Net 1 UEPS Technologies, Inc. Chairman's Letter for 2013 Annual Report

Dear Fellow Shareholders:

2013 was a year of significant accomplishments and challenges for Net1. The award by the South African Social Security Agency ("SASSA") in 2012 to us for the distribution of social grants on a national basis for a period of five years was a monumental milestone for both the government and Company. Over the past twelve months, we completed the implementation of our SASSA contract on time and at great expense, despite significant variances in anticipated volumes, registering nearly 22 million grant beneficiaries and opening over nine million bank accounts linked to our UEPS/EMV smart card. This implementation epitomizes how a government's financial inclusion objectives can be successfully achieved, dramatically reducing the cost of delivery and resulting in billions of rands of annual savings to the public purse. Our track record of success in implementing one of the most complex solutions in such a short time frame has gained widespread recognition, including by our partner MasterCard, who recently named SASSA's system as the best government social grants payment program worldwide.

With all of our successes this past year, we have also had a number of hurdles to contend with. We and SASSA have been defending a legal challenge to the tender award by losing bidder AllPay, a subsidiary of Barclays, ever since we were awarded the tender. As communicated by a full bench of the South African Supreme Court of Appeal on March 27th, 2013, every one of AllPay's challenges were without merit, the tender award process was valid and legal, and SASSA was able to the select the best, cheapest and most comprehensive solution. We hope last month's Constitutional Court hearings will put an end to this challenge once and for all. In addition, we have been cooperating with a U.S. government investigation into our Company. This investigation has been very expensive and disruptive and has impaired our reputation and ability to execute certain aspects of our strategic plans.

Our achievements to date have been made possible as a result of a number of years of strategic positioning, technology development and perseverance by the entire team at Net1. As we look to 2014 and beyond, I believe we have the strategies, products and services, as well as momentum, to capitalize on multiple opportunities in South Africa and internationally.

Our financial performance in fiscal 2013 was greatly impacted by the costs incurred to implement our SASSA contract on time and as seamlessly as possible, as well as substantial legal expenses. Our total cash outlay to implement our national system since inception was $105.5 million and includes approximately $28 million related to capital expenditures with the balance being expensed over the relevant periods.

During fiscal 2013, our strategic focus was squarely on the successful execution of our SASSA contract. Through the year we saw growing volumes and revenue at CPS and our other South African transaction processors and while profitability in these segments was reduced due to the scale of our implementation expenses, we experienced improvement during the fourth quarter as our focus shifted from implementation to executing our strategic plans. In Korea, KSNET's emphasis on the small-to-medium sized merchant market began to show tangible rewards as it posted accelerating growth and improved profitability and cash flows during the second half of fiscal 2013. During the year we also rationalized some of our smaller and non-performing businesses and created a new division, Net1 Mobile Solutions, which aggregated a number of our mobile-related offerings including Mobile Virtual Card ("MVC"), prepaid airtime, and several other mobile value added services.

MediKredit, XeoHealth and NUETS all continued to make advances on the opportunities identified and commenced over the year. We are currently strategizing how to exploit these technologies in an unfettered manner, as these businesses have long selling cycles, require on-going bridging finance and could potentially perform better in a more entrepreneurial environment. We are exploring restructuring options for these businesses, such as the introduction of partners who can add value not only in financial terms, but also in focused time and personal contacts with the potential customer base.

Our mission has always been, and will continue to remain, to provide efficient, secure and affordable electronic transaction platforms, including the UEPS, UEPS/EMV, and financial services for the world's unbanked and under-banked populations. That said, we also see opportunities in select developed and developing countries for both our mobile payment and healthcare claims processing activities that will facilitate interoperability across the developed and developing nations of the world.

For 2014, we will strive to provide the best and most efficient service to SASSA and the most vulnerable citizens of South Africa, execute on our broader South African strategy to leverage our infrastructure and extensive product portfolio to generate new income streams, introduce a broader array of products and services leveraging the KSNET platform in Korea, and pursue new opportunities for UEPS/EMV, MVC and other services in Africa and other international markets. Equally important for the Group is to conclude a successful and long-term Black Economic Empowerment transaction that demonstrates our commitment to the objectives of BEE and compliance with the established codes of good practice and transformation charters, while balancing the interests of our global shareholders in order to create a platform for a successful and sustainable South African business. Finally, we will strive to overcome the various legal and regulatory challenges and vigorously pursue our lawsuit against AllPay for a number of wrongful actions it has taken since we were awarded the SASSA tender.

Financial Overview and Key Metrics. In fiscal 2013, our US dollar-based results were unfavorably impacted by a 13% year-over-year depreciation in the South African rand. In constant currency, revenue[1] grew 31% and Fundamental EPS[2] declined 39%.

The decline in Fundamental EPS was predominantly due to $56 million of direct implementation expenses and $10 million of smart card costs incurred for the successful implementation our SASSA contract. Consolidated operating margin excluding those same items was 9% in fiscal 2013 compared to 23% a year ago, and includes the SASSA implementation and smart cards costs.

By segment, South African transaction-based activities posted revenue of $240 million, or 35% higher in ZAR, driven by higher volumes at SASSA and our other South African transaction processors, while segment operating margin fell to 7% from 28% excluding amortization of intangibles but including implementation and smart card costs. International transaction-based activities had revenue of $133 million compared to $118 million last year, driven primarily by organic growth at KSNET. Segment operating margin excluding intangible amortization declined to 10% from 12% last year, as a result of a bad debt write-off for NUETS' customer in Iraq who elected not to renew its contract in February 2013, and ongoing start up expenses related to our XeoHealth and MVC activities. Our business continues to maintain its cash generative profile although in 2013, cash flows were impacted by the substantial capital expenditures incurred for our SASSA implementation.

Corporate Development Activities. In 2013, we commenced the second phase of the enrollment process related to our new SASSA contract, and completed bulk enrollment by April 30, 2013. As of June 30, 2013, we had enrolled a total of 21.7 million people, which comprises approximately 9.5 million grant recipient cardholders. As of September 30, 2013, there were an estimated 292,000 former grant recipient cardholders who had not presented themselves for enrollment and whose grants have therefore been suspended by SASSA. These grant recipient cardholders will have to apply for restoration of their grant and present themselves for enrollment. Our revenue is anticipated to decline to the extent these beneficiaries are not ultimately enrolled but over time we expect such decline to be offset by the amount of new grant recipient cardholders approved by SASSA. One of the benefits our technology affords the South African government and something no other bidder would have been able to offer, is our state-of-the-art biometric verification process together with 12MAP biometric search engine, and its ability to identify and remove fraudulent beneficiaries. By eliminating these 292,000-odd grants, the public purse would stand to save billions of rands each year, several times the savings originally projected from lower service delivery fees. These savings will also allow the South African government to direct significantly more resources to the country's most vulnerable citizens in the form of higher grants and/or more beneficiaries.

Additionally, during 2013 our partnership with MasterCard gained further traction as its card network became the largest in South Africa based on number of cards in circulation. The success of our project has been widely recognized both in South Africa and abroad. In 2013, we and MasterCard jointly responded to a number of tenders in multiple countries and while none have yet been awarded, the significant increase in tender activity gives us optimism that our UEPS/EMV technology is becoming more relevant to many more developing countries around the world.

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[1] Constant currency revenue is a non-GAAP measure and is calculated as GAAP revenue multiplied by the average USD:ZAR exchange rate during the fiscal year.

[2] Fundamental EPS is a non-GAAP measure and is calculated as GAAP earnings per share adjusted for (1) the amortization of acquisition-related intangible assets (net of deferred taxes), (2) stock-based compensation charges and (3) unusual non-recurring items, including the amortization of KSNET debt facility fees, as well as (a) in fiscal 2013, DOJ and SEC investigations-related expenses and acquisition-related costs; and (b) in fiscal 2012, the effects of a change in South African tax law and the creation of a valuation allowance related to foreign tax credits, equity instrument charge related to our BEE transaction, capital gains taxes paid resulting from an intercompany capital transaction in South Africa, the profit on liquidation of SmartSwitch Nigeria and loss on sale of 10% of Smart Life.

New Products. Innovation is in Net1's DNA. Our key technological breakthroughs over the past year include the development and subsequent deployment of our new EMV compliant version 16 M/Chip4/UEPS smart card that provides all the functionality of UEPS including biometric verification, offline processing and multiple wallets, but also provides interoperability with traditional payment infrastructure including point-of-sale terminals and ATMs. Additionally, to offer the same functionality to traditional bank account and debit card holders, we introduced voice biometric verification, which was previously not available to this customer segment.

We have also developed a number of financial products and services relevant to our customer base in South Africa, along with innovative ways of delivering these products and services in a seamless and efficient manner. One such example is a product called Umoya Manje, which allows our customers in South Africa to electronically purchase prepaid airtime or hybrid contracts immediately using our mobile wallet. We exceeded one million registered users during our second month of operation, effecting more than 250,000 transactions per day during peak periods. As we launch new products targeted at the same customers, we aim to increase the average spend per customer. While the individual ticket items are relatively small, the volume over time should make these income streams meaningful for us.

Management and Governance. We remain committed to expanding our management team and over the past year added several seasoned industry veterans both organically and via acquisitions. A large part of our investments in fiscal 2014 will be related to the further expansion of our management and sales and marketing teams across Net1's key growth areas. Our Board of Directors continues to provide invaluable support to the success of the Company.

Looking Ahead. The public and private sectors around the world continue to seek increased penetration of formal financial services and electronic payments to the vast unbanked population across multiple distribution channels, and Net1 is better positioned to benefit from these trends than at any time before. Demand for our offline traditional UEPS payment systems with EMV interoperability, as well as healthcare, payroll and mobile technologies, provides Net1 with strong momentum, and in turn should fuel sustained revenue and earnings growth over the next several years. Concurrently, our focus on better leveraging our existing infrastructure, integrating our acquisitions and continued migration to an electronic payment model should drive further efficiencies and margin improvements.

To our stakeholders, we recognize the external pressures on our share price over the past few years which has been due to the perceived uncertainty surrounding the long-term sustainability of our contract with SASSA. Rest assured that management is fully committed to providing the South African government and the country's most vulnerable citizens the highest quality of service, maximum security, and the tools to transition into availing of more affordable and reliable services within the formal sector. Additionally, I believe Net1 now has in place most of the major building blocks to drive long-term sustained growth.

I would like to conclude by thanking all of our employees for their dedication and tireless pursuit of excellence in serving our new and existing customers, our communities, and for striving to push Net1 to a position of leadership within our industries.

Sincerely,

Dr. Serge Belamant
Chairman and Chief Executive Officer

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2013

or

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

Commission file number: **000-31203**

NET 1 UEPS TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Securities registered pursuant to section 12(g) of the Act:
None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. **Yes [ ] No [X]**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filings requirements for the past 90 days. **Yes [X] No [ ]**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes [X] No [ ]**

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes [ ] No [X]**

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of December 31, 2012 (the last business day of the registrant's most recently completed second fiscal quarter), based upon the closing price of the common stock as reported by The Nasdaq Global Select Market on such date, was $129,885,719. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of August 20, 2013, 45,592,550 shares of the registrant's common stock, par value $0.001 per share were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the definitive Proxy Statement for our 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

NET 1 UEPS TECHNOLOGIES, INC.

INDEX TO ANNUAL REPORT ON FORM 10-K
Year Ended June 30, 2013

PART I

FORWARD LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties that could cause our actual results to differ materially from those projected, anticipated or implied in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in Item 1A—"Risk Factors." In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms and other comparable terminology. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Annual Report. We undertake no obligation to release publicly any revisions to the forward-looking statements after the date of this Annual Report. You should carefully review the risk factors described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by us in our 2014 fiscal year, which runs from July 1, 2013 to June 30, 2014.

ITEM 1. BUSINESS

Overview

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

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

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

Our technology is widely used in South Africa today, where we distribute pension and welfare payments, using our UEPS/EMV technology, to over nine million recipient cardholders across the entire country, process debit and credit card payment transactions on behalf of a wide range of retailers through our EasyPay system, process value-added services such as bill payments and prepaid airtime and electricity for the major bill issuers and local councils in South Africa, and provide mobile telephone top-up transactions for all of the South African mobile carriers. We are the largest provider of third-party and associated payroll payments in South Africa through our FIHRST service that processes monthly payments for approximately 1,300 employer groups representing over 900,000 employees. Our MediKredit service provides the majority of funders and providers of healthcare in South Africa with an on-line real-time management system for healthcare transactions. We perform a similar service in the US through our XeoHealth subsidiary.

Internationally, through KSNET, the second largest transaction processor by volume in Korea, we offer card processing, payment gateway and banking value-added services in that country.

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

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

Market Opportunity

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

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

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

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

Online transaction processing services: The continued global growth of retail credit and debit card transactions is reflected in the March 2013 Nilson Report, according to which worldwide annual general purpose card purchase dollar volume increased 14.8% to $17.3 trillion in 2012, while transaction volume increased by 9.3% to 178 billion transactions and cards issued increased by 13.2% to 7.4 billion cards during the same period. General purpose cards include the major card network brands such as MasterCard, Visa, China UnionPay and American Express. In South Africa we operate the largest bank-independent transaction processing service through EasyPay, where we have developed a suite of value-added services such as bill payment, airtime top-up, gift card, money transfer and pre-paid utility purchases that we offer as a complete solution to merchants and retailers. In Korea, through KSNET, we operate the second largest transaction processor by volume, where we provide card processing, banking value-added services and payment gateway functionality to the retail industry. Our expertise in on-line transaction processing and value-added services provides us with the opportunity to participate globally in this rapidly growing market segment.

