements			

See Notes to Unaudited Condensed Consolidated Financial Statements

**NET 1 UEPS TECHNOLOGIES, INC.**  
**Unaudited Condensed Consolidated Statements of Operations**

	<b>Three months ended December 31,</b>		<b>Six months ended December 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	(In thousands, except per share data)		(In thousands, except per share data)	
REVENUE	\$ 137,283	\$ 111,442	\$ 260,777	\$ 223,124
EXPENSE				
Cost of goods sold, IT processing, servicing and support	67,883	47,227	124,442	92,328
Selling, general and administration	40,824	48,756	81,330	96,008
Depreciation and amortization	9,774	10,487	19,803	20,491
OPERATING INCOME	18,802	4,972	35,202	14,297
INTEREST INCOME	3,236	2,589	6,555	5,680
INTEREST EXPENSE	2,226	2,023	3,978	4,094
INCOME BEFORE INCOME TAXES	19,812	5,538	37,779	15,883
INCOME TAX EXPENSE (Note 16)	7,099	2,971	13,584	6,700
NET INCOME BEFORE EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	12,713	2,567	24,195	9,183
EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	47	54	150	182
NET INCOME	12,760	2,621	24,345	9,365
LESS (ADD) NET INCOME (LOSS)				
ATTRIBUTABLE TO NON-CONTROLLING INTEREST	11	(8)	-	(8)
NET INCOME ATTRIBUTABLE TO NET1	\$ 12,749	\$ 2,629	\$ 24,345	\$ 9,373

**Net income per share, in United States dollars**

(Note 13)

Basic earnings attributable to				
Net1				
shareholders	\$0.28	\$0.06	\$0.53	\$0.21
Diluted earnings attributable				
to Net1				
shareholders	\$0.28	\$0.06	\$0.53	\$0.21

See Notes to Unaudited Condensed Consolidated Financial Statements



**NET 1 UEPS TECHNOLOGIES, INC.**  
**Unaudited Condensed Consolidated Statements of Comprehensive Income**

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
Net income	\$ 12,760	\$ 2,621	\$ 24,345	\$ 9,365
Other comprehensive (loss) income				
Net unrealized income (loss) on asset				
available for sale, net of tax	216	258	(39)	258
Movement in foreign currency translation reserve	(2,597)	5,927	4,972	10,182
Total other comprehensive (loss) income, net of taxes	(2,381)	6,185	4,933	10,440
Comprehensive income	10,379	8,806	29,278	19,805
(Less) Add comprehensive (income) loss attributable to non-controlling interest	(11)	8	-	8
Comprehensive income attributable to Net1	\$ 10,368	\$ 8,814	\$ 29,278	\$ 19,813

See Notes to Unaudited Condensed Consolidated Financial Statements

**NET 1 UEPS TECHNOLOGIES, INC.**  
**Consolidated Statement of Changes in Equity (dollar amounts in thousands)**

						Net 1 UEPS T
		Number of Shares	Amount	Number of Treasury Shares	Treasury Shares	Number of shares, net of treasury
Balance	July 1, 2013	59,047,640	\$ 59	(13,455,090)	\$ (175,823)	45,592,550
Restricted stock granted		187,963				187,963
Stock-based compensation charge						
Reversal of stock-based compensation charge		(7,171)				(7,171)
Income tax benefit from vested stock awards						
Acquisition of KSNET non-controlling interest (Note 10)						
Net income						
Other comprehensive income						
Balance	December 31, 2013	59,228,432	\$ 59	(13,455,090)	\$ (175,823)	45,773,342
See Notes to Unaudited Condensed Consolidated Financial Statements						

**NET 1 UEPS TECHNOLOGIES, INC.**  
**Unaudited Condensed Consolidated Statements of Cash Flows**

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	2013	2012
	(In thousands)		(In thousands)	
<b>Cash flows from operating activities</b>				
Net income	\$ 12,760	\$ 2,621	\$ 24,345	\$ 9,365
Depreciation and amortization	9,774	10,487	19,803	20,491
Earnings from equity-accounted investments	(47)	(54)	(150)	(182)
Fair value adjustments	72	1,000	(61)	707
Interest payable	694	1,117	1,666	2,309
Profit on disposal of property, plant and equipment	(15)	(86)	(16)	(86)
Stock-based compensation charge	968	1,117	1,898	2,233
Facility fee amortized	509	76	578	164
(Increase) Decrease in accounts receivable, pre-funded social welfare grants receivable and finance				
loans receivable	(37,977)	(5,061)	(61,078)	831
Increase in inventory	(2,853)	(6,250)	(1,842)	(7,209)
Decrease in accounts payable and other payables	(4,883)	(4,939)	(13,551)	(6,288)
(Decrease) increase in taxes payable	(5,559)	(6,032)	1,362	(594)
Decrease in deferred taxes	(691)	(916)	(1,878)	(2,932)
<b>Net cash (used in ) provided by operating activities</b>	(27,248)	(6,920)	(28,924)	18,809
<b>Cash flows from investing activities</b>				
Capital expenditures	(6,845)	(5,597)	(12,461)	(12,050)
Proceeds from disposal of property, plant and equipment	1,953	251	2,001	356
Acquisitions, net of cash acquired (Note 2)	-	(230)	-	(2,143)
Repayment of loan by equity-accounted investment	-	-	-	3
Proceeds from maturity of investments related to insurance business	-	-	-	545
Other investing activities	-	-	(1)	-
Net change in settlement assets	204,730	(72,835)	256,503	(12,056)
<b>Net cash provided by (used in) investing activities</b>	199,838	(78,411)	246,042	(25,345)

**Cash flows from financing activities**

Long-term borrowings obtained (Note 9)	71,605	-	71,605	-
Repayment of long-term borrowings (Note 9)	(87,008)	(7,307)	(87,008)	(7,307)
Payment of facility fee (Note 9)	(872)	-	(872)	-
Proceeds from bank overdraft	24,580	-	24,580	-
Acquisition of interests in KSNET (Note 10)	(1,968)	-	(1,968)	-
Proceeds from issue of common stock	-	-	-	240
Net change in settlement obligations	(204,730)	72,835	(256,503)	12,056
<b>Net cash (used in) provided by financing activities</b>	<b>(198,393)</b>	<b>65,528</b>	<b>(250,166)</b>	<b>4,989</b>
Effect of exchange rate changes on cash	495	375	1,745	540
<b>Net decrease in cash and cash equivalents</b>	<b>(25,308)</b>	<b>(19,428)</b>	<b>(31,303)</b>	<b>(1,007)</b>
<b>Cash and cash equivalents beginning of period</b>	<b>47,670</b>	<b>57,544</b>	<b>53,665</b>	<b>39,123</b>
<b>Cash and cash equivalents end of period</b>	<b>\$ 22,362</b>	<b>\$ 38,116</b>	<b>\$ 22,362</b>	<b>\$ 38,116</b>

See Notes to Unaudited Condensed Consolidated Financial Statements

**NET 1 UEPS TECHNOLOGIES, INC.**

**Notes to the Unaudited Condensed Consolidated Financial Statements  
for the three and six months ended December 31, 2013 and 2012**

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

**1. Basis of Presentation and Summary of Significant Accounting Policies**

**Unaudited Interim Financial Information**

The accompanying unaudited condensed consolidated financial statements include all majority-owned subsidiaries over which the Company exercises control and have been prepared in accordance with US generally accepted accounting principles ( GAAP ) and the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q and include all of the information and disclosures required for interim financial reporting. The results of operations for the three and six months ended December 31, 2013 and 2012, are not necessarily indicative of the results for the full year. The Company believes that the disclosures are adequate to make the information presented not misleading.

These financial statements should be read in conjunction with the financial statements, accounting policies and financial notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair representation of financial results for the interim periods presented.

References to the Company refer to Net1 and its consolidated subsidiaries, unless the context otherwise requires. References to Net1 are references solely to Net 1 UEPS Technologies, Inc.

The Company has updated its accounting policy for the allowance for doubtful finance loans receivable as a result of the increase in its UEPS-based lending book which is included in finance loans receivable in its unaudited condensed consolidated balance sheet. The Company does not believe that an allowance for doubtful finance loans receivable is required for finance loans receivable as of June 30, 2013, because this was an established book and has been recovered. However, the profile of the loan book has changed due to the expansion of the UEPS-based lending book during the six months ended December 31, 2013, and accordingly an allowance for doubtful finance loans receivable is deemed required by the Company.

**Loan provisions and allowance for doubtful accounts receivable**

***UEPS-based lending***

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

**Recent accounting pronouncements adopted**

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

**Recent accounting pronouncements not yet adopted as of December 31, 2013**

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

**2. Pre-funded social welfare grants receivable**

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

### 3. Inventory

The Company's inventory comprised the following categories as of December 31, 2013 and June 30, 2013.

	<b>December 31,</b>		<b>June 30,</b>	
	<b>2013</b>		<b>2013</b>	
Finished goods	\$	13,537	\$	12,222
	\$	13,537	\$	12,222

### 4. Settlement assets and settlement obligations

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

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

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

### 5. Fair value of financial instruments and equity-accounted investments

#### Fair value of financial instruments

##### *Risk management*

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

##### *Currency exchange risk*

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

The Company's outstanding foreign exchange contracts are as follows: As of December 31, 2013

None.

As of June 30, 2013

<b>Notional amount</b>	<b>Strike price</b>	<b>Fair market value price</b>	<b>Maturity</b>
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USD	4,000,000	ZAR	9.06	ZAR	10.1397	September 30, 2013
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*Translation risk*

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



## 5. Fair value of financial instruments and equity-accounted investments (continued)

### Fair value of financial instruments (continued)

#### *Risk management (continued)*

##### *Interest rate risk*

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

##### *Credit risk*

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

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

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

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

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

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

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

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

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

discounted cash flow models, and similar techniques. Investments valued using such techniques are included in Level 3 investments.

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

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

**5. Fair value of financial instruments and equity-accounted investments (continued)*****Asset measured at fair value using significant unobservable inputs investment in Finbond Group Limited ( Finbond ) (continued)***

The fair value of these securities as of December 31, 2013, represented approximately 1% of the Company's total assets, including these securities.

The following table presents the Company's assets measured at fair value on a recurring basis as of December 31, 2013, according to the fair value hierarchy:

	<b>Quoted Price in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>Assets</b>				
Related to insurance business (included in other long-term assets):				
Cash and cash equivalents	\$ 1,769	\$ -	\$ -	\$ 1,769
Investment in Finbond (available for sale assets included in other long-term assets)	-	-	7,721	7,721
Other	-	139	-	139
<b>Total assets at fair value</b>	<b>\$ 1,769</b>	<b>\$ 139</b>	<b>\$ 7,721</b>	<b>\$ 9,629</b>

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2013, according to the fair value hierarchy:

	<b>Quoted Price in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>Assets</b>				
Related to insurance business (included in other long-term assets):				
Cash and cash equivalents	\$ 1,833	\$ -	\$ -	\$ 1,833
Investment in Finbond (available for sale assets included in other long-term assets)	-	-	8,303	8,303
Other	-	147	-	147
<b>Total assets at fair value</b>	<b>\$ 1,833</b>	<b>\$ 147</b>	<b>\$ 8,303</b>	<b>\$ 10,283</b>
<b>Liabilities</b>				
Foreign exchange contracts	\$ -	\$ 436	\$ -	\$ 436
<b>Total liabilities at fair value</b>	<b>\$ -</b>	<b>\$ 436</b>	<b>\$ -</b>	<b>\$ 436</b>

Changes in the Company's investment in Finbond (Level 3 that are measured at fair value on a recurring basis) were insignificant during the three and six months ended December 31, 2013 and 2012, respectively. There have been no transfers in or out of Level 3 during the three and six months ended December 31, 2013 and 2012, respectively.

***Assets and liabilities measured at fair value on a nonrecurring basis***

The Company measures its assets at fair value on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. The Company has no liabilities that are measured at fair value on a nonrecurring basis. The Company reviews the carrying values of its assets when events and circumstances warrant and considers all available evidence in evaluating when declines in fair value are other-than-temporary.

**5. Fair value of financial instruments and equity-accounted investments (continued)***Assets and liabilities measured at fair value on a nonrecurring basis (continued)*

The fair values of the Company's assets are determined using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost of the assets exceeds its fair value and the excess is determined to be other-than-temporary. The Company has not recorded any impairment charges during the reporting periods presented herein.