Mobile Payments: Despite lacking access to formal financial services, large proportions of the under-banked customer segment own and utilize mobile phones. The World Bank’s research has confirmed the rising popularity of using mobile phones to transfer money and for banking that often does not require setting up an account at a brick-and-mortar bank. The World Bank has stated that mobile banking, which allows account holders to pay bills, make deposits or conduct other transactions via text messaging, has expanded to 16 percent of the market in Sub-Saharan Africa, where traditional banking has been hampered by transportation and other infrastructure problems.

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

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

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

Our Key Products

UEPS and UEPS/EMV

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

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

Our UEPS technology includes functionality that allows the following:

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

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

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

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

Payment Transaction Management

Our payment transaction management service incorporates the entire electronic funds transfer, or EFT, and non-EFT transactions suites, allowing merchants to accept a range of payment tokens/instruments and banks to acquire those payment tokens/instruments. This encompasses conventional magnetic-stripe cards, credit, debit and private label cards, card-not-present transactions and contact and contact-less smart cards with PIN and/or biometric cardholder verification.

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

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

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

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

Healthcare Transaction Management

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

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

Payroll Transaction Management

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

Mobile Virtual Card

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

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

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

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

The benefits of MVC include, for:

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

Financial services

We have developed a suite of financial services that is offered to customers utilizing our payment solutions. We are able to provide our customers with competitive microfinance, life insurance and money transfer products based on our understanding of their risk profiles, earning and spending patterns, demographics and lifestyle requirements. Our expertise in payment processing, MVC and mobile phone application development has enabled us to provide our customers with financial services by utilizing the convenient mobile phone transactional channel.

Hardware solutions

We provide hardware solutions that have been developed to optimize the performance of our payment and transaction processing solutions. These hardware solutions include cryptographic solutions for the financial, retail, telecommunication, utilities and petroleum sectors; chip and GSM licensing for South Africa and international markets; POS solutions; and virtual top-up for mobile phone-based prepaid airtime vending.

Our Strategy

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

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

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

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

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

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

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

    - *Acceptance of UEPS cards in traditional POS terminals and bank ATMs*—We have enabled our cards to be compliant with international EMV standards, which will allow our cardholder base to purchase goods and services at merchant POS locations that currently accept MasterCard-branded cards and all South African ATMs. This additional functionality allows us to significantly expand the number of terminals and ATMs that use our smart card, capturing fees from new transactions and positioning our cards to be used by a larger share of the banked population.
    - *Value-added services through multiple EasyPay channels*—EasyPay is the largest bank-independent financial switch and merchant processor in South Africa for credit and debit card transactions. EasyPay processed 420 million transactions with a total value of ZAR 97.0 billion during fiscal 2013. Our technology also allows us to provide a variety of additional, value-added payment services, such as bill payment, prepaid mobile top-up, prepaid utility services and gift cards, that we can sell into our existing card holder base as well as to new customers. We have developed additional platforms to access EasyPay's offerings such as a self service kiosks, or EasyPay Kiosk, and web and mobile phone applications to create a larger, seamless, value-added payments eco-system.
    - *Third-party payments from payroll processing through FIHRST*—Through our FIHRST service, we offer employers an easy and flexible method of making payments to employees and payroll-related creditors. By combining the FIHRST service and the EasyPay product suite, we can provide employees with the ability to pay their bills or purchase prepaid airtime and utilities as a payroll deduction or by providing them with credit facilities.

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

- *Leveraging our new payment technologies to gain access to developed economies*—While our business has traditionally focused on marketing products and services to the world's unbanked and under-banked population, we have developed and acquired proprietary technology, such as our MVC application for mobile telephones that is designed to eliminate fraud associated with card-not-present credit card transactions, which are those effected by telephone or over the internet. We have introduced this technology, as well as our XeoRules™ healthcare management system in the United States, and we plan to expand our offering into Western Europe and other developed economies.

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

Our Business Units

Our company is organized into the following business units.

Cash Paymaster Services ("CPS")

Our CPS business unit in based in Johannesburg, South Africa, and deploys our UEPS/EMV–Social Grant Distribution technology to distribute social welfare grants on a monthly basis to over nine million recipient cardholders in South Africa. These social welfare grants are distributed on behalf of the South African Social Security Agency, or SASSA. During our 2013, 2012 and 2011 fiscal years, we derived approximately 42%, 41%, and 47% of our revenues respectively, from CPS' social welfare grant distribution business.

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

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

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

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

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

KSNET

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

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

- *Card VAN*—KSNET's card VAN offering manages credit and other non-cash alternative payment mechanisms for retail transaction processing for a wide range of merchants and every credit card issuer in Korea. Non-cash alternative payment mechanisms for which KSNET provides processing services include all credit and debit cards and e-currency (K-cash and TMoney). KSNET also records cash transactions for the Korean National Tax Service in the form of cash receipts.
- *PG*—KSNET offers PG services to the rapidly growing number of merchants that are moving online in Korea. PG provides these merchants with a host of alternative payment solutions including the ability to accept credit and debit cards, gift and other prepaid cards, and bank account transfers. PG also provides virtual account capabilities. PG offers us an attractive growth opportunity as e-commerce transactions represent an increasing share of payments, driven by increased wire-line and wireless broadband penetration, an increasing number of merchants moving online, and the enhanced security of online transactions driving consumer acceptance. We believe that KSNET can become the leading provider in the PG industry by leveraging its existing merchant base and entering into new markets earlier than competitors.
- *Banking VAN*—KSNET's banking VAN operations currently include account transaction processing services, payment and collections to banks, corporate firms, governmental bodies, and educational institutions. We distinguish card VAN from banking VAN because in the Korean VAN market, banking VAN is recognized as a distinct service from card VAN. We are the only card VAN provider that also provides banking VAN services. Because the banking VAN business industry is at a nascent stage, the market at this time is relatively small.

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

EasyPay

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

The EasyPay suite of services includes:

- *EFT*—EasyPay switches credit, debit and fleet card transactions for leading South African retailers and petroleum companies;
- *EasyPay bill payment*—EasyPay offers consumers a point-of-sale bill payment service which is integrated into a large number of national retailers, the internet, self service kiosks and mobile handsets. EasyPay processes monthly account payment transactions for almost 400 different bill issuers including major local authorities, telephone companies, utilities, medical service providers, traffic departments, mail order companies, banks and insurance companies;
- *EasyPay prepaid electricity*—This service enables local utility companies such as Eskom Holdings Limited and a growing number of local authorities on a national basis to sell prepaid electricity to their customers;
- *Prepaid airtime*—EasyPay vends airtime at retail POS terminals for all the South African mobile telephone network operators;
- *Electronic gift voucher*—EasyPay supports the electronic generation, issuance and redemption of paper or card-based gift vouchers;
- *EasyPay licenses*—EasyPay enables the issuance of new South African Broadcasting television licenses and the capturing of existing license details within retail environments via a web-based user interface;
- *Third party switching and processing support*—EasyPay switches transactions from retail POS systems to the relevant back-end systems;
- *Hosting services*—EasyPay's infrastructure supports the hosting of payment or back-up servers and applications on behalf of third parties, including utility companies;
- *EasyPay Kiosk*—We have developed a biometrically enabled self service kiosk that allows our customers to access all the value-added services provided by EasyPay and to create and load their EasyPay virtual wallets with value; and
- *EasyPay Web and Mobile*—This service enables EasyPay customers to access all the value-added services provided by EasyPay, such as bill payments and the purchase of prepaid airtime and utilities through a secure website that may be accessed through personal computers or through mobile handsets.

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

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

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

MediKredit/ XeoHealth

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

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

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

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

FIHRST

FIHRST offers South African employers our payroll transaction management service and is based in Johannesburg, South Africa. FIHRST currently processes payments exceeding R82.8 billion on behalf of our clients every year, enabling salaries departments to achieve greater levels of efficiency and employee service. We have been chosen as the preferred payments partner by more than 1,300 employer groups of all sizes across all sectors of the economy, representing 900,000 employees. FIHRST is recognized by and works in partnership with the majority of third party payroll organizations including pension fund and medical aid administrators.

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

Universal Electronic Technological Solutions ("UETS")

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

UETS markets the following solutions and products:

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

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

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

Net1 Mobile Solutions

Our Net1 Mobile Solutions business unit is managed from Johannesburg, South Africa with business development support branches in the USA, Austria and India. This business unit is responsible for the technical development and commercialization of our array of web and mobile applications and payment technologies, such as MVC, Chip and GSM licensing and VTU.

Our MVC technology provides a completely secure, off-line payment solution for card-not-present transactions, such as payments made for internet purchases. The MVC technology runs as an application on any mobile phone and utilizes Net1's patented cryptographic card generator to secure any payment transaction. The advent of new technologies such as NFC or QR Codes also enables the utilization of our MVC technology for card present payments.

Our Chip and GSM licensing business is a supplier of chip cards and GSM licenses into the South African and international markets. We license numerous mobile network operators, card manufacturers and semiconductor manufacturers to provide card technology, solutions and software that enable mobile telephony, mobile transactions and value-added services.

Our Net1 Mobile Solutions business unit is also responsible for the global marketing and support of our Cryptographic solutions comprising of our Incognito range of PIN encryption devices, card acceptance modules and hardware security modules. These solutions are used globally by numerous customers in the financial, retail, telecommunication, utilities and petroleum sectors and by all other Net1 business units that operate payment and transaction processing services.

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

Net1 UTA

Net1 UTA is based in Vienna, Austria, with operations in Moscow, Russia and provides smart card-based payment systems to banks, enterprises and government authorities in Russia, Ukraine, Uzbekistan and Oman.

This business unit has been allocated to our hardware, software and related technology sales reporting segment.

Financial Services

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

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

Smart Life is a licensed South African life insurance company however, during January 2013, the South African Financial Services Board, or FSB, suspended Smart Life's life insurance license and prohibited it from writing any new long-term insurance policies in South Africa. We have prepared a submission to the FSB to uplift the suspension and the FSB is currently conducting an investigation into the affairs of Smart Life, but we cannot predict what the outcome will be.

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

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

Corporate

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

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

Competition

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

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

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

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

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

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

EasyPay's competitors include BankservAfrica, UCS, eCentric and Transaction Junction. BankservAfrica is the largest transaction processor in South Africa which processes all transactions on behalf of the South African banks and claims to have processed in excess of 2.2 billion transactions during the twelve months ended July 2013 valued at trillions of ZAR. During fiscal 2013, EasyPay processed 420 million transactions with a total value of ZAR 97.0 billion.

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

Research and Development

During fiscal 2013, 2012 and 2011, we incurred research and development expenditures of $1.3 million, $3.9 million and $5.7 million, respectively. These expenditures consist primarily of the salaries of our software engineers and developers. Our research and development activities relate primarily to the continual revision and improvement of our core UEPS and UEPS/EMV software and its functionality and the design and development of our MVC concept and mobile payment applications. For example, we continually advance our security protocols and algorithms as well as develop new UEPS features that we believe will enhance the attractiveness of our product and service offerings. Our research and development efforts also focus on taking advantage of improvements in the hardware platforms that are not proprietary to us but which form part of our system.

Intellectual Property

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

Financial Information about Geographical Areas and Operating Segments

Note 22 to our consolidated financial statements included in this annual report contains detailed financial information about our operating segments for fiscal 2013, 2012 and 2011.

Revenues based on the geographic location from which the sale originated and geographic location where long-lived assets are held for the years ended June 30, are presented in the table below:

	Revenue			Long-lived assets		
	2013	2012	2011	2013	2012	2011
	$'000	$'000	$'000	$'000	$'000	$'000
South Africa	317,916	272,063	264,485	117,858	140,308	115,809
Korea	129,338	114,096	68,392	213,589	224,272	258,791
Europe	2,738	2,413	10,465	86	38	139
Rest of world	2,155	1,692	78	7,590	6,873	6,817
Total	452,147	390,264	343,420	339,123	371,491	381,556

Employees

As of June 30, 2013, we had 4,307 employees, which included approximately 1,392 temporary employees contracted to assist with the implementation "mop up" and ongoing enrollment of recipient cardholders and beneficiaries related to our SASSA contract. On a segmental basis, 253 employees were part of our management, 3,109 were employed in South African transaction-based activities, 205 were employed in international transaction-based activities, 361 were employed in financial services and 379 were employed in smart card, hardware, software and related technology sales and corporate activities.

Excluding the impact of rolling out our financial service offering nationally in South Africa, as we conclude our SASSA contract implementation we expect our employee base to gradually decline to approximately 3,400 people at the end of the first quarter of fiscal 2014.

We expect to employ an additional 1,400 permanent employees to facilitate the growth of our financial services offering nationally during fiscal 2014. Accordingly, we expect our permanent employee base to stabilize around approximately 4,800 employees at the end of fiscal 2014.

On a functional basis, four of our employees were part of executive management, 176 were employed in sales and marketing, 225 were employed in finance and administration, 330 were employed in information technology and 3,572 were employed in operations.

As of June 30, 2013, approximately 87 of the 3,109 employees we have in South Africa who were performing transaction-based activities were members of the South African Commercial Catering and Allied Workers Union and approximately 164 of the 187 employees we have in Korea who perform international transaction-based activities were members of the KSNET Union. We believe we have a good relationship with our employees and these unions.

Corporate history

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

Available information

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

Executive Officers and Significant Employees of the Registrant

Executive officers

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

Name	Age	Title
Dr. Serge C.P. Belamant	59	Chief Executive Officer, Chairman and Director
Mr. Herman G. Kotzé	43	Chief Financial Officer, Treasurer, Secretary and Director
Mr. Phil-Hyun Oh	54	Chief Executive Officer and President, KSNET, Inc.
Mr. Nitin Soma	46	Senior Vice President Information Technology

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

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

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

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

Significant employees

Business Functions:

Philip Belamant (28): Managing Director of Net1 Mobile Solutions – Mr. Belamant joined us in May 2007, and is responsible for overseeing our newly established Net1 Mobile Solutions Division which encompasses banking, mobile virtual card, biometric verification, mobile network operator solutions, 3rd party payments, prepaid vending, cryptography, CHIP and SIM cards and customized software development.