**6. Goodwill and intangible assets****Goodwill**

Summarized below is the movement in the carrying value of goodwill for the six months ended December 31, 2013:

	<b>Gross value</b>	<b>Accumulated impairment</b>	<b>Carrying value</b>
Balance as of June 30, 2013	\$ 218,558	\$ (42,752)	\$ 175,806
Foreign currency adjustment <sup>(1)</sup>	7,383	(2,078)	5,305
Balance as of December 31, 2013	\$ 225,941	(\$44,830)	\$ 181,111

(1) the foreign currency adjustment represents the effects of the fluctuations between the South African rand and the Korean won, and the US dollar on the carrying value.

Goodwill has been allocated to the Company's reportable segments as follows:

	<b>As of December 31, 2013</b>	<b>As of June 30, 2013</b>
SA transaction-based activities	\$ 28,749	\$ 30,525
International transaction-based activities	122,538	113,972
Smart card accounts	-	-
Financial services	-	-
Hardware, software and related technology sales	29,824	31,309
Total	\$ 181,111	\$ 175,806

**Intangible assets***Carrying value and amortization of intangible assets*

Summarized below is the carrying value and accumulated amortization of the intangible assets as of December 31, 2013 and June 30, 2013:

	<b>As of December 31, 2013</b>			<b>As of June 30, 2013</b>		
	<b>Gross carrying value</b>	<b>Accumulated amortization</b>	<b>Net carrying value</b>	<b>Gross carrying value</b>	<b>Accumulated amortization</b>	<b>Net carrying value</b>
Finite-lived intangible assets:						
	\$ 95,000	\$ (35,332)	\$ 59,668	\$ 90,469	\$ (29,818)	\$ 60,651

Customer relationships							
Software	36,116	(25,531)	10,585	34,951	(22,151)	12,800	
and unpatented technology							
FTS	3,648	(3,648)	-	3,873	(3,873)	-	
patent							
Exclusive licenses	4,506	(4,506)	-	4,506	(4,506)	-	
	6,721	(3,100)	3,621	6,611	(2,805)	3,806	
Trademarks							
Customer database	579	(579)	-	614	(614)	-	
Total	\$ 146,570	\$ (72,696)	\$ 73,874	\$ 141,024	\$ (63,767)	\$ 77,257	
finite-lived intangible assets							

Aggregate amortization expense on the finite-lived intangible assets for the three and six months ended December 31, 2013, was approximately \$4.1 million and \$7.8 million, respectively (three and six months ended December 31, 2012, was approximately \$4.9 million and \$9.6 million, respectively).

**6. Goodwill and intangible assets (continued) Intangible assets (continued)**

Future estimated annual amortization expense for the next five fiscal years and thereafter, assuming exchange rates prevailing on December 31, 2013, is presented in the table below. Actual amortization expense in future periods could differ from this estimate as a result of acquisitions, changes in useful lives, exchange rate fluctuations and other relevant factors.

2014	\$ 15,793
2015	15,742
2016	11,361
2017	9,023
2018	9,023
Thereafter	\$ 20,823

**7. Reinsurance assets and policy holder liabilities under insurance and investment contracts****Reinsurance assets and policy holder liabilities under insurance contracts**

Summarized below is the movement in reinsurance assets and policy holder liabilities under insurance contracts during the six months ended December 31, 2013:

	<b>Reinsurance assets (1)</b>	<b>Insurance contracts (2)</b>
Balance as of June 30, 2013	\$ 19,557	\$ (19,711)
Foreign currency adjustment <sup>(3)</sup>	(1,138)	1,147
Balance as of December 31, 2013	\$ 18,419	\$ (18,564)

(1) Included in other long-term assets.

(2) Included in other long-term liabilities.

(3) The foreign currency adjustment represents the effects of the fluctuations between the ZAR against the US dollar.

The Company has agreements with reinsurance companies in order to limit its losses from large insurance contracts, however, if the reinsurer is unable to meet its obligations, the Company retains the liability.

The value of insurance contract liabilities is based on best estimates assumptions of future experience plus prescribed margins, as required in the markets in which these products are offered, namely South Africa. The process of deriving the best estimates assumptions plus prescribed margins includes assumptions related to future mortality and morbidity (an appropriate base table of standard mortality is chosen depending on the type of contract and class of business), withdrawals (based on recent withdrawal investigations and expected future trends), investment returns (based on government treasury rates adjusted by an applicable margin), expense inflation (based on a 10 year real return on CPI-linked government bonds from the risk-free rate and adding an allowance for salary inflation and book shrinkage of 1% per annum) and claim reporting delays (based on average industry experience).

**Assets and policy holder liabilities under investment contracts**

Summarized below is the movement in assets and policy holder liabilities under investment contracts during the six months ended December 31, 2013:

	<b>Assets (1)</b>	<b>Investment contracts (2)</b>
Balance as of June 30, 2013	\$ 953	\$ (953)
Foreign currency adjustment <sup>(3)</sup>	(56)	56

Balance as of December 31, 2013	\$	897	\$	(897)
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- (1) Included in other long-term assets.
- (2) Included in other long-term liabilities.
- (3) The foreign currency adjustment represents the effects of the fluctuations between the ZAR against the US dollar.

The Company does not offer any investment products with guarantees related to capital or returns.



## 8. Short-term credit facility

During December 2013, the Company increased its short-term South African credit facility with Nedbank Limited to ZAR 650 million (\$61.9 million, translated at exchange rates applicable as of December 31, 2013) through March 31, 2014. The short-term facility comprises an overdraft facility of up to ZAR 500 million and indirect and derivative facilities of up to ZAR 150 million, which include letters of guarantee, letters of credit and forward exchange contracts. The overdraft facility of ZAR 500 million will revert to ZAR 250 million on March 31, 2014. As of December 31, 2013, the interest rate on the overdraft facility was 7.35%. The Company has ceded its investment in Cash Paymaster Services Proprietary Limited ( CPS ), a wholly owned South African subsidiary, as security for its repayment obligations under the facility. A commitment fee of 0.35% per annum is payable on the monthly unutilized amount of the overdraft portion of the short-term facility. The Company is required to comply with customary non-financial covenants, including, without limitation, covenants that restrict the Company's ability to dispose of or encumber its assets, incur additional indebtedness or engage in certain business combinations. As of December 31, 2013, the Company had utilized ZAR 254.8 million (\$24.3 million, translated at exchange rates applicable as of December 31, 2013) of the overdraft facility and ZAR 132.0 million (\$12.6 million, translated at exchange rates applicable as of December 31, 2013) of this facility to enable the bank to issue guarantees, including stand-by letters of credit, in order for the Company to honor its obligations to third parties requiring such guarantees (Refer to Note 17). As of June 30, 2013, the Company had utilized none of this facility.

## 9. Long-term borrowings

In October 2013, the Company refinanced its existing long-term Korean credit facility and signed a new five-year senior secured facilities agreement (the Facilities Agreement) with a consortium of Korean banks. The Facilities Agreement provides for three separate facilities to the Company's wholly owned subsidiary, Net1 Applied Technologies Korea ( Net1 Korea ): a Facility A loan of up to KRW 60.0 billion (\$56.4 million), a Facility B loan of up to KRW 15 billion (\$14.1 million) and a Facility C revolving credit facility of up to KRW 10.0 billion (\$9.4 million) (all facilities denominated in KRW and translated at exchange rates applicable as of December 31, 2013).

The Facility A and B loans were fully drawn on October 29, 2013, and used to repay KRW 75.0 billion (\$70.6 million) of the KRW 92.4 billion (\$87.0 million) loan outstanding under the existing facility. The remaining outstanding KRW 17.4 billion (\$16.4 million) balance of that facility was paid from cash on hand on October 29, 2013. In addition, the Company drew KRW 1.1 billion (\$1.0 million) of the revolving credit facility on October 29, 2013, to pay fees and expenses related to the Facilities Agreement.

Interest on the loans and revolving credit facility is payable quarterly and is based on the Korean CD rate in effect from time to time plus a margin of 3.10% for the Facility A loan and Facility C revolving credit facility; and a margin of 2.90% for the Facility B loan. The CD rate was 2.66% on December 31, 2013 and therefore the interest rate in effect as of December 31, 2013, for the Facility A loan and Facility C revolving credit facility was 5.76% and for the Facility B loan was 5.56%, respectively. The Company paid facilities fees of approximately KRW 0.9 billion on October 29, 2013 and amortized approximately \$0.1 million during the three and six months ended December 31, 2013. A commitment fee of 0.3% is payable on any un-drawn and un-cancelled amount of the revolving credit facility. Total interest expense related to the new and refinanced facilities during the three and six months ended December 31, 2013 and 2012, was \$1.8 million and \$1.8 million; and \$3.6 million and \$3.6 million, respectively.

The Facility A loan is repayable in three scheduled annual installments of KRW 10 billion each beginning 30 months after initial drawdown and one final installment of KRW 30 billion on the maturity date, namely October 29, 2018. The Facility B loan is repayable in full on October 29, 2014. The Facility C revolving credit facility is repayable in full on the maturity date. Prepayment of the revolving credit facility may be withdrawn at any time up to three and six months before the maturity date.

The loans under the Facilities Agreement are secured by a pledge by Net1 Korea of its entire equity interest in KSNET and a pledge by the immediate parent of Net1 Korea (also one of the Company's subsidiaries) of its entire equity interest in Net1 Korea. The Facilities Agreement contains customary covenants that require Net1 Korea to maintain agreed leverage and debt service coverage ratios and restricts Net1 Korea's ability to make certain distributions with respect to its capital stock, prepay other debt, encumber its assets, incur additional indebtedness, or engage in certain business combinations. The loans under the Facilities Agreement are without recourse to, and the covenants and other agreements contained therein do not apply to, the Company or any of the Company's subsidiaries (other than Net1 Korea).

The Company's refinanced KRW 92.4 billion Korean senior secured loan facility is described in Note 13 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2013. The Company has expensed the remaining prepaid facility fees related to the refinanced facility of approximately \$0.4 million during the three and six months ended December 31, 2013. The third scheduled repayment related to this refinanced facility of \$7.3 million was paid on October 29, 2012.

## 10. Capital structure

The following table presents reconciliation between the number of shares, net of treasury, presented in the consolidated statement of changes in equity during the six months ended December 31, 2013 and 2012, respectively, and the number of shares, net of treasury, excluding non-vested equity shares that have not vested during the six months ended December 31, 2013 and 2012, respectively:

	Six months ended December 31,	
	2013	2012
	000	000
Number of shares, net of treasury:		
Statement of changes in equity	45,773,342	45,600,471
Less: Non-vested equity shares that have not vested	(569,111)	(644,750)
Number of shares, net of treasury excluding non-vested equity shares that have not vested	45,204,231	44,955,721

### December 2013 Black Economic Empowerment transactions

On December 10, 2013, the Company entered into definitive agreements relating to two Black Economic Empowerment ( BEE ) transactions. Pursuant to the Relationship Agreements dated December 10, 2013 between the Company and its BEE partners, the Company will sell an aggregate of 4,400,000 shares of its common stock ( BEE shares ) for a purchase price of ZAR 60.00 per share. Closing of these BEE transactions is subject to the satisfaction of certain conditions contained in the Relationship Agreements, including receipt of any required regulatory approvals (including approval of the South African Reserve Bank) and the finalization of ancillary agreements. Closing of one transaction is not contingent on the closing of the other transaction. As of December 31, 2013, the transactions had not been implemented because the agreed conditions had not been satisfied. As of January 31, 2014, the closing conditions had not yet been met and therefore the parties extended the date to satisfy all closing conditions to March 15, 2014.

The ZAR 60.00 per share purchase price for the BEE shares, which will be contractually restricted as to resale as described below, will be paid in ZAR and represents 75% of the closing price of the Company's common stock on the JSE on December 6, 2013, the date the Company completed final negotiation of the terms of these BEE transactions.

The Relationship Agreements provide that the entire purchase price for the BEE shares will be financed through a five-year loan to be extended to each of the BEE partners by a South African subsidiary of the Company. The obligations of the BEE partners under the loans are several, and not joint. Each of the BEE partners will grant the lender a security interest in all the BEE shares being purchased by such BEE partner to secure the repayment of its loan. The principal amount of the loans being made by the subsidiary will be contributed by Net1 to the equity capital of the subsidiary. As a result of the making of the loans, the net cash position of the Company after the sale of the BEE shares will remain unchanged.

The loans will bear interest at a rate equal to the Johannesburg Interbank Rate (550 basis points as of December 31, 2013) plus 300 basis points. Interest on the loans is payable semi-annually in arrears on January 1 and July 1 of each year. 10% of the outstanding principal amount of the loans will be payable on each of the first and second anniversaries of the date of issuance of the BEE shares, 15% of the outstanding principal amount of the loans will be payable on each of the third and fourth anniversaries of the date of issuance of the BEE shares and the remaining outstanding principal amount of the loans will be payable on the fifth anniversary of the date of issuance of the BEE shares. Further, the entire outstanding principal amount of the loans will be payable if the price of the Company's common stock on the JSE equals or exceeds ZAR 120.00 per share at any time during term of the loans. Upon the

occurrence of certain trigger events with respect to a BEE partner, the BEE shares held by that BEE partner may be repurchased by the Company or one of its designees. These trigger events include the following:

- failure by the BEE partner to pay any amount due on its loan (including interest) to the lender (in this case, the Company may repurchase only that number of shares which would raise sufficient funds to settle any amount due and unpaid);
- any other breach by the BEE partner (or in certain circumstances its shareholders) of any provision of the Relationship Agreement, including without limitation, its failure to maintain its BEE status;
- the Company's common stock trades at or below ZAR 60.00 on the JSE or at or below the equivalent trading price on Nasdaq;
- the occurrence of certain insolvency events or liquidation proceedings affecting the BEE partner; or
- the BEE partner fails to satisfy any judgment or arbitration award granted or made against it within 7 days.

**10. Capital structure (continued)****December 2013 Black Economic Empowerment transactions (continued)**

If the trigger event involves a failure by a BEE partner to pay any amount due on its loan, then the repurchase price is the volume-weighted average price of the Company's common stock on the Nasdaq for the period of 30 trading days prior to the trigger event, or 30-day VWAP. In the case of other trigger events, the repurchase price is the lower of the 30-day VWAP or ZAR 60.00 per share.

The BEE shares will be contractually restricted as to resale for a period of five years from the date of issuance, with the exception of periodic sales which may be made to fund the repayment of principal and interest on the loans. In addition, the Company may call the BEE shares then owned by the BEE partners, either in exchange for a minority interest in CPS or for a cash payment equal to the 30-day VWAP. Further, after the fifth anniversary of the date of issuance of the BEE shares, the Company will have a right of first refusal on the shares owned by the BEE partners.

The loans to the BEE partners do not provide that they are recourse only to the BEE shares. Nevertheless, the Company expects that the sole source of repayment of the loans will be proceeds from the sale of its shares by the BEE partners from time to time, in open market or in privately negotiated transactions.

**Acquisition of KSNET non-controlling interests**

The Company acquired substantially all of the issued share capital of KSNET, Inc. that it did not previously own for approximately \$2.0 million in cash. After the acquisition of the additional shares, the Company now owns almost 100% of KSNET and intends to purchase the remaining shares it does not yet own. The Company believes that it will realize certain Korean tax efficiencies in the future if it is able to acquire the remaining KSNET shares that it does not own. The transaction was accounted for as an equity transaction with a non-controlling interest and accordingly, no gain or loss was recognized in the Company's consolidated statement of operations. The carrying amount of the non-controlling interest was adjusted to reflect the change in ownership interest in KSNET. The difference between the fair value of the consideration paid and the amount by which the non-controlling interest was adjusted, of \$1.5 million, was recognized in equity attributable to Net1.

**11. Accumulated other comprehensive (loss) income**

The table below presents the change in accumulated other comprehensive (loss) income per component during the six months ended December 31, 2013:

		Six months ended December 31, 2013		
		Foreign currency translation reserve 000	Net unrealized income (loss) on asset available for sale, net of tax 000	Total 000
Balance as of June 30, 2013	\$	(101,188)	\$ 330	\$ (100,858)
Movement in foreign currency translation reserve		4,794	-	4,794
		-	(39)	(39)

Unrealized loss on asset available for sale,  
net of tax of \$15

Balance as of December 31, 2013	\$	(96,394)	\$	291	\$	(96,103)
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There were no reclassification from accumulated other comprehensive loss to comprehensive (loss) income during the six months ended December 31, 2013 or 2012, respectively.

**12. Stock-based compensation****Stock option and restricted stock activity***Options*

The following table summarizes stock option activity for the three and six months ended December 31, 2013 and 2012:

		Number of shares	Weighted average exercise price (\$)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (\$ 000)	Weighted Average Grant Date Fair Value (\$)
Outstanding	June 30, 2013	2,648,583	15.15	5.98	313	
Granted under Plan:	August 2013	224,896	7.35	10.00	568	2.53
Outstanding	December 31, 2013	2,873,479	14.54	5.79	1,037	
Outstanding	June 30, 2012	2,247,583	16.28	6.43	602	
Granted under Plan:	August 2012	431,000	8.75	10.00	1,249	2.90
Exercised		(30,000)	7.98		24	
Outstanding	December 31, 2012	2,648,583	15.15	6.74	978	

The fair value of each option is estimated on the date of grant using the Cox Ross Rubinstein binomial model that uses the assumptions noted in the following table. The estimated expected volatility is calculated based on the Company's 250 day volatility. The estimated expected life of the option was determined based historical behavior of employees who were granted options with similar terms. The Company has estimated no forfeitures for options awarded in August 2013 and 2012, respectively. The table below presents the range of assumptions used to value options granted during the three and six months ended December 31, 2013 and 2012:

	Three and six months ended December 31,	
	2013	2012
Expected volatility	50%	49%
Expected dividends	0%	0%
Expected life (in years)	3	3
Risk-free rate	0.9%	0.3%

The following table presents stock options vesting and expecting to vest as of December 31, 2013:

	Number of shares	Weighted average exercise price (\$)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (\$ 000)
Vested and expecting to vest				
December 31, 2013	2,873,479	14.54	5.79	1,037

These options have an exercise price range of \$6.59 to \$24.46.





**12. Stock-based compensation (continued)****Stock option and restricted stock activity (continued)***Options (continued)*

	<b>Number of shares</b>	<b>Weighted average exercise price (\$)</b>	<b>Weighted Average Remaining Contractual Term (in years)</b>	<b>Aggregate Intrinsic Value (\$ 000)</b>
Exercisable	2,144,917	16.51	4.97	566

During each of the three months ended December 31, 2013 and 2012, respectively, 159,666 stock options became exercisable. During the six months ended December 31, 2013 and 2012, respectively, 358,333 and 244,666 stock options became exercisable. Included in the 244,666 stock options are 30,000 stock options with respect to which the Remuneration Committee of the Board agreed to accelerate vesting, in August 2012, prior to the resignation of a non-employee director. During the six months ended December 31, 2012, the Company received approximately \$0.2 million from 30,000 stock options exercised by the non-employee director that resigned. No stock options were exercised during the three and six months ended December 31, 2013 or during the three months ended December 31, 2012. The Company issues new shares to satisfy stock option exercises.

*Restricted stock*

The following table summarizes restricted stock activity for the three and six months ended December 31, 2013 and 2012:

	<b>Number of Shares of Restricted Stock</b>	<b>Weighted Average Grant Date Fair Value (\$ 000)</b>
Non-vested June 30, 2013	405,226	4,393
Granted August 2013	187,963	1,382
Vested August 2013	(16,907)	161
Forfeitures October 2013	(7,171)	161
Non-vested December 31, 2013	569,111	5,572
Non-vested June 30, 2012	646,617	7,061
Granted August 2012	21,569	189
Vested August 2012	(23,436)	216
Non-vested December 31, 2012	644,750	7,021

No restricted stock vested during the three months ended December 31, 2013 and 2012, respectively. The fair value of restricted stock vesting during the six months ended December 31, 2013 and 2012, respectively, was \$0.2 million and \$0.2 million. A non-employee director resigned during the three months ended December 31, 2013, and forfeited 7,171 shares of restricted stock. Included in the 23,436 shares of restricted stock that vested in August 2012 are 8,547 shares with respect to which the Remuneration Committee of the Board agreed to accelerate vesting prior to the resignation of a non-employee director.

The fair value of restricted stock is based on the closing price of the Company's stock quoted on The Nasdaq Global Select Market on the date of grant.



**12. Stock-based compensation (continued)****Stock-based compensation charge and unrecognized compensation cost**

The Company has recorded a stock compensation charge of \$1.0 million and \$1.1 million for the three months ended December 31, 2013 and 2012, respectively, which comprised:

	<b>Total charge</b>	<b>Allocated to cost of goods sold, IT processing, servicing and support</b>	<b>Allocated to selling, general and administration</b>
<b>Three months ended December 31, 2013</b>			
Stock-based compensation charge	\$ 974	-	\$ 974
Reversal of stock compensation charge related to restricted stock forfeited	(6)	-	(6)
<b>Total three months ended December 31, 2013</b>	<b>\$ 968</b>	<b>\$ -</b>	<b>\$ 968</b>
<b>Three months ended December 31, 2012</b>			
Stock-based compensation charge	\$ 1,117	\$ -	\$ 1,117
<b>Total three months ended December 31, 2012</b>	<b>\$ 1,117</b>	<b>\$ -</b>	<b>\$ 1,117</b>

The Company has recorded a stock compensation charge of \$1.9 million and \$2.2 million for the six months ended December 31, 2013 and 2012, respectively, which comprised:

	<b>Total charge</b>	<b>Allocated to cost of goods sold, IT processing, servicing and support</b>	<b>Allocated to selling, general and administration</b>
<b>Six months ended December 31, 2013</b>			
Stock-based compensation charge	\$ 1,904	\$ -	\$ 1,904
Reversal of stock compensation charge related to restricted stock forfeited	(6)	-	(6)
<b>Total six months ended December 31, 2013</b>	<b>\$ 1,898</b>	<b>\$ -</b>	<b>\$ 1,898</b>
<b>Six months ended December 31, 2012</b>			
Stock-based compensation charge	\$ 2,233	\$ -	\$ 2,233
<b>Total six months ended December 31, 2012</b>	<b>\$ 2,233</b>	<b>\$ -</b>	<b>\$ 2,233</b>

The stock-based compensation charges have been allocated to selling, general and administration based on the allocation of the cash compensation paid to the employees.

As of December 31, 2013, the total unrecognized compensation cost related to stock options was approximately \$1.3 million, which the Company expects to recognize over approximately three years. As of December 31, 2013, the total unrecognized compensation cost related to restricted stock awards was approximately \$3.6 million, which the Company expects to recognize over approximately two years.

As of each of December 31, 2013 and June 30, 2013, respectively, the Company has recorded a deferred tax asset of approximately \$1.4 million related to the stock-based compensation charge recognized related to employees and directors of Net1 as it is able to deduct the grant date fair value for taxation purposes in the United States.

### **13. Earnings per share**

Basic earnings per share include shares of restricted stock that meet the definition of a participating security because these shares are eligible to receive non-forfeitable dividend equivalents at the same rate as common stock. Basic earnings per share have been calculated using the two-class method and basic earnings per share for the three and six months ended December 31, 2013 and 2012, reflects only undistributed earnings. The computation below of basic earnings per share excludes the net income attributable to shares of unvested restricted stock (participating non-vested restricted stock) from the numerator and excludes the dilutive impact of these unvested shares of restricted stock from the denominator.

**13. Earnings per share (continued)**

Diluted earnings per share has been calculated to give effect to the number of shares of additional common stock that would have been outstanding if the potential dilutive instruments had been issued in each period. Stock options are included in the calculation of diluted earnings per share utilizing the treasury stock method and are not considered to be participating securities as the stock options do not contain non-forfeitable dividend rights. The calculation of diluted earnings per share includes the dilutive effect of a portion of the restricted stock granted to employees in February 2012 and August 2013 as these shares of restricted stock are considered contingently returnable shares for the purposes of the diluted earnings per share calculation and the vesting conditions in respect of a portion of the restricted stock had been satisfied. The vesting conditions are discussed in Note 17 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2013.