Thato Chiloane (31): General Manager: FIHRST – Mr. Chiloane joined us in July 2012 and is responsible for the marketing and business development of our FIHRST offering.

Dhruv Chopra (39): Managing Director and Country Head India and Head of Investor Relations – Mr. Chopra joined us in May 2009 and is responsible for growing our businesses in India and is also responsible for overseeing our investor relations activities globally.

Dr. Gerhard Claassen (54): General Manager – Cryptographic Solutions – Dr. Claassen joined us in August 2000 and is responsible for the marketing and business development of our cryptographic solutions consisting of the internally developed Incognito range of security solutions, as well as ToDos authenticators and the Cybertrust PKI products.

Wimpie du Plessis (61): Managing Director: MediKredit – Mrs. du Plessis joined us in January 1999 and is responsible for the marketing and business development of our MediKredit and XeoHealth offerings worldwide.

K. H. Kang (47): Division Director - Marketing Division 2 – Mr. Kang joined us in December 1994 and is responsible for KSNET's market division that focuses primarily on banking VAN, PG and market development.

M. B. Lee (48): Division Director - Marketing Division 1 – Mr. Lee joined us in August 1994 and is responsible for KSNET's market division that focuses primarily on card VAN.

Anja. Lewington (43): General Manager: Net1 South Africa – Mrs. Lewington joined us in February 2000 and assists Mr. Pillay with our South African operations, consisting primarily of CPS and EasyPay.

Igor Medan (40): Joint Managing Director: Net1 UTA – Mr. Medan has been the Joint Managing Director of Net1 UTA since 2011. Net1 UTA is responsible for the marketing and business development of our payment solutions in Russia, the CIS, Oman, India, Asia and Latin America.

Tamsanqa Ngalo (36): Chief Technology Officer Net1 Mobile Solutions – Mr. Ngalo joined us in March 2009 and oversees all Net1 Mobile Solutions information technology systems' design, development and implementation.

Nanda Pillay (42): Vice President: Net1 South Africa – Mr. Pillay joined us in May 2000 and is responsible for our South African operations, consisting primarily of CPS and EasyPay.

Armando Piedra (40): Joint Managing Director: Net1 UTA – Mr. Piedra has been the Joint Managing Director of Net1 UTA since 2011. Net1 UTA is responsible for the marketing and business development of our payment solutions in Russia, the CIS, Oman, India, Asia and Latin America.

James Sneedon (44): Business Unit Leader: VTU – Mr. Sneedon joined us January 2001 and is responsible for the marketing and business development of our VTU products.

Brenda Stewart (55): Managing director: Net1 Universal Electronic Technological Solutions – Mrs. Stewart joined us in 1997 and is responsible for the marketing and business development of our UEPS solutions in Africa (excluding South Africa) and Iraq.

Trevor Smit (55): Chief Commercial Officer Net1 Mobile Solutions: – Mr. Smit joined us in May 2007 and is responsible for the overseeing all commercial aspects of our Net1 Mobile Solutions offerings.

Support functions:

Chris Britz (52): Vice President - Group production, repairs & maintenance – Mr. Britz joined us in April 2001 and is responsible for the group's production facilities, as well as all internal and external repairs and maintenance of terminals and other hardware.

Lawrie Chalmers (52): Vice President - Group Human Resources – Mr. Chalmers joined us in April 1998 and is responsible for the group's South African human resources activities, including recruitment, payroll, training and industrial relations.

Y. H. Cho (47): Head of research director – Mr. Cho joined us in July 1999 and is responsible for KSNET's information technology department.

S. S. Lee (43): Director of Management Support Division – Mr. Lee joined us in January 2002 and is responsible for KSNET's financial function, including financial accounting, taxation and statutory reporting.

Brian Ellis (39): Vice President of Information Technology – Mr. Ellis joined us in April 1998 and is responsible for Net1 South Africa's information technology department, including all payment systems such as our UEPS/ EMV and EasyPay offerings.

Paul Encarnacao (37): Vice President – Finance – Mr. Encarnacao joined us in June 2004 and is responsible for the preparation of the group's generally accepted accounting principles in the United States of America, or US GAAP, consolidated accounts and statutory reports.

Alan Keschner (53): Vice President: Joint Ventures and Investments – Mr. Keschner joined us in January 2012 and provides governance support to our joint ventures as our representative on the various boards of directors.

Warren Segall (48): Vice President: Compliance – Mr. Segall joined us in July 2006 and is our compliance officer.

Cara van Straaten (52): Group Financial Controller – Ms. van Straaten joined us in July 2004 and is responsible for the group's South African financial function, including financial accounting, taxation and statutory reporting. Since August 1, 2013, Ms. van Straaten has been responsible for the company secretarial function for most of our South African subsidiaries.

ITEM 1A. RISK FACTORS

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

Risks Relating to Our Business

We derive a substantial part of our revenues from our contract with SASSA to provide pension and welfare distribution services throughout South Africa. We are substantially dependent on the continuation of this contract. If we were to lose our SASSA contract, our business would suffer significantly. Further, our business strategy relies on our ability to leverage the social welfare recipient cardholder base to provide them with additional financial and other services. If we cannot successfully do this, we may not be able to grow our business and our financial performance could suffer.

We currently derive a substantial part of our revenues from one customer. Under our contract with SASSA we provide SASSA with a pension and welfare grants distribution service in all of South Africa's nine provinces under a five-year contract that expires in March 2017. During the fiscal year ended June 30, 2013, our pension and welfare business accounted for approximately 42% of our revenues. If we were to discontinue providing these services to SASSA, our business would suffer significantly.

We were awarded our SASSA contract after the completion of a competitive tender process. One of the losing bidders, AllPay Consolidated Investment Holdings (Pty) Ltd, instituted litigation in the South African courts challenging the award and has sought to have our contract set aside. Although the award to us was upheld by the South African Supreme Court of Appeal, AllPay has appealed the Supreme Court's ruling to the South African Constitutional Court, the highest court in the country. AllPay's appeal is scheduled to be heard on September 10, 2013. We cannot predict when or how the Constitutional Court will rule on the matter. If our contract is set aside, SASSA may be required to conduct a new tender process, which would consume a substantial portion of management's time and attention as well as create uncertainty regarding the timing and ultimate outcome. 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.

We are a longstanding contractor to SASSA. Although our current contract has expanded our services to the entire country from the five provinces we previously served, the benefits of higher volumes have been offset by lower per-recipient cardholder pricing. As a result of this lower pricing, our ability to maintain and improve our operating margin in our South African business will depend on our ability to provide the pension and welfare recipient cardholders whom we serve with higher-margin financial and other services. If we cannot successfully capitalize on these opportunities and grow this business, it is likely that our future financial performance would suffer.

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

On November 30, 2012, we received a letter from the U.S. Department of Justice, Criminal Division, informing us that the DOJ and the Federal Bureau of Investigation have begun an investigation into whether we and our subsidiaries, including our officers, directors, employees, and agents and other persons and entities possibly affiliated with us violated provisions of the FCPA and other U.S. federal criminal laws by engaging in a scheme to make corrupt payments to officials of the Government of South Africa in connection with securing our SASSA contract and also engaged in violations of the federal securities laws in connection with statements made by us in our SEC filings regarding this contract. On the same date, we received a letter from the Division of Enforcement of the SEC advising us that it is also conducting an investigation concerning our company. The SEC letter states that the investigation is a non-public, fact-finding inquiry and that the SEC investigation does not mean that the SEC has concluded that we or anyone else has broken the law or that the SEC has a negative opinion of any person, entity or security. We are continuing to cooperate with the DOJ and the SEC regarding these investigations.

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

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

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

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

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

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

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

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

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

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

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

As of June 30, 2013, we had approximately $81 million of outstanding indebtedness, which we incurred to finance our acquisition of KSNET in October 2010. These loans are secured by substantially all of KSNET's assets, a pledge by Net1 Korea of its entire equity interest in KSNET and a pledge by the immediate parent of Net1 Korea (also one of our subsidiaries) of its entire equity interest in Net1 Korea. The terms of the loan facility require Net1 Korea and its consolidated subsidiaries to maintain certain specified financial ratios (including a leverage ratio and a debt service coverage ratio) and restrict their ability to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make capital expenditures above specified levels, engage in certain business combinations and engage in other corporate activities. Although these covenants only apply to our Korean subsidiaries, these security arrangements and covenants may reduce our operating flexibility or our ability to engage in other transactions that may be beneficial to us. If we are unable to comply with these covenants, we could be in default and the indebtedness could be accelerated. If this were to occur, we might not be able to obtain waivers of default or to refinance the debt with another lender and as a result, our business and financial condition would suffer.

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

The incumbent South African retail banks have created a common banking product, generally referred to as a "Mzansi" account, for unbanked South Africans, which offers limited transactional capabilities at reduced charges, when compared to the accounts traditionally offered by these banks. Certain South African banks have also developed their own low-cost banking products targeted at the unbanked and under-banked market segment. According to the FinScope survey, which is an annual survey conducted by the FinMark Trust, a non-profit independent trust, approximately 4.4 million and 3.5 million people in South Africa claimed to use a Mzansi account in 2009 and 2008, respectively. As the competition to bank the unbanked in South Africa intensifies with the Mzansi account and other similar product offerings, we may not be successful in marketing our low-cost banking product to our target population. Moreover, as our product offerings increase, gain market acceptance and pose a competitive threat in South Africa, especially our UEPS/EMV product with biometric verification, the banks and SAPO may seek governmental or other regulatory intervention if they view us as disrupting their transactional or other businesses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our proprietary rights may not adequately protect our technologies.

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

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

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

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

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

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

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

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

We may have difficulty managing our growth.

We continue to experience growth, both in the scope of our operations and size of our organization. This growth is placing significant demands on our management, especially in connection with the implementation of our SASSA contract throughout all of South Africa during the past 15 months. Continued growth would increase the challenges involved in implementing appropriate operational and financial systems, expanding our technical and sales and marketing infrastructure and capabilities, providing adequate training and supervision to maintain high quality standards, and preserving our culture and values. International growth, in particular, means that we must become familiar and comply with complex laws and regulations in other countries, especially laws relating to taxation.

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

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

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

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

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

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

We obtain our smart cards, POS devices and the other hardware we use in our business from a limited number of suppliers, and do not manufacture this equipment ourselves. We generally do not have long-term agreements with our manufacturers or component suppliers.

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

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

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

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

Smart Life is a life insurance company and exposes us to risks typically experienced by life assurance companies. Some of these risks include the extent to which we are able to continue to reinsure our risks at acceptable costs, reinsurer counterparty risk, our ability to price our insurance products appropriately, the risk that actual claims experience may exceed our estimates and the competitiveness of the South African insurance market. If we are unable to maintain our desired level of reinsurance at prices that we consider acceptable, we would have to either accept an increase in our exposure risk or reduce our insurance writings. If our reinsurers are unable to meet their commitments to us in a timely manner, or at all, we may be unable to discharge our obligations under our insurance contracts. As such, we are exposed to counterparty, including credit, risk of these reinsurers. Our product pricing includes long-term assumptions regarding investment returns, mortality, morbidity, persistency and operating costs and expenses of the business. Using the wrong assumptions to price our insurance products could materially and adversely affect our financial position, results of operations and cash flows. Further, even though we currently reinsure the majority of our insurance contract liabilities, if our actual claims experience is higher than our estimates, our financial position, results of operations and cash flows could be adversely affected. Finally, the South African insurance industry is highly competitive. Many of our competitors are well-established, represented nationally and market similar products. Because of the competitive nature of the insurance industry, we may not be able to effectively penetrate the South African insurance market.

Risks Relating to Operating in South Africa and Other Foreign Markets

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

The South African government, through the Broad-Based Black Economic Empowerment Act, 2003, established a legislative framework for the promotion of BEE. The law recognizes two distinct mechanisms for the achievement of BEE objectives—compliance with sector-specific codes of good practice and compliance with industry-specific transformation charters. On 6 June 2012 the South African government promulgated an Information and Communications Technology, or ICT, sector-specific code, to which we are subject. Achievement of BEE objectives is measured by the ICT sector "scorecard" which establishes a weighting to various components of BEE. We have taken a number of actions as a company to increase empowerment of black South Africans. However, it is possible that these actions may not be sufficient to enable us to achieve applicable BEE objectives. In that event, in order to avoid risking the loss of our government and private contracts, we may have to seek to comply through other means, including by selling or placing additional shares of Net1 or of our South African subsidiaries to black South Africans. Such sales of shares could have a dilutive impact of your ownership interest, which could cause the market price of our stock to decline.

We entered into a BEE transaction in 2012 pursuant to which, among other things, we granted a BEE consortium a one-year option to purchase 8,955,000 shares of our common stock at an exercise price of $8.96 per share. We entered into the BEE transaction to facilitate sustainable economic growth and social development in South Africa by adhering to the principles of broad-based BEE, to strengthen the development of our business plan and to comply with South African regulation and business practice. When we entered into the BEE transaction, we expected that the exercise of the option by the BEE consortium would also substantially improve our BEE rating, which we anticipated would significantly enhance our ability to execute our longer-term strategy in South Africa and elsewhere in Africa and strengthen our business credentials that we believe are essential to maintain and accelerate the growth of our business.

However, our stock price decreased materially when we announced the existence of the DOJ and SEC investigations and the option expired unexercised on April 19, 2013, as our stock price continued to remain substantially below the exercise price of the option through the expiration date of the option. We have therefore not succeeded in achieving the envisaged objectives of the BEE transaction. Although we and the BEE consortium are evaluating various alternatives to ensure that our BEE objectives will be met, we cannot assure you that these efforts will be successful. If we enter into another BEE transaction that involves the issuance of equity, we cannot predict what the dilutive effect of such a transaction would be on your ownership or how it would affect the market price of our stock.