The following table presents net income attributable to Net1 (income from continuing operations) and the share data used in the basic and diluted earnings per share computations using the two-class method:

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	2013	2012
	(in thousands except percent and per share data)		(in thousands except percent and per share data)	
Numerator:				
Net income attributable to Net1	\$ 12,749	\$ 2,629	\$ 24,345	\$ 9,373
Undistributed earnings	12,749	2,629	24,345	9,373
Percent allocated to common shareholders (Calculation 1)	99%	99%	99%	99%
Numerator for earnings per share: basic and diluted	\$ 12,594	\$ 2,597	\$ 24,075	\$ 9,256
Denominator:				
Denominator for basic earnings per share: weighted-average common shares outstanding	45,221	44,989	45,218	44,981
Effect of dilutive securities:				
Performance shares related to acquisition	-	-	-	-
Stock options	156	26	113	37
Denominator for diluted earnings per share: adjusted weighted average common shares outstanding and assumed	45,377	45,015	45,331	45,018

conversion

Earnings per share:

Basic	\$	0.28	\$	0.06	\$	0.53	\$	0.21
Diluted	\$	0.28	\$	0.06	\$	0.53	\$	0.21

(Calculation 1)

Basic weighted-average common shares outstanding (A)	45,221	44,989	45,218	44,981
Basic weighted-average common shares outstanding and unvested restricted shares expected to vest (B)	45,776	45,550	45,725	45,550
Percent allocated to common shareholders (A) / (B)	99%	99%	99%	99%

Options to purchase 1,530,863 shares of the Company's common stock at prices ranging from \$13.14 to \$24.46 per share were outstanding during the three and six months ended December 31, 2013, but were not included in the computation of diluted earnings per share because the options' exercise price were greater than the average market price of the Company's common shares. The options, which expire at various dates through August 21, 2023, were still outstanding as of December 31, 2013.

**14. Supplemental cash flow information**

The following table presents the supplemental cash flow disclosures for the three and six months ended December 31, 2013 and 2012:

	<b>Three months ended December 31,</b>		<b>Six months ended December 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Cash received from interest	\$ 3,223	\$ 2,584	\$ 6,464	\$ 5,709
Cash paid for interest	\$ 2,027	\$ 2,053	\$ 3,666	\$ 4,053
Cash paid for income taxes	\$ 14,029	\$ 10,137	\$ 14,527	\$ 10,479

**15. Operating segments**

The Company discloses segment information as reflected in the management information systems reports that its chief operating decision maker uses in making decisions and to report certain entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets or reports material revenues. A description of the Company's operating segments is contained in Note 22 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2013.

The following tables summarize segment information which is prepared in accordance with GAAP:

	<b>Three months ended December 31,</b>		<b>Six months ended December 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Revenues from external customers				
SA transaction-based activities	\$ 72,237	\$ 60,764	\$ 135,269	\$ 122,128
International transaction-based activities	37,288	33,113	74,105	64,762
Smart card accounts	11,237	8,219	22,566	16,583
Financial services	6,199	1,448	8,626	2,832
Hardware, software and related technology sales	10,322	7,898	20,211	16,819
Total	137,283	111,442	260,777	223,124
Inter-company revenues				
SA transaction-based activities	2,957	3,885	5,232	7,868
International transaction-based activities	-	-	-	-
Smart card accounts	-	-	-	-
Financial services	273	401	525	787
Hardware, software and related technology sales	349	379	519	587
Total	3,579	4,665	6,276	9,242
Operating income (loss)				
SA transaction-based activities	13,398	1,933	26,680	8,333
International transaction-based activities	1,365	202	3,416	31

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Smart card accounts	3,203	2,342	6,431	4,727
Financial services	1,727	1,048	1,783	2,145
Hardware, software and related technology sales	1,592	795	4,540	2,779
Subtotal: Operating segments	21,285	6,320	42,850	18,015
Corporate/Eliminations	(2,483)	(1,348)	(7,648)	(3,718)
Total	18,802	4,972	35,202	14,297
Interest income				
SA transaction-based activities	-	-	-	-
International transaction-based activities	-	-	-	-
Smart card accounts	-	-	-	-
Financial services	-	-	-	-
Hardware, software and related technology sales	-	-	-	-
Subtotal: Operating segments	-	-	-	-
Corporate/Eliminations	3,236	2,589	6,555	5,680
Total	\$ 3,236	\$ 2,589	\$ 6,555	\$ 5,680



**15. Operating segments (continued)**

	<b>Three months ended December 31,</b>		<b>Six months ended December 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Interest expense				
SA transaction-based activities	\$ 20	\$ 202	\$ 43	\$ 345
International transaction-based activities	-	-	44	-
Smart card accounts	-	-	-	-
Financial services	338	-	389	-
Hardware, software and related technology sales	198	56	359	126
Subtotal: Operating segments	556	258	835	471
Corporate/Eliminations	1,670	1,765	3,143	3,623
Total	2,226	2,023	3,978	4,094
Depreciation and amortization				
SA transaction-based activities	2,485	3,289	4,932	6,430
International transaction-based activities	7,064	7,025	14,470	13,704
Smart card accounts	-	-	-	-
Financial services	116	97	233	184
Hardware, software and related technology sales	109	76	168	173
Subtotal: Operating segments	9,774	10,487	19,803	20,491
Corporate/Eliminations	-	-	-	-
Total	9,774	10,487	19,803	20,491
Income taxation expense (benefit)				
SA transaction-based activities	3,746	483	7,458	2,236
International transaction-based activities	487	(147)	644	(580)
Smart card accounts	896	655	1,799	1,323
Financial services	393	298	403	610
Hardware, software and related technology sales	309	192	1,002	630
Subtotal: Operating segments	5,831	1,481	11,306	4,219
Corporate/Eliminations	1,268	1,490	2,278	2,481
Total	7,099	2,971	13,584	6,700
Net income (loss)				

SA transaction-based activities	9,632	1,247	19,179	5,751
International transaction-based activities	1,049	492	2,986	835
Smart card accounts	2,307	1,686	4,631	3,402
Financial services	1,011	769	1,038	1,570
Hardware, software and related technology sales	1,088	552	3,183	2,029
Subtotal: Operating segments	15,087	4,746	31,017	13,587
Corporate/Eliminations	(2,338)	(2,117)	(6,672)	(4,214)
Total	12,749	2,629	24,345	9,373
Expenditures for long-lived assets				
SA transaction-based activities	1,743	1,375	2,299	4,969
International transaction-based activities	4,682	4,067	9,513	6,770
Smart card accounts	-	-	-	-
Financial services	(14)	127	186	272
Hardware, software and related technology sales	434	28	463	39
Subtotal: Operating segments	6,845	5,597	12,461	12,050
Corporate/Eliminations	-	-	-	-
Total	\$ 6,845	\$ 5,597	\$ 12,461	\$ 12,050

The segment information as reviewed by the chief operating decision maker does not include a measure of segment assets per segment as all of the significant assets are used in the operations of all, rather than any one, of the segments. The Company does not have dedicated assets assigned to a particular operating segment. Accordingly, it is not meaningful to attempt an arbitrary allocation and segment asset allocation is therefore not presented.

It is impractical to disclose revenues from external customers for each product and service or each group of similar products and services.

## 16. Income tax

### Income tax in interim periods

For the purposes of interim financial reporting, the Company determines the appropriate income tax provision by first applying the effective tax rate expected to be applicable for the full fiscal year to ordinary income. This amount is then adjusted for the tax effect of significant unusual or extraordinary items, for instance, changes in tax law, valuation allowances and non-deductible transaction-related expenses that are reported separately, and have an impact on the tax charge. The cumulative effect of any change in the enacted tax rate, if and when applicable, on the opening balance of deferred tax assets and liabilities is also included in the tax charge as a discrete event in the interim period in which the enactment date occurs.

For the three and six months ended December 31, 2013, the tax charge was calculated using the expected effective tax rate for the year. The Company's effective tax rate for the three and six months ended December 31, 2013, was 35.8% and 35.9%, respectively, and was higher than the South African statutory rate primarily as a result of non-deductible expenses (including interest expense related to the Company's long-term Korean borrowings and stock-based compensation charges). The Company's effective tax rate for the three and six months ended December 31, 2012, was 53.6% and 42.2%, respectively, and was higher than the South African statutory rate primarily as a result of non-deductible expenses (including interest expense related to the Company's long-term Korean borrowings and stock-based compensation charges) and South African dividend withholding taxes.

### Uncertain tax positions

There were no changes during the three and six months ended December 31, 2013. As of December 31, 2013, the Company had accrued interest related to uncertain tax positions of approximately \$0.2 million on its balance sheet.

The Company does not expect changes related to its unrecognized tax benefits will have a significant impact on its results of operations or financial position in the next 12 months.

The Company files income tax returns mainly in South Africa, Korea, Austria, Botswana, the Russian Federation and in the US federal jurisdiction. As of December 31, 2013, the Company is no longer subject to any new income tax examination by the South African Revenue Service for years before June 30, 2009. In 2011, the Korea National Tax Service had completed the examination of the Company's returns in Korea related to years 2006 through 2010. The Company is subject to income tax in other jurisdictions outside South Africa and Korea, none of which are individually material to its financial position, cash flows, or results of operations.

## 17. Commitments and contingencies

### Guarantees

The South African Revenue Service and certain of the Company's customers, suppliers and other business partners have asked the Company to provide them with guarantees, including standby letters of credit, issued by a South African bank. The Company is required to procure these guarantees for these third parties to operate its business.

Nedbank has issued guarantees to these third parties amounting to ZAR 132.0 million (\$12.6 million, translated at exchange rates applicable as of December 31, 2013) and thereby utilizing part of the Company's short-term facility. The Company in turn has provided nonrecourse, unsecured counter-guarantees to Nedbank for the same amount. The Company pays commission of between 0.2% per annum to 2.0% per annum of the face value of these guarantees and does not recover any of the commission from third parties.

The Company has not recognized any obligation related to these counter-guarantees in its unaudited condensed consolidated balance sheet as of December 31, 2013. The maximum potential amount that the Company could pay under these guarantees is ZAR 132.0 million (\$12.6 million, translated at exchange rates applicable as of December 31, 2013). The guarantees have reduced the amount available for borrowings under the Company's short-term credit facility described in note 8.

## **Contingencies**

### ***Securities Litigation***

On December 24, 2013, Net1, its chief executive officer and its chief financial officer were named as defendants in a purported class action lawsuit filed in the United States District Court for the Southern District of New York alleging violations of the federal securities laws.

**17. Commitments and contingencies (continued)**

**Contingencies (continued)**

*Securities Litigation (continued)*

The lawsuit alleges that Net1 made materially false and misleading statements regarding its business and compliance policies in its SEC filings and other public disclosures. The lawsuit was brought on behalf of a purported shareholder of Net1 and all other similarly situated shareholders who purchased its securities between August 27, 2009 and November 27, 2013. The lawsuit seeks unspecified damages. The Company believes this lawsuit has no merit and intends to defend it vigorously.

The Company is subject to a variety of insignificant claims and suits that arise from time to time in the ordinary course of business.

Management currently believes that the resolution of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's financial position, results of operations and cash flows.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended June 30, 2013, and the unaudited condensed consolidated financial statements and the accompanying notes included in this Form 10-Q.

### **Forward-looking statements**

Some of the statements in this Form 10-Q constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, implied or inferred by these forward-looking statements. Such factors include, among other things, those listed under Item 1A. Risk Factors and elsewhere in our Annual Report on Form 10-K for the year ended June 30, 2013 and Item 1A Risk Factors and elsewhere in this Form 10-Q. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, would, expects, plans, intends, anticipates, believes, estimates, predicts, or the negative of such terms and other comparable terminology.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we do not know whether we can achieve positive future results, levels of activity, performance, or goals. Actual events or results may differ materially. We undertake no obligation to update any of the forward-looking statements after the date of this Form 10-Q to conform those statements to reflect the occurrence of unanticipated events, except as required by applicable law.

You should read this Form 10-Q and the documents that we reference herein and the documents we have filed as exhibits hereto and which we have filed with the Securities and Exchange Commission completely and with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

### **Recent Developments**

#### ***AllPay Challenge to Tender Award***

On November 29, 2013, the South African Constitutional Court ruled that the tender process followed by SASSA in awarding a five-year social welfare grants distribution contract to us was constitutionally invalid. However, the Constitutional Court suspended its declaration of invalidity pending determination of a just and equitable remedy. The grant of a just and equitable remedy was reserved pending a further hearing, which has been set for February 11, 2014. As ordered by the Constitutional Court, the parties have submitted additional information on affidavit. See Part II, Item 1 Legal Proceedings.

#### ***December 2013 Black Economic Empowerment, or BEE, transactions***

On December 10, 2013, we entered into definitive agreements relating to two BEE transactions. Refer to note 10 to our unaudited condensed consolidated financial statements for a full description of the BEE transactions.

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

Our Net1 Mobile Solutions business unit introduced a new suite of mobile value-added services, commencing with a prepaid airtime product called Umoya Manje during the first quarter of fiscal 2014. We continued to see adoption of this product increase in the second quarter of fiscal 2014. This product allows our customers in South Africa to electronically purchase prepaid airtime without having to visit a physical prepaid airtime vendor.

Traditional prepaid airtime procurement is usually time consuming for the customer and results in them having to pay additional costs. Our product allows our customers, many of whom do not have their own means of transport or ready access to transport, to purchase prepaid airtime without having to travel. We also believe that our product is substantially cheaper than traditional prepaid airtime channels, which often require customers to pay a substantial premium to obtain airtime. At December 31, 2013, we had over 2.4 million registered users, effecting more than one million transactions per day during peak periods. In December 2013, Net1 Mobile Solutions launched other mobile value-added services, including prepaid electricity, and expects the adoption rates of these products to be similar to its prepaid airtime offering. We believe that these new products are also cheaper than existing offerings and will make a meaningful difference in the lives of users of these new products.

### ***Expansion of financial service offering***

During the second quarter of fiscal 2014, our Financial Services business unit continued the national rollout of our financial services offering in the six provinces in which we did not offer our product during fiscal 2013.

### ***Acquisition of KSNET non-controlling interests***

We acquired substantially all of the issued share capital of KSNET that we did not previously own for approximately \$2.0 million in cash. Refer to note 10 to our unaudited condensed consolidated financial statements for a full description of the acquisition of KSNET non-controlling interests.

### **Critical Accounting Policies**

Our unaudited condensed 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.

Critical accounting policies are those that reflect significant judgments or uncertainties, and potentially may result in materially different results under different assumptions and conditions. Management has identified the following critical accounting policies that are described in more detail in our Annual Report on Form 10-K for the year ended June 30, 2013:

- Business combinations and the recoverability of goodwill;
- Intangible assets acquired through acquisitions;
- Deferred taxation;
- Stock-based compensation and equity instrument issued pursuant to BEE transaction;
- Accounts receivable and allowance for doubtful accounts receivable; and
- Research and development.

During the first half of 2014, we created an allowance for doubtful finance loans receivable related to our financial services segment as a result of UEPS-based loans provided to our customers. Our policy is to regularly review the ageing of outstanding amounts due from borrowers and adjust the provision based on management's estimate of the recoverability of finance loans receivable. We write off UEPS-based loans and related service fees if a borrower is in arrears with repayments for more than three months or dies.

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

### **Recent accounting pronouncements adopted**

Refer to Note 1 to our unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements adopted, including the dates of adoption and the effects on our condensed consolidated financial statements.



**Recent accounting pronouncements not yet adopted as of December 31, 2013**

Refer to note 1 to our unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of December 31, 2013, including the expected dates of adoption and effects on our financial condition, results of operations and cash flows.

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

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

<b>Table 1</b>	<b>Three months ended December 31,</b>		<b>Six months ended December 31,</b>		<b>Year ended June 30,</b>
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>
ZAR : \$ average exchange rate	10.1603	8.7029	10.0809	8.4836	8.8462
Highest ZAR : \$ rate during period	10.5730	9.0047	10.5730	9.0047	10.3587
Lowest ZAR : \$ rate during period	9.7143	8.1933	9.5436	8.0444	8.0444
Rate at end of period	10.5037	8.4875	10.5037	8.4875	9.8925
KRW : \$ average exchange rate	1,065	1,095	1,089	1,116	1,112
Highest KRW : \$ rate during period	1,077	1,116	1,152	1,156	1,162
Lowest KRW : \$ rate during period	1,031	1,039	1,031	1,039	1,019
Rate at end of period	1,063	1,068	1,063	1,068	1,144

**Translation exchange rates for financial reporting purposes**

For financial reporting purposes we are required to translate our results of operations from ZAR and KRW to US dollars on a monthly basis. Thus, the average rates used to translate this data for the three and six months ended December 31, 2013 and 2012, vary from the averages shown in the table above. The translation rates we use in presenting our results of operations are the rates shown in the following table:

<b>Table 2</b>	<b>Three months ended December 31,</b>		<b>Six months ended December 31,</b>		<b>Year ended June 30,</b>
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>
Income and expense items: \$1 = ZAR .	10.1592	8.7405	10.0809	8.4571	8.7105
Income and expense items: \$1 = KRW	1,021	1,084	1,087	1,111	1,072
		-		-	
Balance sheet items: \$1 = ZAR	10.5037	8.4875	10.5037	8.4875	9.8925
Balance sheet items: \$1 = KRW	1,063	1,068	1,063	1,068	1,144

**Results of operations**

The discussion of our consolidated overall results of operations is based on amounts as reflected in our unaudited condensed 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.

Three and six months ended December 31, 2012, includes SmartSwitch Botswana from December 1, 2012 and Pbel from September 1, 2012.

We analyze our business and operations in terms of five inter-related but independent operating segments: (1) South African transaction-based activities, (2) international transaction-based activities, (3) smart card accounts, (4) financial services, and (5) hardware, software and related technology sales. In addition, corporate and corporate office activities that are impracticable to ascribe directly to any of the other operating segments, as well as any inter-segment eliminations, are included in corporate/eliminations.

## Second quarter of fiscal 2014 compared to second quarter of fiscal 2013

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

- **Unfavorable impact from the strengthening of the US dollar against the ZAR:** The US dollar appreciated by 16% against the ZAR during the second quarter of fiscal 2014 which negatively impacted our reported results;
- **SASSA implementation complete:** Our SASSA contract implementation is complete. We incurred implementation-related expenditure, including smart card costs, of approximately \$21.0 million during the second quarter of fiscal 2013;
- **Higher revenue resulting from an increase in low-margin prepaid airtime sales:** Our revenue has increased as a result of the growth of our Umoya Manje prepaid airtime offering during the second quarter of fiscal 2014, which has lower margins compared with our other South African businesses;
- **National rollout of our financial services offering:** We continued the national rollout of our financial services offering during the second quarter of fiscal 2014, which resulted in higher revenue from UEPS-based lending. Profitability in the financial services segment however was lower due to rollout costs, including hiring and training of additional staff and infrastructure deployment as well as the creation of an allowance for doubtful finance loans receivable;
- **Ad hoc hardware sales in fiscal 2014:** We sold more terminals and cards during the second quarter of fiscal 2014 as a result of ad hoc orders received from our customers; and
- **Higher DOJ and SEC investigation-related expenses:** We incurred DOJ and SEC investigation-related expenses of \$1.6 million during the second quarter of fiscal 2014 compared to \$0.5 million during 2013.

## 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 3	In United States Dollars (US GAAP)		
	Three months ended December 31,		
	2013 \$ 000	2012 \$ 000	\$ % change
Revenue	137,283	111,442	23%
Cost of goods sold, IT processing, servicing and support	67,883	47,227	44%
Selling, general and administration	40,824	48,756	(16%)
Depreciation and amortization	9,774	10,487	(7%)
Operating income	18,802	4,972	278%
Interest income	3,236	2,589	25%
Interest expense	2,226	2,023	10%
Income before income tax expense	19,812	5,538	258%
Income tax expense	7,099	2,971	139%
Net income before earnings from equity-accounted investments	12,713	2,567	395%

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Earnings from equity-accounted investments	47	54	(13%)
Net income	12,760	2,621	387%
Less (Add) net income (loss) attributable to non-controlling interest	11	(8)	nm
Net income attributable to us	12,749	2,629	385%
	28		

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**Table 4**

In South African Rand (US GAAP)			
Three months ended December 31,			
	2013 ZAR 000	2012 ZAR 000	ZAR % change
Revenue	1,394,685	974,058	43%
Cost of goods sold, IT processing, servicing and support	689,636	412,787	67%
Selling, general and administration	414,740	426,152	(3%)
Depreciation and amortization	99,296	91,661	8%
Operating income	191,013	43,458	340%
Interest income	32,875	22,629	45%
Interest expense	22,614	17,682	28%
Income before income tax expense	201,274	48,405	316%
Income tax expense	72,120	25,968	178%
Net income before earnings from equity-accounted investments	129,154	22,437	476%
Earnings from equity-accounted investments	477	472	1%
Net income	129,631	22,909	466%
Less (Add) net income (loss) attributable to non-controlling interest	112	(70)	nm
Net income attributable to us	129,519	22,979	464%

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

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

Our selling, general and administration expense decreased due to the substantial elimination of SASSA contract implementation costs, which were offset by increases in goods and services purchased from third parties and increase in legal fees to approximately \$1.6 million (ZAR 16.4 million) compared with \$0.5 million (ZAR 4.9 million) in connection with the US government investigations.

Our operating income margin for the second quarter of fiscal 2014 and 2013 was 14% and 4%, respectively. We discuss the components of operating income margin under Results of operations by operating segment. The increase is primarily attributable to the elimination of implementation costs in fiscal 2014.

In ZAR, depreciation and amortization were higher primarily as a result of an increase in depreciation related to assets used to service our obligations under our SASSA contract, which was partially offset by no MediKredit and FIHRST intangible asset amortization as these intangible assets were fully amortized at the end of June 2013. The tables below present the acquisition-related intangible asset amortization that has been allocated to our operating segments:

**Table 5**

Three months ended December 31,	
2013 \$ 000	2012 \$ 000

Amortization included in depreciation and amortization expense:	4,107	4,861
South African transaction-based activities	518	1,465
International transaction-based activities	3,518	3,313
Hardware, software and related technology sales	71	83

Table 6	Three months ended December 31,	
	2013 ZAR 000	2012 ZAR 000
Amortization included in depreciation and amortization expense:	41,719	42,485
South African transaction-based activities	5,262	12,811
International transaction-based activities	35,740	28,957
Hardware, software and related technology sales	717	717



Interest on surplus cash increased to \$3.2 million (ZAR 32.9 million) from \$2.6 million (ZAR 22.6 million) due primarily to higher average daily ZAR cash balances.

In US dollars, interest expense increased to \$2.2 million (ZAR 22.6 million) from \$2.0 million (ZAR 17.7 million) primarily due to the write-off of facilities fees related to the 2010 Korean debt financing, but partially offset by a lower average long-term debt balance.

Second quarter fiscal 2014 tax expense was \$7.1 million (ZAR 72.1 million) compared to \$3.0 million (ZAR 26.0 million) in fiscal 2013. Our effective tax rate for fiscal 2014 was 35.8% and was higher than the South African statutory rate as a result of non-deductible expenses (including interest expense related to our long-term Korean borrowings and stock-based compensation charges). Our effective tax rate for the second quarter of fiscal 2013 was 53.6% and was higher than the South African statutory rate primarily as a result of non-deductible expenses (including interest expense related to our long-term Korean borrowings and stock-based compensation charges) and South African dividend withholding taxes.

### Results of operations by operating segment

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

**Table 7**

*In United States Dollars (US GAAP)*  
**Three months ended December 31,**

<b>Operating Segment</b>	<b>2013 \$ 000</b>	<b>% of total</b>	<b>2012 \$ 000</b>	<b>% of total</b>	<b>% change</b>
Consolidated revenue:					
SA transaction-based activities	72,237	53%	60,764	55%	19%
International transaction-based activities	37,288	27%	33,113	30%	13%
Smart card accounts	11,237	8%	8,219	7%	37%
Financial services	6,199	5%	1,448	1%	328%
Hardware, software and related technology sales	10,322	7%	7,898	7%	31%
<b>Total consolidated revenue</b>	<b>137,283</b>	<b>100%</b>	<b>111,442</b>	<b>100%</b>	<b>23%</b>
Consolidated operating (loss) income:					
SA transaction-based activities	13,398	71%	1,933	39%	593%
Operating income before amortization	13,916		3,398		
Amortization of intangible assets	(518)		(1,465)		
International transaction-based activities	1,365	7%	202	4%	576%
Operating income before amortization	4,883		3,515		
Amortization of intangible assets	(3,518)		(3,313)		
Smart card accounts	3,203	17%	2,342	47%	37%
Financial services	1,727	9%	1,048	21%	65%
Hardware, software and related technology sales	1,592	8%	795	16%	100%
Operating income before amortization	1,663		878		
Amortization of intangible assets	(71)		(83)		
Corporate/eliminations	(2,483)	(12%)	(1,348)	(27%)	84%
<b>Total consolidated operating income</b>	<b>18,802</b>	<b>100%</b>	<b>4,972</b>	<b>100%</b>	<b>278%</b>

**Table 8**

*In South African Rand (US GAAP)*  
**Three months ended December 31,**

<b>Operating Segment</b>	<b>2013 ZAR 000</b>	<b>% of total</b>	<b>2012 ZAR 000</b>	<b>% of total</b>	<b>% change</b>
Consolidated revenue:					
SA transaction-based activities	733,870	53%	531,108	55%	38%
International transaction-based activities	378,816	27%	289,424	30%	31%
Smart card accounts	114,159	8%	71,838	7%	59%
Financial services	62,977	5%	12,656	1%	398%
Hardware, software and related technology sales	104,863	7%	69,032	7%	52%
<b>Total consolidated revenue</b>	<b>1,394,685</b>	<b>100%</b>	<b>974,058</b>	<b>100%</b>	<b>43%</b>
Consolidated operating (loss) income:					
SA transaction-based activities	136,113	71%	16,895	39%	706%
Operating income before amortization	141,375		29,706		
Amortization of intangible assets	(5,262)		(12,811)		
International transaction-based activities	13,867	7%	1,766	4%	685%
Operating income before amortization	49,607		30,723		
Amortization of intangible assets	(35,740)		(28,957)		
Smart card accounts	32,540	17%	20,470	47%	59%
Financial services	17,545	9%	9,160	21%	92%
Hardware, software and related technology sales	16,173	8%	6,949	16%	133%
Operating income before amortization	16,890		7,666		
Amortization of intangible assets	(717)		(717)		
Corporate/eliminations	(25,225)	(12%)	(11,782)	(27%)	114%
<b>Total consolidated operating income</b>	<b>191,013</b>	<b>100%</b>	<b>43,458</b>	<b>100%</b>	<b>340%</b>
<i>South African transaction-based activities</i>					

In ZAR, the increases in segment revenue were primarily due to more low-margin transaction fees generated from beneficiaries using the South African National Payment System, incremental prepaid airtime sales driven by the rollout of our Umoya Manje product, and reflect the elimination of inter-company transactions.