In addition, under US generally accepted accounting principles, or GAAP, we recorded a non-cash charge of approximately $14.2 million during fiscal 2012 in respect of the grant of the option pursuant to our BEE transaction in January 2012. The $14.2 million charge was determined under GAAP as the fair value of the option on the date of grant and was expensed in full during fiscal 2012. Even though the option expired unexercised, GAAP does not permit the reversal of the prior charge. If we were to grant a new option to the BEE consortium, we would have to record another non-cash charge which would adversely affect our reported results of operations in the period during which we would be required to record such charge.

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

The South African rand, or ZAR, is the primary operating currency for our business operations while our financial results are reported in US dollars. This means that as long as the ZAR remains our primary operating currency, depreciation in the ZAR against the US dollar, and to a lesser extent, the Korean won, would negatively impact our reported revenue and net income, while a strengthening of the ZAR would have the opposite effect. Depreciation in the ZAR may negatively impact the prices at which our stock trades. The US dollar/ZAR exchange rate has historically been volatile and we expect this volatility to continue. During fiscal 2013, the ZAR was significantly weaker against the US dollar than during most of the preceding several years, which adversely affected our 2013 revenue and net income. We provide detailed information about historical exchange rates in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Currency Exchange Rate Information."

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

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

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

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

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

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

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

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

Although Net1 is a US corporation and is not itself subject to South African exchange control regulations, these regulations do restrict the ability of our South African subsidiaries to raise and deploy capital outside the Common Monetary Area, to borrow money in currencies other than the South African rand and to hold foreign currency. Exchange control restrictions may also affect the ability of these subsidiaries to pay dividends to Net1 unless the affected subsidiary can show that any payment of such dividend will not place it in an over-borrowed position. As of June 30, 2013, approximately 30% of our cash and cash equivalents were held by our South African subsidiaries. Exchange control regulations could make it difficult for our South African subsidiaries to: (i) export capital from South Africa; (ii) hold foreign currency or incur indebtedness denominated in foreign currencies without the approval of SARB; (iii) acquire an interest in a foreign venture without the approval of SARB and first having complied with the investment criteria of SARB; (iv) repatriate to South Africa profits of foreign operations; and (v) limit our business to utilize profits of one foreign business to finance operations of a different foreign business.

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

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

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

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

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

Some of these risks include:

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

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

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

Our KSNET operations may be adversely affected by tension in the Korean peninsula.

Our KSNET operations contributed approximately 29% and 22%, respectively, of our revenue and operating income for our 2013 fiscal year. During the early part of calendar 2013, there was increased tension on the Korean peninsula and a concern about potential acts of military aggression or cyber-attacks. This tension may have adversely impacted the Korean economy as is evidenced by the weakening of the KRW against the USD during calendar 2013. Because KSNET is a transaction processor, its operations are dependent on continuing high levels of consumer activity and the availability of data communication infrastructure. Acts of military aggression in the Korean peninsula, other hostile acts or economic weakness that reduces spending by South Korean consumers is likely to materially and adversely impact our KSNET operations. If this were to occur, we might be unable to comply with the debt covenants contained in our Korean debt facility, which could result in default and acceleration of our indebtedness. If this were to occur, we might not be able to obtain waivers of default or to refinance the debt with another lender and as a result, our business and financial condition would suffer.

Risks Relating to Government Regulation

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

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

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

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

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

The implementation of our SASSA contract required the re-registration of all social welfare grant recipient cardholder and beneficiaries in South Africa. To date, an estimated 372,870 recipient cardholders have not presented themselves for re-registration and SASSA has indicated that these grants will be cancelled if the beneficiaries do not present themselves for re-registration by the end of September 2013. Furthermore, part of our solution offered to SASSA involves the comparison of all re-registered beneficiaries' fingerprints with the objective of eliminating any duplicate grants. When we have completed the fingerprint matching, a substantial number of duplicate grant beneficiaries may be removed from the payment file. If any of these events were to occur, the number of grants we distribute could decrease which could result in a reduction of our revenue, operating income and cash flows

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

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

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

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

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

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

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

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

Risks Relating to our Common Stock

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

Our stock price has experienced recent significant volatility. During the 2013 fiscal year, our stock price ranged from a low of $3.01 to a high of $10.51. We expect that the trading price of our common stock may continue to be volatile as a result of a number of factors, including, but not limited to the following:

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

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

There is a concentration of ownership of our outstanding common stock because approximately 54% of our outstanding common stock is owned by three shareholders. Based on their most recent SEC filings disclosing ownership of our shares, International Value Advisers, LLC, or IVA, investment entities affiliated with General Atlantic LLC and Allan Gray Proprietary Limited beneficially owned approximately 27%, 14% and 13% of our outstanding common stock, respectively. General Atlantic also has the right to representation on our board of directors although it is not currently exercising that right.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease our corporate headquarters facility which consists of approximately 83,000 square feet in Johannesburg, South Africa. We also lease properties throughout South Africa, including a 12,088 square foot manufacturing facility in Lazer Park, a 14,230 square foot manufacturing facility in Brakpan and 98 depot facilities. We also lease additional office space in Johannesburg, Pretoria, Cape Town and Durban, South Africa; Vienna, Austria; Seoul, Republic of Korea; Moscow, Russia; New York, New York and Frederick, Maryland. These leases expire at various dates through 2018.

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

ITEM 3. LEGAL PROCEEDINGS

AllPay challenge to tender award

On March 27, 2013, a full bench of the South African Supreme Court of Appeal dismissed AllPay's appeal against the earlier ruling by the North Gauteng High Court that SASSA's award of the tender to us would not be set aside. Accordingly, our SASSA contract to distribute social welfare grants to ten million South Africans every month, for a period of five years, remains in full force and effect. On April 18, 2013, AllPay applied for leave to appeal to the South African Constitutional Court, the highest court in the country, against the judgment of the Supreme Court. We and SASSA have opposed AllPay's application. The hearing has been scheduled for September 10, 2013. Both the application for leave to appeal and appeal itself will be argued on September 10, 2013. We cannot predict when or how the Constitutional Court will rule on the matter.

The background of this lawsuit is that on February 8, 2012, AllPay filed an application in the High Court seeking to set aside the award of the SASSA tender to us. AllPay was one of the unsuccessful bidders during the SASSA tender process and was a former contractor to SASSA. We and SASSA were included among the respondents in this proceeding. We and SASSA both opposed AllPay's application. When SASSA publicly announced the award of the tender to us in January 2012, it stated that it had conducted the tender in accordance with all relevant legislation. The High Court heard the matter in May 2012. We applied to the High Court to strike the allegations of corruption contained in AllPay's court papers, as well as the newspaper articles relied upon by AllPay, from the court record. At the outset of the hearing, the High Court ordered that all these allegations and newspaper articles be struck from the court record, with a cost order against AllPay. The High Court issued its ruling, in relation to the application to set aside the award, on August 28, 2012. The result of the ruling was that our contract with SASSA remained valid and was not set aside. Specifically, the High Court ruled that the tender process conducted by SASSA was illegal and invalid but that the award of the tender to us was not set aside. The court also ordered the CEO of SASSA, SASSA and us to pay costs. SASSA and we appealed the ruling that the tender process was illegal and invalid as well as the cost order. AllPay appealed the ruling that the award of the tender by SASSA to us should not be set aside.

The appeal was heard on February 15, 2013, before the Supreme Court. On March 27, 2013, a full bench of the Supreme Court dismissed AllPay's appeal against the earlier ruling by the North Gauteng High Court that SASSA's award of the tender to us would not be set aside. The Supreme Court also upheld our and SASSA's appeal against the High Court's orders that the process conducted in awarding the contract was illegal and invalid and that we and SASSA pay AllPay's costs occasioned by the court proceedings. The Supreme Court also ordered AllPay to pay our and SASSA's costs occasioned by the court proceedings, including the cost of three counsel. The judges presiding at the Supreme Court hearing unanimously ruled that there were no unlawful irregularities in the tender process followed by SASSA.

After the High Court ruling, AllPay approached the Constitutional Court for leave to appeal the High Court ruling directly to the Constitutional Court. We and SASSA opposed AllPay's application. On November 1, 2012, the Constitutional Court concluded that the AllPay application should be dismissed as it was not in the interest of justice to hear the matter at that stage. The leave to appeal filed by AllPay on April 18, 2013 is thus AllPay's second approach to the Constitutional Court in this matter.

Suit against AllPay

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

- directly or indirectly making false reports and providing false information to members of the South African media which AllPay orchestrated thereby creating the basis for false media reports which alleged or implied that the SASSA tender process was tainted by corruption through bribes by or on behalf of our subsidiary, Cash Paymaster Services;
- introducing the media reports and allegations of corruption by or on behalf of us in connection with the SASSA tender process into the court proceedings in South Africa instituted by AllPay which sought to set aside the award of the tender to us;
- causing an unfounded report to be made to the JSE Limited, or JSE, regarding disclosure that we made in relation to the SASSA contract;
- making a report to the DOJ, bringing to the attention of the DOJ the corruption allegations and the South African media reports and repeating the allegations made in the report to the JSE; and
- falsely seeking to create the impression in media reports and radio interviews that it had been found in the South African court proceedings described above that the tender process was tainted by corruption.

In the lawsuit, we are seeking damages in the aggregate amount of ZAR 478 million (approximately US$55 million based on the ZAR/US dollar exchange rate on December 11, 2012) plus interest and costs. The damages claimed may increase as we quantify the continued impact of AllPay's actions. A trial date will be applied for after the exchange of the required pleadings and finalization of any interlocutory issues which may arise. We cannot predict when this matter will go to trial.

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

On February 14, 2013, we filed an application pursuant to Section 34 of the South African Prevention of Corrupt Activities Act in South Africa with the South African Police Service. Section 34 deals with the reporting of suspected fraud, theft, extortion and forgery. Matters reported under Section 34 are usually referred for investigation to the South African Directorate for Priority Crime Investigation, known as the Hawks. We filed the Section 34 application to prompt the Hawks to conduct an investigation into who may have made corruption allegations that appeared in the South African media after we were awarded the SASSA tender in January 2012. The Hawks have confirmed to us that our Section 34 application has been accepted for investigation. We have provided certain electronic information to the Hawks at their request and we will cooperate with the Hawks in their investigation.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market information

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

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

Period	High	Low
Quarter ended September 30, 2011	$9.00	$5.77
Quarter ended December 31, 2011	$8.59	$5.80
Quarter ended March 31, 2012	$11.21	$6.71
Quarter ended June 30, 2012	$10.33	$7.79
Quarter ended September 30, 2012	$10.51	$7.84
Quarter ended December 31, 2012	$9.39	$3.01
Quarter ended March 31, 2013	$7.95	$5.01
Quarter ended June 30, 2013	$8.00	$6.60

Our transfer agent in the United States is Computershare Shareowner Services LLC, 480 Washington Blvd, Jersey City, New Jersey, 07310. According to the records of our transfer agent, as of August 14, 2013, there were 18 shareholders of record of our common stock. A substantially greater number of holders of our common stock are "street name" or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions. Our transfer agent in South Africa is Link Market Services South Africa (Pty) Ltd, 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein, 2001, South Africa.

Dividends

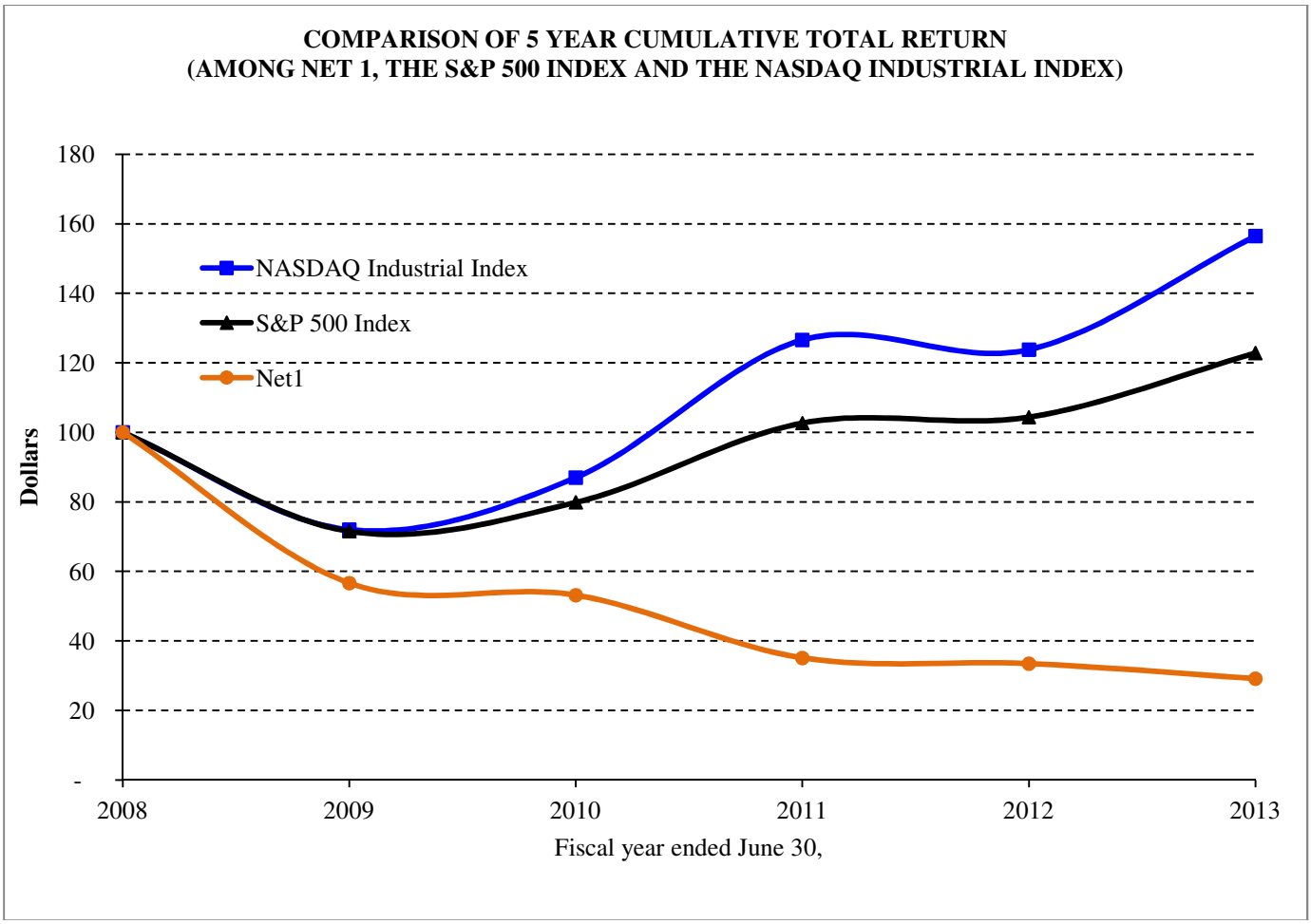
We have not paid any dividends on our shares of common stock during our last two fiscal years and presently intend to retain future earnings to finance the expansion of the business. We do not anticipate paying any cash dividends in the foreseeable future. The future dividend policy will depend on our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

Issuer purchases of equity securities

We did not purchase any shares of our common stock during the fourth quarter of fiscal 2013. On August 21, 2013, our Board of Directors authorized the repurchase of up to $100 million of our common stock from time to time. The authorization has no expiration date. This authorization replaces our prior one.