Our operating income margin for fiscal 2014 and 2013 was 19% and 3%, respectively, and has increased primarily due to the elimination of SASSA implementation costs in fiscal 2014 and partially offset by the increase in low-margin prepaid airtime sales.

#### **South African transaction processors:**

The table below presents the total volume and value processed during the second quarter of fiscal 2014 and 2013:

**Table 9**

	<b>Total volume ( 000s)</b>		<b>Total value \$ ( 000)</b>		<b>Total value ZAR ( 000)</b>	
<b>Transaction processor</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
CPS	28,538	28,373	2,715,356	2,971,163	27,585,846	25,969,448
EasyPay	106,772	111,380	2,881,624	2,960,166	29,274,995	25,873,334
Net1 Mobile Solutions	39,641	6,178	2,274,810	2,503,633	23,110,247	21,883,006

(A)						
MediKredit	2,245	2,353	200,446	160,204	2,036,370	1,400,261

(A) during fiscal 2014 FIHRST was integrated into Net1 Mobile Solutions. Volumes and values for 2013 represent FIHRST only.

CPS volumes were flat year over year due to SASSA's suspension of former grant recipient cardholders who had not presented themselves for enrollment during the second quarter of fiscal 2014. These grant recipient cardholders will have to apply for restoration of their grant and present themselves for enrollment should they want to reinstate their grants. Our pension and welfare operations continue to generate the majority of our revenues and operating income in this operating segment and overall. EasyPay volumes have decreased due to fewer sales of prepaid airtime, but the decrease was partially offset by an increase in transaction switching and other value-added services. Net1 Mobile Solutions volumes and values have increased due to the launch of Umoya Manje in fiscal 2014.

***International transaction-based activities***

KSNET continues to contribute the majority of our revenues and operating income in this operating segment. Revenue increased primarily due to KSNET's revenue growth during the second quarter of fiscal 2014 and was partially offset by the expiration and non-renewal of NUETS' contract with its Iraqi customer in the third quarter of fiscal 2013. Operating income during the second quarter of fiscal 2014 was higher due to increase in revenue contribution from KSNET, but partially offset by the loss of the NUETS Iraqi contract as well as ongoing losses related to our XeoHealth launch in the United States and at Net1 Virtual Card, as well as ongoing competition in the Korean marketplace.

Operating income margin for the segment is lower than for most of our South African transaction-based businesses. Operating income margin for the second quarter of fiscal 2014 and 2013 was 4% and 1%, respectively (excluding intangible amortization, 13% and 11%, respectively.)

***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 full implementation of the SASSA contract. Operating income margin from providing smart card accounts for the second quarter of fiscal 2014 and 2013 was 29% and 28%, respectively.

In ZAR, revenue from the provision of smart card-based accounts increased in proportion to the increased number of recipients serviced through our SASSA contract. Approximately 9.6 million smart card-based accounts were active at December 31, 2013 compared to approximately 6.2 million active accounts as at December 31, 2012.

***Financial services***

UEPS-based lending contributes the majority of the revenue and operating income in this operating segment. Revenue and operating income increased primarily due to the increase in the number of loans granted as we rolled out our product nationally. The increase in operating income was partially offset by an increase in start-up expenses, establishment of the allowance for doubtful finance loans receivable and the re-allocation of UEPS-based lending corporate and administration overhead expenses to this segment. Smart Life did not contribute to operating income in the second quarter of fiscal 2014 as it is currently unable to issue new insurance policies as a result of the suspension of its license by the Financial Services Board, or FSB, in January 2013.

Second quarter of fiscal 2014 includes the re-allocation of UEPS-based lending corporate administration and overhead expenses to this segment from the South African transaction-based activities segment. We were not able to accurately quantify these expenses for last year and therefore did not allocate such costs to this segment during the second quarter of fiscal 2013.

Operating income margin for the financial services segment decreased to 28% from 72%, primarily as a result of the roll-out expenditures, allowance for doubtful finance loans receivable and corporate overhead expense re-allocation described above.

***Hardware, software and related technology sales***

In ZAR, the increase in revenue and operating income resulted from more ad hoc terminal and smart card sales. We continue to expect significant quarter over quarter fluctuations in revenue, operating income and operating margin due to the ad hoc nature of orders in this operating segment.

***Corporate/eliminations***

The increase in our corporate expenses resulted primarily from legal fees we incurred in connection with the DOJ and SEC investigations and other corporate head office-related expenses.

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.

**First half of fiscal 2014 compared to first half of fiscal 2013**

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

- **Unfavorable impact from the strengthening of the US dollar against the ZAR:** The US dollar appreciated by 19% against the ZAR during the first half of fiscal 2014 which negatively impacted our reported results;
- **SASSA implementation complete:** We incurred implementation-related expenditure, including smart card costs, of approximately \$36.8 million during the first half of fiscal 2013;
- **Higher revenue resulting from an increase in low-margin prepaid airtime sales:** Our revenue has increased as a result of the deployment of our Umoya Manje prepaid airtime offering during the first half of fiscal 2014, which has lower margins compared with our other South African businesses;
- **National rollout of our financial services offering:** The national rollout of our financial services offering resulted in higher revenue from UEPS-based lending. Profitability in the financial services segment however was lower due to rollout costs, including hiring and training of additional staff and infrastructure deployment as well as the creation of an allowance for doubtful finance loans receivable;
- **Ad hoc hardware sales in fiscal 2014:** We sold more terminals and cards during the first half of fiscal 2014 as a result of ad hoc orders received from our customers; and
- **DOJ and SEC investigation-related expenses:** We incurred DOJ and SEC investigation-related expenses of \$3.8 million during the first half of fiscal 2014 compared with \$0.5 million in 2013.

**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:

	In United States Dollars (US GAAP)		
	Six months ended December 31,		
	2013 \$ 000	2012 \$ 000	\$ % change
Revenue	260,777	223,124	17%
Cost of goods sold, IT processing, servicing and support	124,442	92,328	35%
Selling, general and administration	81,330	96,008	(15%)
Depreciation and amortization	19,803	20,491	(3%)
Operating income	35,202	14,297	146%
Interest income	6,555	5,680	15%
Interest expense	3,978	4,094	(3%)
Income before income tax expense	37,779	15,883	138%
Income tax expense	13,584	6,700	103%
Net income before earnings from equity-accounted investments	24,195	9,183	163%
Earnings from equity-accounted investments	150	182	(18%)
Net income	24,345	9,365	160%
Less (Add) net income (loss) attributable to non-controlling interest	-	(8)	nm
Net income attributable to us	24,345	9,373	160%



**Table 11**

	<b>In South African Rand (US GAAP)</b>		
	<b>Six months ended December 31,</b>		
	<b>2013 ZAR 000</b>	<b>2012 ZAR 000</b>	<b>ZAR % change</b>
Revenue	2,628,867	1,886,983	39%
Cost of goods sold, IT processing, servicing and support	1,254,488	780,827	61%
Selling, general and administration	819,880	811,950	1%
Depreciation and amortization	199,633	173,295	15%
Operating income	354,866	120,911	193%
Interest income	66,080	48,036	38%
Interest expense	40,102	34,623	16%
Income before income tax expense	380,844	134,324	184%
Income tax expense	136,939	56,663	142%
Net income before earnings from equity-accounted investments	243,905	77,661	214%
Earnings from equity-accounted investments	1,512	1,539	(2%)
Net income	245,417	79,200	210%
Less (Add) net income (loss) attributable to non-controlling interest	-	(68)	nm
Net income attributable to us	245,417	79,268	210%

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

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

In ZAR, our selling, general and administration expense increased due to increases in goods and services purchased from third parties and an increase in legal fees to approximately \$3.8 million (ZAR 38.0 million) compared with \$0.5 million (ZAR 4.9 million) in connection with the US government investigations, which were offset by the substantial elimination of SASSA contract implementation costs.

Our operating income margin for the first half of fiscal 2014 and 2013, was 13% and 6%, respectively. We discuss the components of operating income margin under Results of operations by operating segment. The increase is primarily attributable to the substantial elimination of implementation costs in fiscal 2014.

In ZAR, depreciation and amortization were higher primarily as a result of an increase in depreciation related to assets used to service our obligations under our SASSA contract, which was partially offset by no MediKredit and FIHRST intangible asset amortization as these intangible assets were fully amortized at the end of June 2013. The tables below present the acquisition-related intangible asset amortization that has been allocated to our operating segments:

**Table 12**

**Six months ended  
December 31,**



	<b>2013</b>	<b>2012</b>
	<b>\$ 000</b>	<b>\$ 000</b>
Amortization included in depreciation and amortization expense:	7,795	9,568
South African transaction-based activities	1,044	2,931
International transaction-based activities	6,608	6,468
Hardware, software and related technology sales	143	169

**Table 13**

	<b>Six months ended</b>	
	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>ZAR 000</b>	<b>ZAR 000</b>
Amortization included in depreciation and amortization expense:	78,569	80,919
South African transaction-based activities	10,519	24,783
International transaction-based activities	66,615	54,701
Hardware, software and related technology sales	1,435	1,435

Interest on surplus cash increased to \$6.6 million (ZAR 66.1 million) from \$5.7 million (ZAR 48.0 million), due primarily to higher average daily ZAR cash balances.

In US dollars, interest expense decreased to \$4.0 million (ZAR 40.1 million) from \$4.1 million (ZAR 34.6 million) due to a lower average long-term debt balance.

First half fiscal 2014 tax expense was \$13.6 million (ZAR 136.9 million) compared to \$6.7 million (ZAR 56.7 million) in fiscal 2013. Our effective tax rate for fiscal 2014, was 35.9% and was higher than the South African statutory rate as a result of non-deductible expenses (including interest expense related to our long-term Korean borrowings and stock-based compensation charges). Our effective tax rate for the first half of fiscal 2013, was 42.2% and was higher than the South African statutory rate primarily as a result of non-deductible expenses (including interest expense related to our long-term Korean borrowings and stock-based compensation charges) and South African dividend withholding taxes.

### Results of operations by operating segment

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

**Table 14**

*In United States Dollars (US GAAP)*

	<b>2013</b>	<b>% of</b>	<b>2012</b>	<b>% of</b>	<b>%</b>
<b>Operating Segment</b>	<b>\$ 000</b>	<b>total</b>	<b>\$ 000</b>	<b>total</b>	<b>change</b>
Consolidated revenue:					
SA transaction-based activities	135,269	52%	122,128	55%	11%
International transaction-based activities	74,105	28%	64,762	29%	14%
Smart card accounts	22,566	9%	16,583	7%	36%
Financial services	8,626	3%	2,832	1%	205%
Hardware, software and related technology sales	20,211	8%	16,819	8%	20%
<b>Total consolidated revenue</b>	<b>260,777</b>	<b>100%</b>	<b>223,124</b>	<b>100%</b>	<b>17%</b>
Consolidated operating (loss) income:					
SA transaction-based activities	26,680	76%	8,333	58%	220%
Operating income before amortization	27,724		11,264		
Amortization of intangible assets	(1,044)		(2,931)		
International transaction-based activities	3,416	10%	31	-	nm
Operating income before amortization	10,024		6,499		
Amortization of intangible assets	(6,608)		(6,468)		
Smart card accounts	6,431	18%	4,727	33%	36%
Financial services	1,783	5%	2,145	15%	(17%)
Hardware, software and related technology sales	4,540	13%	2,779	19%	63%
Operating income before amortization	4,683		2,948		
Amortization of intangible assets	(143)		(169)		
Corporate/eliminations	(7,648)	(22%)	(3,718)	(25%)	106%
<b>Total consolidated operating income</b>	<b>35,202</b>	<b>100%</b>	<b>14,297</b>	<b>100%</b>	<b>146%</b>

Table 15

*In South African Rand (US GAAP)*  
Six months ended December 31,

Operating Segment	2013 ZAR 000	% of total	2012 ZAR 000	% of total	% change
Consolidated revenue:					
SA transaction-based activities	1,363,633	52%	1,032,849	55%	32%
International transaction-based activities	747,045	28%	547,699	29%	36%
Smart card accounts	227,486	9%	140,244	7%	62%
Financial services	86,958	3%	23,951	1%	263%
Hardware, software and related technology sales	203,745	8%	142,240	8%	43%
<b>Total consolidated revenue</b>	<b>2,628,867</b>	<b>100%</b>	<b>1,886,983</b>	<b>100%</b>	<b>39%</b>
Consolidated operating (loss) income:					
SA transaction-based activities	268,958	76%	70,473	58%	282%
Operating income before amortization	279,477		95,256		
Amortization of intangible assets	(10,519)		(24,783)		
International transaction-based activities	34,436	10%	262	-	nm
Operating income before amortization	101,051		54,963		
Amortization of intangible assets	(66,615)		(54,701)		
Smart card accounts	64,830	18%	39,977	33%	62%
Financial services	17,974	5%	18,140	15%	(1%)
Hardware, software and related technology sales	45,767	13%	23,502	19%	95%
Operating income before amortization	47,202		24,937		
Amortization of intangible assets	(1,435)		(1,435)		
Corporate/eliminations	(77,099)	(22%)	(31,443)	(25%)	145%
<b>Total consolidated operating income</b>	<b>354,866</b>	<b>100%</b>	<b>120,911</b>	<b>100%</b>	<b>193%</b>
<i>South African transaction-based activities</i>					

In ZAR, the increases in segment revenue were primarily due to more low-margin transaction fees generated from beneficiaries using the South African National Payment System, incremental prepaid airtime sales driven by the rollout of our Umoya Manje product, and reflect the elimination of inter-company transactions.

Our operating income margin for fiscal 2014 and 2013 was 20% and 7%, respectively, and has increased primarily due to the substantial elimination of SASSA implementation costs in fiscal 2014 and partially offset by the increase in low-margin prepaid airtime sales.

#### South African transaction processors:

The table below presents the total volume and value processed during the first half of fiscal 2014 and 2013:

Table 16

	Total volume ( 000s)		Total value \$ ( 000)		Total value ZAR ( 000)	
Transaction processor	2014	2013	2014	2013	2014	2013
CPS	56,863	56,942	5,413,098	6,150,616	54,568,900	52,016,377
EasyPay	205,917	213,800	5,540,372	5,706,997	55,851,933	48,264,644
Net1 Mobile Solutions						
(A)	58,631	12,165	4,341,321	4,905,921	43,764,420	41,489,867

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MediKredit	4,838	4,977	401,982	333,066	4,052,336	2,816,769
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(A) during fiscal 2014 FIHRST was integrated into Net1 Mobile Solutions. Volumes and values for 2013 represent FIHRST only.

CPS volumes were flat year over year due to SASSA's suspension of former grant recipient cardholders who had not presented themselves for enrollment during the first half of fiscal 2014. EasyPay volumes have decreased due to fewer sales of prepaid airtime, but partially offset by an increase in transaction switching and other value-added services. Net1 Mobile Solutions volumes and values have increased due to the launch of Umoya Manje in fiscal 2014.

***International transaction-based activities***

Revenue increased primarily due to KSNET's revenue growth during the first half of fiscal 2014 and was partially offset by the expiration and non-renewal of NUETS' contract with its Iraqi customer in the third quarter of fiscal 2013. Operating income during the first half of fiscal 2014 was higher due to increase in revenue contribution from KSNET, but partially offset by the loss of the NUETS Iraqi contract as well as ongoing losses related to our XeoHealth launch in the United States and at Net1 Virtual Card, as well as ongoing competition in the Korean marketplace.

Operating income margin for the first half of fiscal 2014 and 2013 was 5% and 0%, respectively (excluding intangible amortization, 14% and 10%, respectively.)

***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 full implementation of the SASSA contract. Operating income margin from providing smart card accounts for the first half of fiscal 2014 and 2013 was 28% and 29%, respectively.

In ZAR, revenue from the provision of smart card-based accounts increased in proportion to the increased number of recipients serviced through our SASSA contract. Approximately 9.6 million smart card-based accounts were active at December 31, 2013 compared to approximately 6.2 million active accounts as at December 31, 2012.

***Financial services***

Revenue increased primarily due to the increase in the number of loans granted as we rolled out our product nationally. Operating income decreased primarily as a result of related start-up expenses, establishment of the allowance for doubtful finance loans receivable and the re-allocation of UEPS-based lending corporate and administration overhead expenses to this segment. Smart Life did not contribute to operating income in the first half of fiscal 2014 due to the FSB suspension.

First half of fiscal 2014 includes the re-allocation of UEPS-based lending corporate administration and overhead expenses to this segment from the South African transaction-based activities segment. We were not able to accurately quantify these expenses for last year and therefore did not allocate such costs to this segment during the first half of fiscal 2013.

Operating income margin for the financial services segment decreased to 21% from 76%, primarily as a result of the roll-out expenditures, allowance for doubtful finance loans receivable and corporate overhead expense re-allocation described above.

***Hardware, software and related technology sales***

In ZAR, the increase in revenue and operating income resulted from more ad hoc terminal and smart card sales. We continue to expect significant quarter over quarter fluctuations in revenue, operating income and operating margin due to the ad hoc nature of orders in this operating segment.

***Corporate/eliminations***

The increase in our corporate expenses resulted primarily from legal fees we incurred in connection with the US government investigations and other corporate head office-related expenses.

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.

### **Liquidity and Capital Resources**

At December 31, 2013, our cash balances were \$22.4 million, which comprised mainly ZAR-denominated balances of ZAR 8.9 million (\$0.9 million), KRW-denominated balances of KRW 16.4 billion (\$15.5 million) and US dollar-denominated balances of \$3.9 million and other currency deposits, primarily euro, of \$2.1 million. The decrease in our cash balances from June 30, 2013, was primarily due to the expansion of our UEPS-based lending business, working capital changes, the repayment of a portion of our Korean debt and acquisition of substantially all of the remaining shares of KSNET that we did not already own.

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

We generally invest the surplus cash held by our South African operations in overnight call accounts that we maintain at South African banking institutions, and surplus cash held by our non-South African companies in the US and European money markets. We have invested surplus cash in Korea in short-term investment accounts at Korean banking institutions.

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

During December 2013, we increased our short-term South African credit facility with Nedbank Limited to ZAR 650 million (\$61.9 million) through March 31, 2014. The short-term facility comprises of an overdraft facility of up to ZAR 500 million and indirect and derivative facilities of up to ZAR 150 million, which includes letters of guarantee, letters of credit and forward exchange contracts. The overdraft facility of ZAR 500 million will revert to ZAR 250 million on March 31, 2014. As of December 31, 2013, we have used ZAR 254.8 million (\$24.3 million) of the overdraft facility to fund our working capital requirements and ZAR 132.0 million (\$12.6 million) of the indirect and derivative facilities to support cross-guarantees issued to Nedbank for guarantees issued by Nedbank to various third parties on our behalf. Refer to note 8 to the unaudited condensed consolidated financial statements for more information about the terms of our new short-term South African facility.

As of December 31, 2013, we had outstanding long-term debt of KRW 71.6 billion (approximately \$67.3 million translated at exchange rates applicable as of December 31, 2013) under credit facilities with a group of Korean banks. In October 2013, we refinanced our Korean long-term debt facility with a new KRW 85.0 billion five-year senior secured term loan and revolving credit facility. The loans bear interest at the Korean CD rate in effect from time to time (2.66% as of December 31, 2013) plus a margin of 3.10% for one of the term loan facilities and the revolver and a margin of 2.90% for the other term loan facility. Scheduled repayments of the term loans and loan under the revolving credit facility are as follows: October 2014 (KRW 15 billion), April 2016, 2017 and 2018 (KRW 10 billion each) and October 2018 (KRW 30 billion plus all outstanding loans under our revolving credit facility). Refer to note 9 to the unaudited condensed consolidated financial statements for more information about the terms of our new long-term Korean facility.

## **Cash flows from operating activities**

### ***Second quarter of fiscal 2014***

Net cash utilized in operating activities for the second quarter of fiscal 2014 was \$27.2 million (ZAR 276.9 million) compared to \$6.9 million (ZAR 60.5 million) for the second quarter of fiscal 2013. Excluding the impact of interest received, interest paid under our Korean debt and taxes presented in the table below, the decrease in cash from operating activities resulted from the expansion of our UEPS-based lending book and the timing of prefunding related to the January 2014 payment cycle, offset by improved cash generated from operating activities and the substantial elimination of implementation costs related to our SASSA contract in fiscal 2014.

During the second quarter of fiscal 2014, we paid South African tax of \$13.3 million (ZAR 137.8 million) related to our 2013 tax year and \$0.2 million (ZAR 2.4 million) related to prior tax years. We also paid provisional Korean taxes of \$0.5 million related to our tax year ended December 31, 2013. During the second quarter of fiscal 2013, we paid South African tax of \$6.3 million (ZAR 54.4 million) related to our 2013 tax year, \$3.1 million (ZAR 27.0 million) related to prior tax years and dividend withholding taxes of \$0.4 million (ZAR 3.5 million). We also paid provisional Korean taxes of \$0.4 million related to our tax year ended December 31, 2012.

Taxes paid during the second quarter of fiscal 2014 and 2013 were as follows:

**Table 17**

	<b>Three months ended December 31,</b>			
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>	<b>ZAR</b>	<b>ZAR</b>
	<b>000</b>	<b>000</b>	<b>000</b>	<b>000</b>
First provisional payments	13,292	6,284	137,773	54,354
Taxation paid related to prior years	228	3,110	2,360	26,978
Taxation refunds received	-	(63)	-	(542)
Dividend withholding taxation	-	398	-	3,500
Total South African taxes paid	13,520	9,729	140,133	84,290
Foreign taxes paid: primarily Korea	509	408	5,193	3,533
<b>Total tax paid</b>	<b>14,029</b>	<b>10,137</b>	<b>145,326</b>	<b>87,823</b>

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***First half of fiscal 2014***

Net cash utilized in operating activities for the first quarter of fiscal 2014 was \$28.9 million (ZAR 291.6 million) compared to cash generated from operating activities of \$18.8 million (ZAR 159.1 million) for the first half of fiscal 2013. Excluding the impact of interest received, interest paid under our Korean debt and taxes presented in the table below, the decrease in cash from operating activities resulted from the expansion of our UEPS-based lending book and the timing of prefunding related to the January 2014 payment cycle, offset by improved cash generated from operating activities and the substantial elimination of implementation costs related to our SASSA contract in fiscal 2014.

During the first half of fiscal 2014, we paid South African tax of \$13.3 million (ZAR 137.8 million) related to our 2014 tax year and \$0.2 million (ZAR 2.4 million) related to prior tax years. We also paid provisional Korean taxes of \$1.0 million related to our tax year ended December 31, 2013. During the first half of fiscal 2013, we paid South African tax of \$6.3 million (ZAR 54.4 million) related to our 2013 tax year, \$3.1 million (ZAR 27.0 million) related to prior tax years and dividend withholding taxes of \$0.4 million (ZAR 3.5 million). We also paid provisional Korean taxes of \$0.8 million related to our tax year ended December 31, 2012.

Taxes paid during the first half of fiscal 2014 and 2013 were as follows:

<b>Table 18</b>	<b>Three months ended December 31,</b>			
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>	<b>ZAR</b>	<b>ZAR</b>
	<b>000</b>	<b>000</b>	<b>000</b>	<b>000</b>
First provisional payments	13,292	6,284	137,773	54,354
Taxation paid related to prior years	228	3,110	2,360	26,978
Taxation refunds received	-	(118)	-	(1,006)
Dividend withholding taxation	-	398	-	3,500
Total South African taxes paid	13,520	9,674	140,133	83,826
Foreign taxes paid: primarily Korea	1,007	805	10,177	6,812
<b>Total tax paid</b>	<b>14,527</b>	<b>10,479</b>	<b>150,310</b>	<b>90,638</b>

**Cash flows from investing activities*****Second quarter of fiscal 2014***

Cash used in investing activities for the second quarter of fiscal 2014 includes capital expenditure of \$6.8 million (ZAR 69.5 million), primarily for the acquisition of payment processing terminals in Korea.