Share performance graph

The chart below compares the five-year cumulative return, assuming the reinvestment of dividends, where applicable, on our common stock with that of the S&P 500 Index and the NASDAQ Industrial Index. This graph assumes $100 was invested on June 30, 2008, in each of our common stock, the S&P 500 companies, and the companies in the NASDAQ Industrial Index.



ITEM 6. SELECTED FINANCIAL DATA

The following selected historical consolidated financial data should be read together with Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8—"Financial Statements and Supplementary Data." The following selected historical financial data as of June 30, 2013 and 2012, and for the three years ended June 30, 2013 have been derived from our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected historical consolidated financial data presented below as of June 30, 2011, 2010 and 2009 and for the years ended June 30, 2010 and 2009, have been derived from our consolidated financial statements, which are not included herein. The selected historical financial data as of each date and for each period presented have been prepared in accordance with US GAAP. These historical results are not necessarily indicative of results to be expected in any future period.

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

	Year Ended June 30				
	2013[1]	**2012[1]**	**2011[2]**	**2010**	**2009**
Revenue	$452,147	$390,264	$343,420	$280,364	$246,822
Cost of goods sold, IT processing, servicing and support	196,834	141,000	109,858	72,973	70,091
Selling, general and administrative (3)	191,552	137,404	119,692	80,854	64,833
Equity instrument granted pursuant to BEE transaction (4)	-	14,211	-	-	-
Depreciation and amortization	40,599	36,499	34,671	19,348	17,082
Profit on sale of microlending business	-	-	-	-	455
Impairment losses (5)	-	-	41,771	37,378	1,836
Operating income	23,162	61,150	37,428	69,811	93,435
Foreign exchange gain related to short-term investment (6)	-	-	-	-	26,657
Interest income	12,083	8,576	7,654	10,116	20,290
Interest expense	7,966	9,345	8,672	1,047	9,462
Income before income taxes	27,279	60,381	36,410	78,880	130,920
Income tax expense (7)	14,656	15,936	33,525	40,822	42,744
Income from continuing operations	12,977	44,651	2,647	38,990	86,601
Net income attributable to Net1	12,977	44,651	2,647	38,990	86,601
Income from continuing operations per share:					
Basic	$0.28	$0.99	$0.06	$0.84	$1.53
Diluted	$0.28	$0.99	$0.06	$0.84	$1.53

(1) The economics of our five year SASSA contract that was effective April 1, 2012, is included in fiscal 2013 and for three months in fiscal 2012 and contributed to the increase in revenue, especially in fiscal 2013. We incurred substantial implementation and smart card expenses totaling approximately $66.5 million and $16.3 million during fiscal 2013 and 2012, respectively, which resulted in an increase in cost of goods sold, IT processing, servicing and support an selling, general and administrative expense. The majority of these expenses were deductible for tax purposes. We also incurred significant capital expenditures related to the SASSA contract implementation which resulted in an increase in depreciation expense in fiscal 2013.
(2) KSNET was acquired effective November 1, 2010, and our reported results for fiscal 2011 include KSNET revenues of $68.4 million and a net loss of $4.1 million, after acquisition-related intangible assets amortization, deferred taxes related to acquisition-related intangible asset amortization and interest related to financing obtained to partially fund the acquisition.
(3) Selling, general and administrative expense includes a charge of $3.9 million (2013), $2.8 million (2012), $1.7 million (2011), $5.5 million (2010) and $4.9 million (2009), respectively, in respect of stock-based compensation.
(4) On April 19, 2012, we issued an option to purchase 8,955,000 shares of our common stock to a BEE consortium pursuant to a BEE transaction that we entered into on January 25, 2012. The fair value of the option was determined as approximately $14.2 million and has been expensed in full in fiscal 2012. The option expired unexercised in fiscal 2013.
(5) Customer relationships acquired in the acquisition of Net1 UTA were impaired in fiscal 2011. Goodwill related to the hardware, software and related technology sales segment was impaired during fiscal 2010, and goodwill related to the financial services segment was impaired during fiscal 2009.
(6) The foreign exchange gain related to a short-term investment in the form of an asset swap arrangement which matured during fiscal 2009.
(7) The fully-distributed tax rate for fiscal 2013 and 2012 was 28% and for fiscal 2011, 2010 and 2009 it was 34.55%. Our income tax expense for fiscal 2012 includes the effects of the change in South African tax law to impose a 15% dividends withholding tax (a tax levied and withheld by a company on distributions to its shareholders) to replace the 10% Secondary Taxation on Companies (a tax levied directly on a company on dividend distributions) ("STC"). Our income tax expense for fiscal 2012 also includes a valuation allowance of $8.2 million related to foreign tax credits we believe we may not recover. Our income tax expense for fiscal 2011 includes valuation allowances related to our Net1 UTA business of $8.9 million and a reversal of $10.4 million related to the customer impairment loss. Our income tax expense for fiscal 2009 includes the impact of the change in the fully-distributed rate during that year of approximately $3.5 million.

Additional Operating Data:
(in thousands, except percentages)

	Year ended June 30,				
	2013(1)	**2012(1)**	**2011(1)**	**2010(1)**	**2009**
Cash flows provided by operating activities	$55,917	$20,406	$66,223	$68,683	$106,768
Cash flows used in investing activities	$447,816	$292,539	$323,685	$90,186	$107,856
Cash flows provided by (used in) financing activities	$409,716	$231,907	$183,269	$(48,478)	$(40,248)
Operating income margin	5%	16%	11%	25%	38%

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

Consolidated Balance Sheet Data:
(in thousands)

	As of June 30,				
	2013	**2012 (1)**	**2011(1)**	**2010**	**2009**
Cash and cash equivalents	$53,665	$39,123	$95,263	$153,742	$220,786
Total current assets before settlement assets	184,723	175,236	213,421	226,429	290,294
Goodwill	175,806	182,737	209,570	76,346	116,197
Intangible assets	77,257	93,930	119,856	68,347	75,890
Total assets	1,276,322	955,893	781,645	472,090	499,487
Total current liabilities before settlement obligations	76,859	73,377	102,406	57,927	77,809
Total long-term debt	66,632	79,760	111,776	4,343	4,185
Total equity	$339,969	$346,811	$328,010	$287,301	$375,756

(1) During fiscal 2013, we identified an immaterial balance sheet misclassification related to prior periods that involved an overstatement of other payables and an understatement of additional paid-in capital of $2.0 million, respectively. We corrected these amounts in the current period, effective July 1, 2010. This reclassification has no impact on our previously reported consolidated income, comprehensive income or cash flows.

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

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

Overview

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

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

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

Our technology is widely used in South Africa today, where we distribute pension and welfare payments, using our UEPS/EMV technology, to over nine million recipient cardholders across the entire country, process debit and credit card payment transactions on behalf of a wide range of retailers through our EasyPay system, process value-added services such as bill payments and prepaid airtime and electricity for the major bill issuers and local councils in South Africa, and provide mobile telephone top-up transactions for all of the South African mobile carriers. We are the largest provider of third-party and associated payroll payments in South Africa through our FIHRST service that processes monthly payments for approximately 1,300 employer groups representing over 900,000 employees. Our MediKredit service provides the majority of funders and providers of healthcare in South Africa with an on-line real-time management system for healthcare transactions. We perform a similar service in the US through our XeoHealth subsidiary.

Internationally, through KSNET, the second largest transaction processor by volume in Korea, we offer card processing, payment gateway and banking value-added services in that country.

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

Sources of Revenue

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

We have structured our business and our business development efforts around four related but separate approaches to deploying our technology. In our most basic approach, we act as a supplier, selling our equipment, software, and related technology to a customer. As an example, in Ghana, we sold a complete UEPS to the Central Bank, which owns and operates the resulting transaction settlement system. The revenue and costs associated with this approach are reflected in our hardware, software and related technology sales segment.

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

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

Through KSNET, we earn most of our revenue from payment processing services we provide to approximately 220,000 merchants and to card issuers in Korea through our value-added-network. In the US, we earn transaction fees from our customers utilizing our XeoRules on-line real-time management system for healthcare transactions. We also generate fees from our customers who utilize our VCPay technology to generate a unique, one-time use prepaid virtual card number to securely purchase goods and services or perform bill payments in any card-not-present environment. The revenue and costs at KSNET, XeoHealth and VCPay as well as those from our expired Iraqi contracts to February 2013, are reflected in our international transaction-based activities segment.

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

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

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

Business Developments during Fiscal 2013

South Africa

SASSA

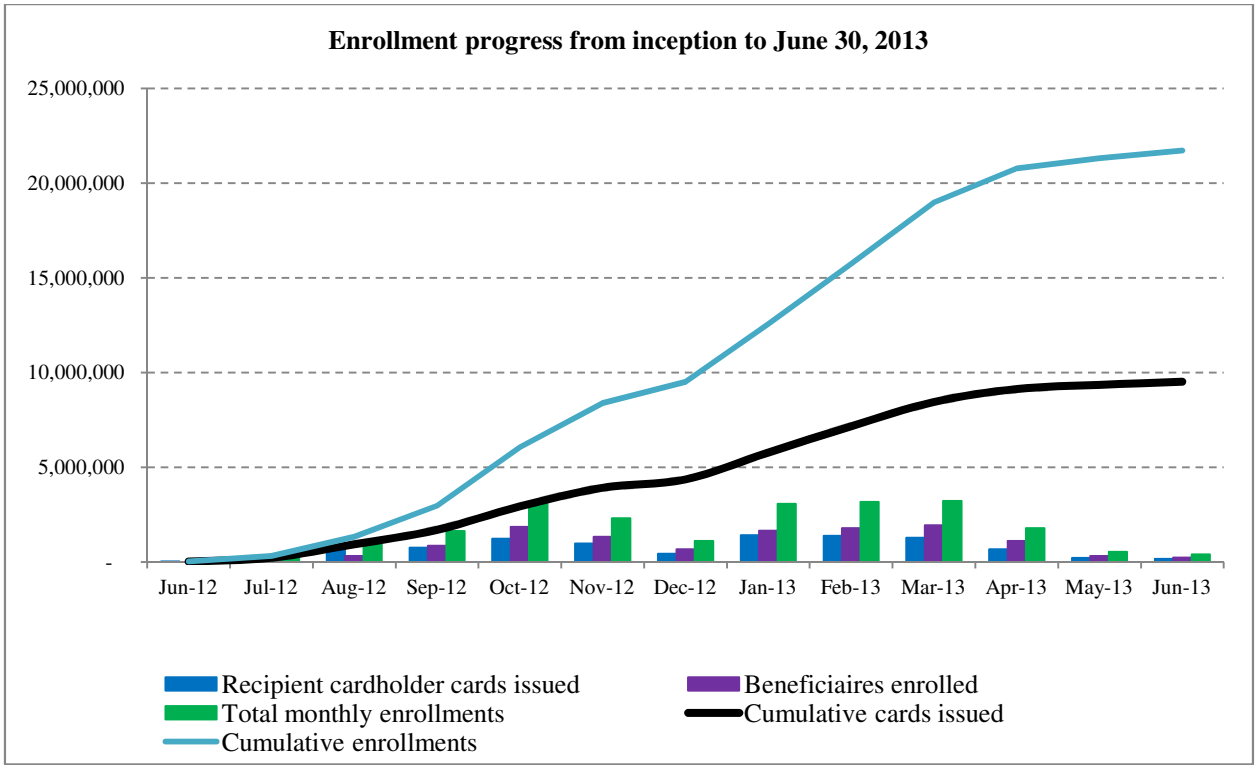
We commenced the second phase of the enrollment process in early July 2012 and completed the bulk enrollment by April 30, 2013, in accordance with the implementation plan agreed with SASSA. Under our agreement with SASSA, we have to enroll both the grant recipient cardholders (those individuals who receive the actual payment and are issued with our UEPS/EMV smart card), as well as the grant beneficiaries (those individuals who have qualified for the social grant, but are not necessarily the recipient cardholder of the grant). By way of example, a parent who has three children and receives a grant for all three children is the grant recipient cardholder, while the three children are each classified individually as grant beneficiaries. In this case, we capture the personal and biometric information of the parent and three children, but only the parent is issued with an UEPS/EMV smart card. Our monthly service fee is calculated on the number of grant recipient cardholders.

While the number of grant recipient cardholders on a national basis has consistently been quantified by SASSA at approximately 9.4 million individuals, the number of beneficiaries was revised higher by SASSA from an initial estimate of approximately 15.5 million, to the revised estimate of approximately 21.6 million. In order to complete the second phase of the implementation on time, and given the significantly higher number of beneficiaries, we increased the number of temporary employees that we hired in the second quarter of fiscal 2013 from 2,500 to approximately 5,500 and retained the higher employee base through all of the third quarter of fiscal 2013. Having substantially concluded bulk enrollment in fiscal 2013, our temporary employee headcount has since declined to 1,392 at June 30, 2013.

As of June 30, 2013, we had enrolled a total of 21.7 million people which comprises approximately 9.5 million grant recipient cardholders and 12.2 million beneficiaries associated with these recipient cardholders in accordance with our second phase enrollment schedule, and issued them our UEPS/EMV smart card.

During March 2013, the Minister of Social Development and SASSA announced that the deadline for the enrollment of grant recipient cardholders would be extended to April 30, 2013. We therefore continued with the enrollment process for the month of April 2013. SASSA sent termination notices to all cardholder recipients and beneficiaries who had not presented themselves for enrollment during May, June and July 2013 in terms of the Promotion of Administrative Justice Act. As of July 30, 2013, there were an estimated 372,870 former grant recipient cardholders who had not presented themselves for enrollment. The grants applicable to these grant recipient cardholders will be suspended with effect from September 2013 and these beneficiaries will have to re-apply for their grants. Our revenue for fiscal 2014 will decline to the extent that these beneficiaries do not re-apply for their grants, but such decline may be offset by the amount of new grant recipient cardholders approved by SASSA.

The graph below presents our enrollment progress from inception to June 30, 2013:



The enrollment statistics included in the graph above reflect the cumulative number of cardholder recipient and beneficiary enrollments since the inception of the new contract. The statistics therefore do not reflect any cardholder recipients and beneficiaries that may have been removed from the payment file subsequent to enrollment due to the suspension or disqualification of a social welfare grant or death. There is a time lag between when a current grant recipient cardholder is issued a UEPS/EMV card and when the recipient cardholder receives grants onto the UEPS/EMV smart card. For instance, recipient cardholders enrolled in March 2013 and issued a UEPS/EMV smart card were only paid onto that card in the April 2013 pay cycle. When a new grant recipient cardholder is approved by SASSA, the recipient cardholder is enrolled, issued a UEPS/EMV smart card and immediately paid on this card. We are paid monthly by SASSA for each recipient cardholder paid by us, regardless of the number of grants received by the recipient cardholder, the channel utilized and therefore for the month of June 2013, we earned revenue from SASSA based on the distribution of grants to 9,591,950 recipient cardholders.

During fiscal 2013, we incurred direct implementation expenses of approximately $56.2 million (ZAR 488.3 million), including staff, travel, temporary infrastructure hire, fixed premises hire for enrollment and stationery costs. We are unable to quantify the value of time spent by our executives and pension and welfare operations managers and staff that service the five provinces in which we operated under the previous contract and that have assisted in the implementation of the national contract. During fiscal 2012, we incurred direct implementation expenses of approximately $10.9 million (ZAR 83.9 million).

We also expensed $10.3 million (ZAR 90.2 million) related to the cost of the UEPS/EMV smart cards issued during fiscal 2013, which is not included in the $56.2 million (ZAR 488.3 million) of direct implementation expenses described above. We did not expense any smart cards in fiscal 2012.

We also incurred approximately $6.9 million in capital expenditures related to the implementation during fiscal 2013. Since inception of the implementation we have incurred cumulative capital expenditures of $28.1 million. We have substantially completed the bulk enrollment of recipient cardholders and beneficiaries and do not expect any further significant capital expenditures related to this process.

Our total cash outlay through June 30, 2013 has been $105.5 million for direct implementation expenses, smart card costs and capital expenditures. We would have been in-line with the mid-point of our initial total cash outlay range assuming the volume of enrollments had not changed. Our revised estimate including the registration of the incremental beneficiaries was between $100 and $105 million and included expanding our temporary staff for longer.

See Part I, Item 1A—"Risk Factors" and Item 3—"Legal Proceedings" for more information and the risks associated with our SASSA contract and for an update on litigation associated with our SASSA contract.

Smart Life long-term insurance license

During January 2013, the FSB suspended Smart Life's long-term insurance license and prohibited it from writing any new long-term insurance policies in South Africa. We have prepared a submission to the FSB to uplift the suspension and the FSB is currently conducting an investigation into the affairs of Smart Life, but we cannot predict what the outcome will be.

South African transaction processors, excluding pension and welfare

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

Outside South Africa

KSNET

Our strategic marketing initiatives over the past two years, focusing on the small and medium merchant segment has had a positive impact on our transaction processing volumes and operating profit in Korea. Our processing volume and value growth rate continues to outpace the Korean economic growth rate. The KSNET management team remains focused on the retention and expansion of our current market share and to grow into adjacent markets. The competitive value added network environment in Korea has resulted in a nominal anticipated loss of operation margin, which we expect to stabilize during fiscal 2014. Our payment gateway and banking VAN businesses continue to grow exponentially, albeit off a small base.

XeoHealth

The commencement of the recovery audit contractor, or RAC, services and desk review recovery referrals identified through our XeoRulesTM engine for Cognosante in North Dakota has been delivered and Cognosante has commenced issuing recovery letters to providers. Under our contract, we are compensated based on a percentage of the final recoveries identified by our XeoRules claim re-adjudicating service for the audit period of five years, as well as the desk review recovery referrals identified through our XeoRules engine. XeoHealth has recently realized the first recoveries in but we are currently unable to quantify the value of RAC service revenues to be recognized during any particular future quarter.

XeoHealth has also been subcontracted by Cognosante to provide both the automated audit as well the analysis services as required by the RAC for the State of Missouri Medicaid. We have recently completed the business rules and audit findings and received approval from the State of Missouri Medicaid which enabled us to commence performing the required services in the third quarter of fiscal 2013. The results have been delivered to Cognosante for cycle 1 and recovery letters are being issued to providers. Similar to North Dakota, XeoHealth will be compensated based on a percentage of the final recoveries identified by our XeoRules claims re-adjudicating service for the audit period of three years, as well as the desk review recovery referrals identified through our XeoRules engine.

XeoHealth has recently concluded a contract to expand the current services offered to Philadelphia-based Community Behavioral Health, or CBH, to individual practices contracted for delivery of services to the Office of Mental Health. The State of Pennsylvania conducted an audit on XeoRules used by CBH for claims adjudication and no findings were reported. We have been informed that the auditors highlighted the ICD10 readiness of XeoRules. ICD10 is scheduled for implementation on October 1, 2014. We expect the final audit report to be published on the State's web site in November 2013. The expansion into adjacent markets and expected audit report findings supports our strategy to establish XeoHealth as the provider of disruptive innovation focused on patient centricity in the United States.

Net1 Mobile Solutions

Following our acquisition of Pbel in fiscal 2013, we decided to consolidate our array of web and mobile applications and payment technologies, such as MVC, Chip and GSM licensing and VTU in a new business division, Net1 Mobile Solutions. This division is responsible for the worldwide technical development and commercialization of these technologies. During fiscal 2013, this new division assumed control of our existing MVC, Chip and VTU projects and customers, in addition to the projects and customers acquired as part of the Pbel acquisition and commenced a business re-engineering program to optimize costs and realize synergies across the various products, projects and geographies. We have developed several new applications, including mobile applications to provide our social welfare cardholders with certain value added services, which will be deployed during the first quarter of fiscal 2014.

The African Continent and Iraq

During fiscal 2013, NUETS was informed in writing by International Smart Card LLC, or ISC, its customer in Iraq, that it would not renew its contracts with NUETS upon their expiration. As a result, NUETS stopped processing transactions for its Iraqi customer at the end of February 2013, but has some minor remaining contractual commitments over the next several months. In addition, ISC has not paid several outstanding invoices and we have provided an amount of $2.3 million as doubtful debts during the third quarter of fiscal 2013. We have instituted debt recovery procedures to recover the outstanding amounts but we cannot predict the outcome, or timing, of these procedures. NUETS continued to service its current customers on the African continent and continued its business development efforts, including responding to a number of tenders, in multiple countries on the African continent during the year.

Our partnership with MasterCard may also bring us additional business development opportunities for current or future MasterCard member banks who seek the offline and additional functionality incorporated in our new UEPS/EMV payment technology. We participated in several such business development opportunities with MasterCard during fiscal 2013, but cannot predict the timing or outcome of these initiatives.

Critical Accounting Policies

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

Business Combinations and the Recoverability of Goodwill

A component of our growth strategy has been to acquire and integrate businesses that complement our existing operations. The purchase price of an acquired business is allocated to the tangible and intangible assets acquired and liabilities assumed based upon their estimated fair value at the date of purchase. The difference between the purchase price and the fair value of the net assets acquired is recorded as goodwill. In determining the fair value of assets acquired and liabilities assumed in a business combination, we use various recognized valuation methods, including present value modeling. Further, we make assumptions using certain valuation techniques, including discount rates and timing of future cash flows.

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

The determination of the fair value of a reporting unit requires us to make significant judgments and estimates. In determining the fair value of reporting units, we consider the earnings before interest, taxation, depreciation and amortization, or EBITDA, and the EBITDA multiples applicable to peer and industry comparables of the reporting units. We base our estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. In addition, we make judgments and assumptions in allocating assets and liabilities to each of our reporting units. The results of our impairment tests during fiscal 2013 indicated that the fair value of our reporting units exceeded their carrying values and therefore our reporting units were not at risk of potential impairment.

Intangible Assets Acquired Through Acquisitions

The fair values of the identifiable intangible assets acquired through acquisitions were determined by management using the purchase method of accounting. We completed acquisitions during fiscal 2013, 2012 and 2011, where we identified and recognized intangible assets. We have used the relief from royalty method, the multi-period excess earnings method, the income approach and the cost approach to value acquisition-related intangible assets. In so doing, we made assumptions regarding expected future revenues and expenses to develop the underlying forecasts, applied contributory asset charges, discount rates, exchange rates, cash tax charges and useful lives.

The valuations were based on information available at the time of the acquisition and the expectations and assumptions that have been deemed reasonable by us. No assurance can be given, however, that the underlying assumptions or events associated with such assets will occur as projected. For these reasons, among others, the actual cash flows may vary from forecasts of future cash flows. To the extent actual cash flows vary, revisions to the useful life or impairment of intangible assets may be necessary. For instance, during fiscal 2011, we recognized an impairment loss of approximately $41.8 million related to the entire carrying value of customer relationships acquired in the Net1 UTA acquisition in August 2008.

Deferred Taxation

We estimate our tax liability through the calculations done for the determination of our current tax liability, together with assessing temporary differences resulting from the different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities which are disclosed on our balance sheet. Management then has to assess the likelihood that deferred tax assets are more likely than not to be realized in future periods. In the event it is determined that the deferred tax assets to be realized in the future would be in excess of the net recorded amount, an adjustment to the deferred tax asset valuation allowance would be recorded. This adjustment would increase income in the period such determination was made. Likewise, should it be determined that all or part of the net deferred tax asset would not be realized in the future, an adjustment to increase the deferred tax asset valuation allowance would be charged to income in the period such determination is made. In assessing the need for a valuation allowance, historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and practicable tax planning strategies are considered. During fiscal 2013, 2012, and 2011, we recorded increases to our valuation allowance of $2.6 million, $12.0 million and $19.5 million, respectively.

Stock-based Compensation and Equity Instrument issued pursuant to BEE transaction

Stock-based compensation

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

We utilize the Cox Ross Rubinstein binomial model to measure the fair value of stock options granted to employees and directors and recognize compensation cost on a straight line basis. Option-pricing models require estimates of a number of key valuation inputs including expected volatility, expected dividend yield, expected term and risk-free interest rate. Our management has estimated forfeitures based on historic employee behavior under similar compensation plans. The fair value of stock options is affected by the assumptions selected. Net stock-based compensation expense from continuing operations was $3.9 million, $2.8 million and $1.7 million for fiscal 2013, 2012 and 2011, respectively. Net stock-based compensation expense for fiscal 2011, includes a reversal of $3.5 million related to a portion of the restricted stock granted in August 2007 that did not vest as the performance condition prescribed in the terms of the awards was not met.

Equity instrument

We recorded $14.2 million of expense associated with the issuance of equity instruments as part of the BEE transaction during fiscal 2012 as such awards were fully vested during the period. The option expired unexercised in fiscal 2013, however, the expense recorded during fiscal 2012 was not reversed during fiscal 2013 because the option had vested in full on the grant date in 2012.

Accounts Receivable and Allowance for Doubtful Accounts Receivable

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

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

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

Research and Development

Accounting standards require product development costs to be charged to expenses as incurred until technological feasibility is attained. Technological feasibility is attained when our software has completed system testing and has been determined viable for its intended use. The time between the attainment of technological feasibility and completion of software development has been short. Accordingly, we did not capitalize any development costs during the years ended June 30, 2013, 2012 or 2011, particularly because the main part of our development is the enhancement and upgrading of existing products.

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

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

Recent Accounting Pronouncements

Recent accounting pronouncements adopted

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

Recent accounting pronouncements not yet adopted as of June 30, 2013

Refer to Note 2 of our consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of June 30, 2013, including the expected dates of adoption and effects on financial condition, results of operations and cash flows.