Cash used in investing activities for the second quarter of fiscal 2013 includes capital expenditure of \$5.6 million (ZAR 47.5 million), primarily for payment vehicles and related equipment for our new SASSA contract and acquisition of payment processing terminals in Korea. During the second quarter of fiscal 2013 we paid, net of cash acquired, \$0.2 million for SmartSwitch Botswana.

***First half of fiscal 2014***

Cash used in investing activities for the first half of fiscal 2014 includes capital expenditure of \$12.5 million (ZAR 125.6 million), primarily for the acquisition of payment processing terminals in Korea.

Cash used in investing activities for the first half of fiscal 2013 includes capital expenditure of \$12.1 million (ZAR 101.9 million), primarily for payment vehicles and related equipment for our new SASSA contract and acquisition of payment processing terminals in Korea. During the first half of fiscal 2013 we paid, net of cash acquired, \$1.9 million (ZAR 16.2 million) for Pbel and \$0.2 million for SmartSwitch Botswana.

**Cash flows from financing activities**

***Second quarter of fiscal 2014***

During the second quarter of fiscal 2014, we refinanced our Korean debt and received \$85 million from Korean banks. We used \$71.6 million of these new borrowings and \$15.4 million of our surplus cash to repay the \$87.0 million due under our old facility. In addition, we paid the facility fees related to our new Korean borrowings of approximately \$0.9 million in October 2013. We also paid approximately \$2.0 million for substantially all of the shares of KSNET we did not already own during the second quarter of fiscal 2014.

During the second quarter of fiscal 2013, we made a scheduled \$7.3 million long-term debt repayment.

***First half of fiscal 2014***

We had no cash flows from financing activities for the first half of fiscal 2014, except as described above.

In addition to the cash flows from financing activities during the second quarter of fiscal 2013 described above, during the first half of fiscal 2013, we received \$0.2 million from the exercise of stock options.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Capital Expenditures**

We expect capital spending for the third quarter of fiscal 2014 to primarily include the acquisition of payment terminals for the expansion of our operations in Korea.

Our historical capital expenditures for the second quarter of fiscal 2014 and 2013 are discussed under **Liquidity and Capital Resources** Cash flows from investing activities. All of our capital expenditures for the past three fiscal years were funded through internally-generated funds. We had outstanding capital commitments as of December 31, 2013, of \$0.1 million related mainly to computer equipment. We expect to fund these expenditures through internally-generated funds.

**Contingent Liabilities, Commitments and Contractual Obligations**

The following table sets forth our contractual obligations as of December 31, 2013:

	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Long-term debt obligations (A)	85,794	18,094	25,067	42,633	-
Bank overdraft	24,256	24,256	-	-	-
Operating lease obligations	9,133	4,098	4,327	708	-
Purchase obligations	8,125	8,125	-	-	-
Capital commitments	114	114	-	-	-
Other long-term obligations (B)(C)	20,131	-	-	-	20,131
<b>Total</b>	<b>147,553</b>	<b>54,687</b>	<b>29,394</b>	<b>43,341</b>	<b>20,131</b>

(A) Includes \$71.6 million of long-term debt and interest payable at the rate applicable on December 31, 2013, under our Korean debt facility.

(B) Includes policy holder liabilities of \$19.5 million related to our insurance business.

(C) We have excluded cross-guarantees in the aggregate amount of \$12.6 million issued as of December 31, 2013, to Nedbank to secure guarantees it has issued to third parties on our behalf as the amounts that will be settled in cash are not known and the timing of any payments is uncertain.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

In addition to the tables below, see note 5 to the unaudited condensed consolidated financial statements for a discussion of market risk.

The following table illustrates the effect on our annual expected interest charge, translated at exchange rates applicable as of December 31, 2013, as a result of changes in the Korean CD rate and our South African overdraft facility interest rate. The effect of a hypothetical 1% increase and a 1% decrease in each of the Korean CD rate and the agreed South African overdraft facility interest rate as of December 31, 2013, are shown. The selected 1% hypothetical change does not reflect what could be considered the best or worst case scenarios.

	Annual expected interest charge (\$ 000)	As of December 31, 2013	
		Hypothetical change in Korean CD rate or South Africa overdraft facility rate, as appropriate	Estimated annual expected interest charge after hypothetical change in Korean CD rate or South African overdraft facility rate, as appropriate (\$ 000)
Interest on Korean long-term debt	4,103	1%	4,818
		(1%)	3,387
Interest on South African overdraft facility	1,783	1%	2,025
		(1%)	1,540

The following table summarizes our exchange-traded equity securities with equity price risk as of December 31, 2013. The effects of a hypothetical 10% increase and a 10% decrease in market prices as of December 31, 2013, is also shown. The selected 10% hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due both to the nature of equity markets and the aforementioned liquidity risk.

As of December 31, 2013				
	Fair value (\$ 000)	Hypothetical price change	Estimated fair value after hypothetical change in price (\$ 000)	Hypothetical Percentage Increase (Decrease) in Shareholders Equity
Exchange-traded equity securities	7,721	10%	8,493	0.21%
		(10%)	6,949	(0.21%)

**Item 4. Controls and Procedures****Evaluation of disclosure controls and procedures**

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of December 31, 2013. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in

evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, the chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2013.

**Changes in Internal Control over Financial Reporting**

There have not been any changes in our internal control over financial reporting during the fiscal quarter ended December 31, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II. Other Information

### Item 1. Legal Proceedings

#### AllPay Challenge to Tender Award

On November 29, 2013, the South African Constitutional Court ruled that the tender process followed by SASSA in awarding a five-year social welfare grants distribution contract to us was constitutionally invalid. However, the Constitutional Court suspended its declaration of invalidity pending determination of a just and equitable remedy. The grant of a just and equitable remedy was reserved pending a further hearing, which has been set for February 11, 2014. As ordered by the Constitutional Court, we the parties have submitted additional information on affidavit. The Constitutional Court also ordered the CEO of SASSA, SASSA and us to pay costs, including the cost of three counsel, in the High Court, the South African Supreme Court of Appeal and the Constitutional Court to AllPay Consolidated Investment Holdings Limited, or AllPay.

We cannot predict what the outcome of the February 2014 hearing will be or when the Constitutional Court will issue its ruling regarding an appropriate remedy. Our SASSA contract remains in full force and effect until the Constitutional Court determines an appropriate remedy.

The Constitutional Court is the highest court in South Africa and this judgment follows an appeal by AllPay, an unsuccessful bidder, against the unanimous judgment by the South African Supreme Court of Appeal on March 27, 2013, that the tender process was valid and legal.

#### Securities Litigation

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

### Item 1A. Risk Factors

See Item 1A RISK FACTORS in Part I of our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, for a discussion of risk factors relating to (i) our business, (ii) operating in South Africa and other foreign markets, (iii) government regulation, and (iv) our common stock. Except as set forth below, there have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

***As a result of the Constitutional Court's ruling that SASSA's tender process was constitutionally invalid, we cannot predict whether our SASSA contract will remain effective for the remainder of its five-year term. We derive a substantial portion of our revenues from this contract, and if we were to lose it, our business would suffer significantly.***

On November 29, 2013, the South African Constitutional Court ruled that the tender process followed by SASSA in awarding a five-year social welfare grants distribution contract to us in January 2012 was constitutionally invalid. However, the Constitutional Court suspended its declaration of invalidity pending determination of a just and equitable remedy. The grant of a just and equitable remedy was reserved pending a further hearing, which is scheduled for February 11, 2014. Although our SASSA contract remains in full force and effect until the Constitutional Court

determines an appropriate remedy, we cannot predict what the outcome of the February 2014 hearing will be or when the Constitutional Court will issue its ruling regarding an appropriate remedy.

If the Constitutional Court decides that an appropriate remedy would be to set aside our contract, SASSA may be required to conduct a new tender process, which would consume a substantial portion of our management's time and attention as well as create uncertainty regarding the timing and ultimate outcome of any such tender process. We could be required to continue providing our payment service to SASSA during such a tender period. In addition, we have made major capital investments to implement this contract. If our contract were to be set aside, it is likely that we would suffer a significant loss on these investments.

*If we do not complete our BEE transactions, our business and stock price may suffer.*

On December 10, 2013, we entered into definitive agreements relating to two Black Economic Empowerment, or BEE, transactions, pursuant to which we have agreed to sell to two BEE partners an aggregate of 4,400,000 shares of our common stock at a price of ZAR 60.00 per share. Closing of these BEE transactions is subject to the satisfaction of certain conditions contained in the transaction agreements, including receipt of any required regulatory approvals (including approval of the South African Reserve Bank) and the finalization of ancillary agreements. Closing of one transaction is not contingent on the closing of the other transaction. As of January 31, 2014, the closing conditions had not yet been met and therefore the parties extended the date to satisfy all closing conditions to March 15, 2014. We cannot predict whether or when the closing conditions will be satisfied.

We entered into these BEE transactions as part of our ongoing efforts to strengthen the development of our business plan, and in compliance with South African regulation and business practice. We expect that completion of the transactions will help us achieve applicable BEE objectives. However, if we are unable to complete the transactions, we would not achieve these expected benefits and our business could be adversely impacted. In addition, we are lending the BEE partners the purchase price for the shares and are relying in part on the future appreciation of our stock price to enable the BEE partners to repay the loans. We also cannot predict how the announcement of the completion or non-completion of the transactions will affect the trading price of our common stock.

## Item 5. Other Information

On January 31, 2014, we signed an addendum to each of the Relationship Agreements discussed in note 10 to our unaudited condensed consolidated financial statements in order to extend the date to meet all conditions contained in the Relationship Agreements from January 31, 2014 to March 15, 2014.

## Item 6. Exhibits

The following exhibits are filed as part of this Form 10-Q:

Exhibit No.	Description of Exhibit	Included Herewith	Incorporated by Reference Herein		
			Form	Exhibit	Filing Date
10.25	Relationship Agreement dated December 10, 2013 between Net 1 UEPS Technologies, Inc., Net 1 Applied Technologies South Africa (Proprietary) Limited, Business Venture Investments No 1567 (Proprietary) Limited (RF) and Mosomo Investment Holdings (Proprietary) Limited.		8-K	10.25	December 10, 2013
10.26	Relationship Agreement dated December 10, 2013 between Net 1 UEPS Technologies, Inc., Net 1 Applied Technologies South Africa (Proprietary) Limited, Born Free Investments 272 (Pty) Ltd and Mazwi Yako.		8-K	10.26	December 10, 2013
10.27	Facility Letter between Nedbank Limited and Net1 Applied Technologies South Africa Limited and certain of its subsidiaries dated as of December 13, 2013 and First Addendum thereto dated as of December 18, 2013		8-K	10.27	December 19, 2013
<u>10.28</u>	<u>Addendum dated January 31, 2014, to the Relationship Agreement between Net 1 UEPS Technologies, Inc., Net 1 Applied Technologies South Africa (Proprietary) Limited, Business Venture Investments No 1567 (Proprietary) Limited</u>	<u>X</u>			



(RF) and Mosomo Investment Holdings (Proprietary)  
Limited.

<u>10.29</u>	<u>Addendum dated January 31, 2014, to the Relationship Agreement between Net 1 UEPS Technologies, Inc., Net 1 Applied Technologies South Africa (Proprietary) Limited, Born Free Investments 272 (Pty) Ltd and Mazwi Yako.</u>	<u>X</u>
<u>31.1</u>	<u>Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act</u>	<u>X</u>
<u>31.2</u>	<u>Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act</u>	<u>X</u>
<u>32</u>	<u>Certification pursuant to 18 USC Section 1350</u>	<u>X</u>
101.INS	XBRL Instance Document	X
101.SCH	XBRL Taxonomy Extension Schema	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X
101.LAB	XBRL Taxonomy Extension Label Linkbase	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	X

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 6, 2014.

NET 1 UEPS TECHNOLOGIES, INC.

By: /s/ Dr. Serge C.P. Belamant

Dr. Serge C.P. Belamant

Chief Executive Officer, Chairman of the Board and Director

By: /s/ Herman Gideon Kotzé

Herman Gideon Kotzé

Chief Financial Officer, Treasurer and Secretary, Director