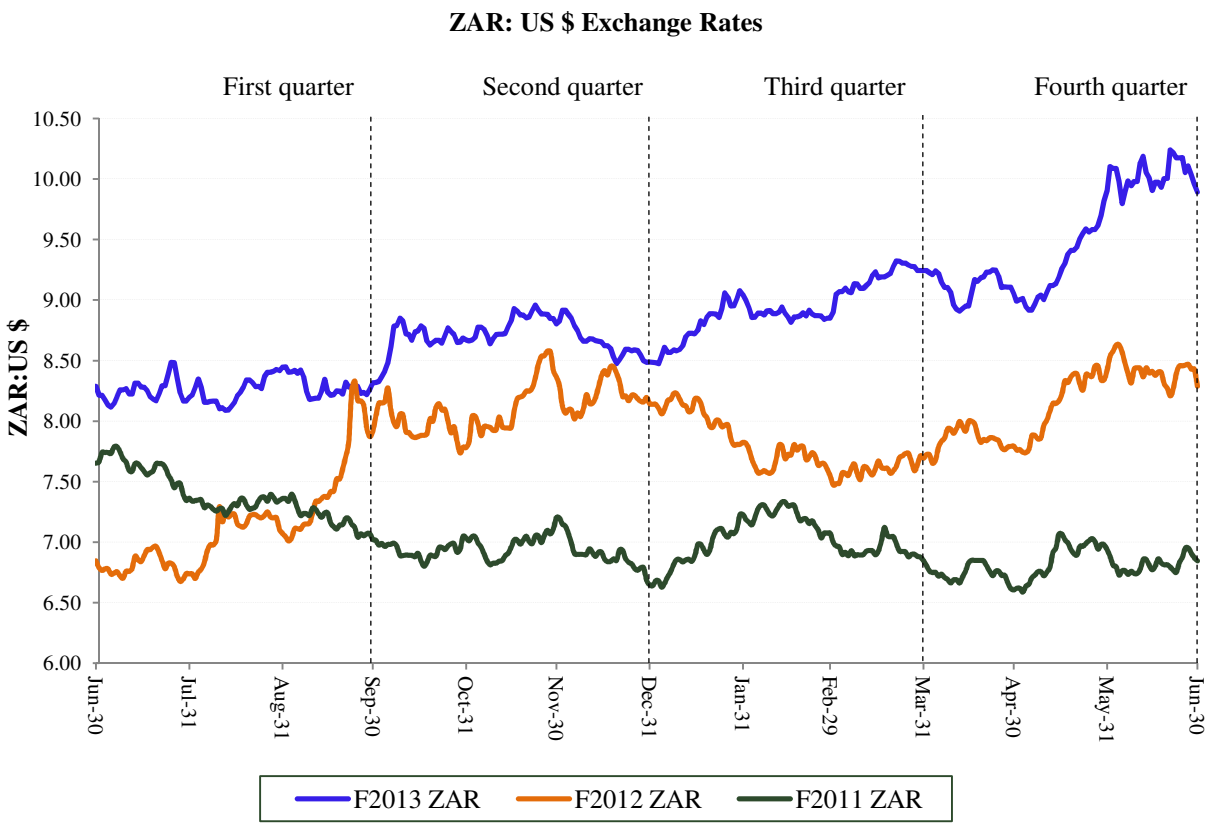
Currency Exchange Rate Information

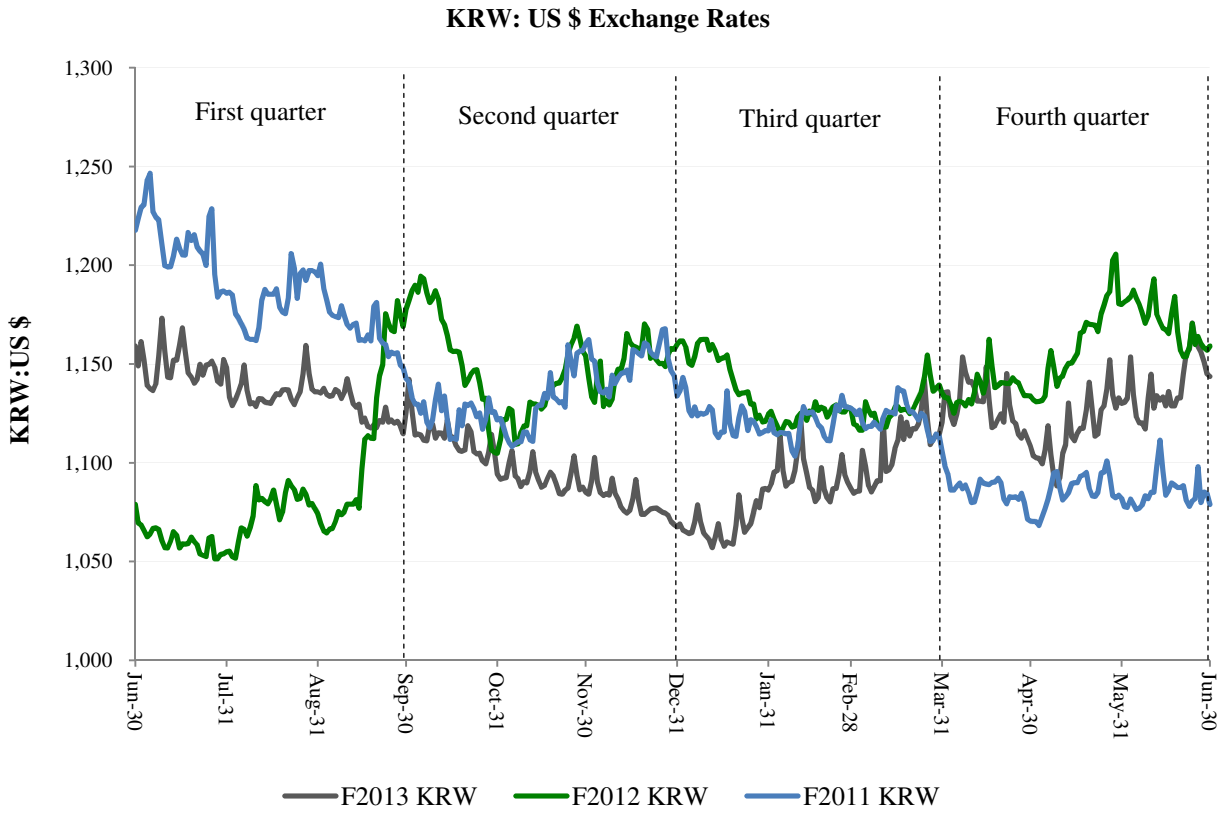
Actual exchange rates

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

Table 1	**Year ended June 30,**		
	2013	**2012**	**2011 (1)**
ZAR : $ average exchange rate	8.8462	7.7920	7.0286
Highest ZAR : $ rate during period.....	10.3587	8.6987	7.7809
Lowest ZAR : $ rate during period	8.0444	6.6096	6.4925
Rate at end of period	9.8925	8.2881	6.8449
KRW : $ average exchange rate.....	1,112	1,130	1,113
Highest KRW : $ rate during period	1,162	1,202	1,169
Lowest KRW : $ rate during period.....	1,019	1,029	1,059
Rate at end of period	1,144	1,159	1,079

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


ZAR: US $ Exchange Rates
First quarter
Second quarter
Third quarter
Fourth quarter
ZAR:US $
10.50
10.00
9.50
9.00
8.50
8.00
7.50
7.00
6.50
6.00
Jun-30
Jul-31
Aug-31
Sep-30
Oct-31
Nov-30
Dec-31
Jan-31
Feb-29
Mar-31
Apr-30
May-31
Jun-30
F2013 ZAR
F2012 ZAR
F2011 ZAR


KRW: US $ Exchange Rates
First quarter
Second quarter
Third quarter
Fourth quarter
KRW:US $
1,300
1,250
1,200
1,150
1,100
1,050
1,000
Jun-30
Jul-31
Aug-31
Sep-30
Oct-31
Nov-30
Dec-31
Jan-31
Feb-28
Mar-31
Apr-30
May-31
Jun-30
F2013 KRW
F2012 KRW
F2011 KRW

Translation Exchange Rates

We are required to translate our results of operations from ZAR to US dollars on a monthly basis. Thus, the average rates used to translate this data for the years ended June 30, 2013, 2012 and 2011, vary slightly from the averages shown in the table above. The translation rates we use in presenting our results of operations are the rates shown in the following table:

Table 2	**Year ended June 30,**		
	2013	**2012**	**2011**
Income and expense items: $1 = ZAR	8.7105	7.7186	6.9962
Income and expense items: $1 = KRW	1,072	1,104	1,121
Balance sheet items: $1 = ZAR.....	9.8925	8.2881	6.8449
Balance sheet items: $1 = KRW	1,144	1,159	1,079

Results of Operations

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

Fiscal 2013 results include SmartSwitch Botswana from December 1, 2012 and Pbel from September 1, 2012. Fiscal 2012 results include Smart Life from July 1, 2011 and Eason from October 1, 2011. Fiscal 2011 results include KSNET from November 1, 2010. Refer also to Note 3 to the consolidated financial statements.

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

Fiscal 2013 Compared to Fiscal 2012

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

- ***Unfavorable impact from the strengthening of the US dollar:*** The US dollar appreciated by 14% against the ZAR during fiscal 2013 which negatively impacted our reported results;
- ***SASSA implementation costs:*** We completed the bulk enrollment of recipient cardholders and beneficiaries under our SASSA contract during fiscal 2013 and incurred implementation and staff costs of $66.5 million, including the cost of UEPS/EMV smart cards issued, compared with $10.9 million in fiscal 2012;
- ***DOJ and SEC investigation-related expenses:*** We incurred DOJ and SEC investigation-related expenses of $5.9 million in fiscal 2013;
- ***Allowance for doubtful accounts receivable relating to expired Iraqi contracts:*** We have provided $2.3 million related to expired NUETS Iraqi customer contracts;
- ***Fair value charge resulting from issue of equity instrument pursuant to BEE transaction:*** The fair value charge of $14.2 million related to our BEE transaction negatively impacted our reported results during fiscal 2012;
- ***Fiscal 2012 impacted by change in South African tax law:*** As a result of the change in South African tax law that replaced STC with a dividends withholding tax, fiscal 2012 tax expense included a net taxation benefit of $10.1 million, as we recorded a $18.3 million deferred tax benefit which was offset by an $8.2 million foreign tax credit valuation allowance; and
- ***Profit on liquidation of SmartSwitch Nigeria***: In fiscal 2012, we recorded a non-cash profit of $4.0 million on the liquidation of SmartSwitch Nigeria.

Consolidated overall results of operations

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

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

Table 3

	In United States Dollars (US GAAP)		
	Year ended June 30,		
	2013 $ '000	2012 $ '000	% change
Revenue	452,147	390,264	16%
Cost of goods sold, IT processing, servicing and support	196,834	141,000	40%
Selling, general and administration	191,552	137,404	39%
Equity instrument issued pursuant to BEE transaction	-	14,211	nm
Depreciation and amortization	40,599	36,499	11%
Operating income	23,162	61,150	(62%)
Interest income	12,083	8,576	41%
Interest expense	7,966	9,345	(15%)
Income before income taxes	27,279	60,381	(55%)
Income tax expense	14,656	15,936	(8%)
Net income before income from equity-accounted investments	12,623	44,445	(72%)
Income from equity-accounted investments	351	220	60%
Net income	12,974	44,665	(71%)
(Add) Less net (loss) income attributable to non-controlling interest	(3)	14	nm
Net income attributable to Net1	12,977	44,651	(71%)

Table 4

	In South African Rand (US GAAP)		
	Year ended June 30,		
	2013 ZAR '000	2012 ZAR '000	% change
Revenue	3,938,426	3,012,292	31%
Cost of goods sold, IT processing, servicing and support	1,714,523	1,088,322	58%
Selling, general and administration	1,668,514	1,058,190	58%
Equity instrument issued pursuant to BEE transaction	-	112,066	nm
Depreciation and amortization	353,637	281,722	26%
Operating income	201,752	471,992	(57%)
Interest income	105,249	66,195	59%
Interest expense	69,388	72,130	(4%)
Income before income taxes	237,613	466,057	(49%)
Income tax expense	127,661	123,004	4%
Net income before income from equity-accounted investments	109,952	343,053	(68%)
Income from equity-accounted investments	3,057	1,698	80%
Net income	113,009	344,751	(67%)
(Add) Less net (loss) income attributable to non-controlling interest	(26)	108	nm
Net income attributable to Net1	113,035	344,643	(67%)

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

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

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

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

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

Depreciation and amortization increased primarily as a result of an increase in depreciation related to assets used to service our obligations under our SASSA contract. The intangible asset amortization related to our various acquisitions has been allocated to our operating segments as presented in the tables below:

Table 5

	Year ended June 30,	
	2013	**2012**
	$ '000	**$ '000**
Amortization included in depreciation and amortization expense:	18,222	19,557
South African transaction-based activities	4,491	6,171
International transaction-based activities	13,402	13,015
Hardware, software and related technology sales	329	371

Table 6

	Year ended June 30,	
	2013	**2012**
	ZAR '000	**ZAR '000**
Amortization included in depreciation and amortization expense:	158,721	150,952
South African transaction-based activities	39,114	47,625
International transaction-based activities	116,738	100,458
Hardware, software and related technology sales	2,869	2,869

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

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

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

Results of operations by operating segment

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

Table 7

	In United States Dollars (US GAAP)				
	Year ended June 30,				
Operating Segment	**2013 $ '000**	**% of total**	**2012 $ '000**	**% of total**	**% change**
Consolidated revenue:					
South African transaction-based activities	240,405	53%	201,207	52%	19%
International transaction-based activities	133,481	30%	118,281	30%	13%
Smart card accounts	36,990	8%	31,263	8%	18%
Financial services	6,545	1%	8,121	2%	(19%)
Hardware, software and related technology sales	34,726	8%	31,392	8%	11%
Total consolidated revenue	452,147	100%	390,264	100%	16%
Consolidated operating income (loss):					
South African transaction-based activities	13,196	57%	49,824	81%	(74%)
Operating income before amortization	17,687		55,995		
Amortization of intangibles	(4,491)		(6,171)		
International transaction-based activities	34	-	1,257	2%	(97%)
Operating income before amortization	13,436		14,272		
Amortization of intangibles	(13,402)		(13,015)		
Smart card accounts	10,543	46%	12,820	21%	(18%)
Financial services	3,646	16%	4,636	8%	(21%)
Hardware, software and related technology sales	6,694	29%	3,619	6%	85%
Operating income before amortization of intangibles	7,023		3,990		
Amortization of intangibles	(329)		(371)		
Corporate/eliminations	(10,951)	(48%)	(11,006)	(18%)	-
Total consolidated operating income	23,162	100%	61,150	100%	(62%)

Table 8

	In South African Rand (US GAAP)				
	Year ended June 30,				
Operating Segment	**2013 ZAR '000**	**% of total**	**2012 ZAR '000**	**% of total**	**% change**
Consolidated revenue:					
South African transaction-based activities	2,094,048	53%	1,553,036	52%	35%
International transaction-based activities	1,162,686	30%	912,964	30%	27%
Smart card accounts	322,201	8%	241,307	8%	34%
Financial services	57,010	1%	62,683	2%	(9%)
Hardware, software and related technology sales	302,481	8%	242,302	8%	25%
Total consolidated revenue	3,938,426	100%	3,012,292	100%	31%
Consolidated operating income (loss):					
South African transaction-based activities	114,944	57%	384,572	81%	(70%)
Operating income before amortization	154,058		432,197		
Amortization of intangibles	(39,114)		(47,625)		
International transaction-based activities	296	-	9,702	2%	(97%)
Operating income before amortization	117,034		110,160		
Amortization of intangibles	(116,738)		(100,458)		
Smart card accounts	91,835	46%	98,952	21%	(7%)
Financial services	31,758	16%	35,783	8%	(11%)
Hardware, software and related technology sales	58,308	29%	27,934	6%	109%
Operating income before amortization of intangibles	61,177		30,803		
Amortization of intangibles	(2,869)		(2,869)		
Corporate/eliminations	(95,389)	(48%)	(84,951)	(18%)	12%
Total consolidated operating income	201,752	100%	471,992	100%	(57%)

South African transaction-based activities

In ZAR, the increases in segment revenue were primarily due to higher revenues earned for a full year under our new SASSA contract, increased transaction fees from our expanded merchant acquiring system and the inclusion of Pbel for ten months.

Our operating income margin for fiscal 2013 and 2012 was 5% and 25%, respectively, and has declined primarily due to the higher SASSA implementation costs. Excluding amortization of intangibles, our operating margin for fiscal 2013 and 2012 was 7% and 28%, respectively.

South African transaction processors:

The table below presents the total volume and value processed during fiscal 2013 and 2012 by our transaction processors:

Table 9

Transaction processor	Total volume ('000s)		Total value $ ('000)		Total value ZAR ('000)	
	2013	2012	2013	2012	2013	2012
CPS	114,521	55,973	12,057,511	6,768,469	105,026,946	52,243,105
EasyPay(1)	419,723	443,227	11,140,908	12,171,663	97,042,882	93,948,192
Remaining core	419,723	418,831	11,140,908	11,383,734	97,042,882	87,866,487
Discontinued	-	24,396	-	787,929	-	6,081,705
MediKredit	10,611	10,677	763,142	620,439	6,647,349	4,788,923
FIHRST	24,003	24,266	9,507,059	10,069,927	82,811,238	77,725,741

(1) – fiscal 2012 data includes Eason prepaid airtime and electricity volume and value from October 1, 2011 and reclassified to reflect the consolidation of value-added services through EasyPay and to reflect the remaining core processing activities.

Our SASSA contract discussed under "—Business Developments during Fiscal 2013—South Africa—SASSA" had a positive impact on revenue but the substantial implementation costs incurred during fiscal 2013 significantly decreased our operating margin. Our pension and welfare operations continue to generate the majority of our revenues and operating income, before implementation costs, in this operating segment and overall.

During fiscal 2012, one of EasyPay's large customers decided to perform its EFT/switching activities in-house, which had an adverse impact on our volumes during that year. EasyPay has retained its value-added services relationship with this customer and therefore the overall impact to revenue and profitability has been modest. EasyPay fiscal 2012 volumes and values were impacted by its focus on higher-margin value-added services and termination of certain inefficient activities such as the hosting of processing servers for financial institutions. EasyPay has signed contracts with two large retailers and commenced processing transaction for one of them, with a modest impact on transaction volumes and values.

MediKredit's total volumes processed decreased moderately due to the on-going consolidation in the medical scheme industry in South Africa which has resulted in MediKredit losing adjudication and processing business as its providers are obligated to outsource these services to their parent's processor. This moderate decrease in volumes has been offset by commencing adjudication and processing activities for new providers, including public hospitals, private hospitals and specialist doctors. MediKredit's total value processed has increased due to the significant increase in the underlying cost of medical services and products in the South African medical scheme industry and an increase in private hospital claims processing.

FIHRST volumes modestly decreased due to labor strikes in the South African mining industry. As a result of the strikes, some of FIHRST's mining industry customers temporarily suspended wage payments which resulted in a lower number of transactions processed during fiscal 2013. However, as and when the strikes were settled, FIHRST's customers requested FIHRST to process one transaction which included a catch up payment of all missed wages and any other benefits. While volumes modestly decreased due to the strikes, total transaction values have increased due to a higher number of customers and inflation-related increases to the underlying transaction values.

Our results for fiscal 2013 include intangible asset amortization related to our Pbel acquisition from September 2012 and Eason for the full year. MediKredit's intangible assets were amortized in full at the ended of December 2012 and are included for six months. The majority of FIHRST's intangible assets were amortized in full at the end of March 2013 and are included for nine months. Our results for fiscal 2012 include intangible asset amortization related to our Eason acquisition from October 2011 and MediKredit and FIHRST for the full year.

International transaction-based activities

KSNET continues to contribute the majority of our revenues and operating income in this operating segment. Revenue increased primarily due to KSNET's revenue growth during fiscal 2013 and was offset by the expiration and non-renewal of NUETS' contract with its Iraqi customer. Operating income was negatively impacted by this expiration and non-renewal and the related allowance for doubtful accounts receivable, ongoing start-up expenditures related to our XeoHealth launch in the United States, ongoing losses at Net1 Virtual Card and Net1 UTA as well as ongoing competition in the Korean marketplace, but was partially offset by increased revenue contributions from KSNET. Operating margin for the segment is lower than most of our South African transaction-based businesses. Operating income margin for fiscal 2013 and 2012 was 0% and 1%, respectively. Excluding amortization of intangibles, our operating margin for fiscal 2013 and 2012 was 10% and 12%, respectively.

Our results for fiscal 2013 and 2012 include the intangible asset amortization related to our KSNET acquisition for the full year.

Smart card accounts

In ZAR, our revenue from this operating segment was higher because the number of smart card-based accounts has increased as a result of the new SASSA contract, however, our revenue per account has decreased in fiscal 2013. We reduced our pricing for smart card accounts after taking into consideration the lower price and higher volumes under the new contract.

The new pricing, effective from April 1, 2012, reduced the average monthly revenue per smart card from ZAR5.50 to ZAR4.00 and the operating income margin from 45.45% to 28.50%. Operating income margin from providing smart card accounts for fiscal 2013 and 2012 was 29% and 41%, respectively.

In ZAR, revenue from the provision of smart card-based accounts increased in proportion to the increased number of recipient cardholders serviced through our SASSA contract. Approximately 9.3 million smart card-based accounts were active at June 30, 2013 compared to approximately 5.6 million active accounts at June 30, 2012.

Financial services

UEPS-based lending contributes the majority of the revenue and operating income in this operating segment. Revenue decreased primarily due to a decrease in the number of loans granted. Operating income decreased primarily as a result of on-going start-up expenditure incurred to establish our Smart Life insurance business, lower UEPS-based lending activity and the allocation of UEPS-based lending corporate administration and overhead expenses to this segment from South African transaction-based activities. Smart Life did not contribute to operating income in fiscal 2013 or 2012.

Operating income margin for the financial services segment decreased to 56% from 57%, primarily as a result of start-up expenditures related to Smart Life and other financial services offerings and the allocation of UEPS-based lending corporate administration and overhead expenses to this segment. Fiscal 2012 results have not been restated to allocate the UEPS-based lending corporate administration and overhead expenses to this segment from South African transaction-based activities. The operating income margin for fiscal 2012 would have been 52% if these expenses had been allocated. The allocation of these expenses from the South African transaction-based activities segment has no meaningful impact on its operating margin for fiscal 2012.

Hardware, software and related technology sales

In ZAR, the increase in revenue resulted primarily from an increase in royalty fees and ad hoc hardware sales, offset by a lower contribution from most other major contributors to hardware and software sales. Operating income increased due the higher royalty fees and ad hoc hardware sales, offset by the lower contribution from most key contributors to the operating segment. Significant quarter over quarter fluctuations in revenue, operating income and operating margin are expected due to ad hoc orders in this operating segment. Amortization of intangible assets during fiscal 2013 and 2012, respectively, was approximately $0.3 million (ZAR 2.9 million) and $0.4 million (ZAR 2.9 million) and reduced our operating income.

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

Corporate/ Eliminations

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

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

Fiscal 2012 Compared to Fiscal 2011

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

- ***Impact of new SASSA contract:*** Our new SASSA contract has resulted in higher revenues from SASSA during the fourth quarter of fiscal 2012. We commenced implementing the new contract during the third quarter of fiscal 2012 and incurred additional implementation and staff costs of approximately $10.9 million, excluding cash bonuses of $5.4 million which were paid as a result of the tender award to us;
- ***Unfavorable impact from the strengthening of the US dollar:*** The US dollar appreciated by 10% against the ZAR during fiscal 2012 which negatively impacted our reported results;
- ***Replacement of STC with a dividends withholding tax in South Africa:*** As a result of a change in South African tax law that replaces STC with a dividends withholding tax, our tax expense includes the positive impact of a $18.3 million deferred tax benefit;
- ***Foreign tax credit valuation allowance:*** Our tax expense includes the negative impact of a $8.2 million foreign tax credit valuation allowance;
- ***Fair value charge resulting from issue of equity instrument pursuant to BEE transaction:*** The fair value charge of $14.2 million related to our BEE transaction negatively impacted our reported results during fiscal 2012;
- ***Inclusion of revenue contribution from KSNET at lower operating margin (before acquired intangible asset amortization) than our legacy business:*** The inclusion of KSNET contributed to an increase in revenues for fiscal 2012; however, because KSNET has an operating margin (before acquired intangible asset amortization) that is lower than our legacy businesses, it reduced our overall operating margin. KSNET also contributed to the increase in selling, general and administration and depreciation and amortization expenses;
- ***Inclusion of revenue contribution from Eason at lower operating margin than our legacy business:*** The inclusion of the acquired Eason business from the second quarter of fiscal 2012 contributed to an increase in revenues for fiscal 2012; however, because Eason's prepaid airtime sales business has a operating margin (before acquired intangible asset amortization) that is lower than our legacy businesses, it reduced our overall operating margin;
- ***Intangible asset amortization related to acquisitions:*** We recorded additional intangible asset amortization related to the acquisitions of KSNET and Eason which was offset by the full impairment of Net1 UTA's intangibles in 2011;
- ***Profit on liquidation of SmartSwitch Nigeria:*** We recorded a non-cash profit of $4.0 million on the liquidation of SmartSwitch Nigeria in fiscal 2012; and
- ***Fiscal 2011 intangible asset impairment and transaction-related expenses:*** During 2011, we impaired intangible assets related to the Net1 UTA acquisition of $41.8 million and incurred transaction-related expenses of $5.7 million, primarily for the acquisition of KSNET.

Consolidated overall results of operations

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

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

Table 10

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

Table 11

	In South African Rand (US GAAP)		
	Year ended June 30,		
	2012 ZAR '000	2011 ZAR '000	% change
Revenue	3,012,292	2,402,634	25%
Cost of goods sold, IT processing, servicing and support	1,088,322	768,589	42%
Selling, general and administration	1,058,190	837,389	26%
Equity instrument issued pursuant to BEE transaction	112,066	-	nm
Depreciation and amortization	281,722	242,565	16%
Impairment of intangible assets	-	292,238	nm
Operating income	471,992	261,853	80%
Interest income	66,195	53,549	24%
Interest expense	72,130	60,671	19%
Income before income taxes	466,057	254,731	83%
Income tax expense	123,004	234,548	(48%)
Net income before income (loss) from equity-accounted investments	343,053	20,183	nm
Income (Loss) from equity-accounted investments	1,698	(2,372)	(172%)
Net income	344,751	17,811	Nm
Less (Add) net income (loss) attributable to non-controlling interest	108	(707)	(115%)
Net income attributable to Net1	344,643	18,518	nm

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

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

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

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

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

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

Table 12

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

Table 13

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

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

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

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

Total fiscal 2012 tax expense was $16.0 million (ZAR 123.0 million) compared to $33.5 million (ZAR 234.5 million) in fiscal 2012. Our fiscal 2012 tax expense includes $18.3 million related to a change in South African tax law and the creation of a valuation allowance of $8.2 million related to foreign tax credits. Our fiscal 2011 tax expense includes the effect of the reversal of $10.4 million related to deferred tax liabilities related to impaired Net1 UTA customer relationships and a valuation allowances of $8.9 million related to Net1 UTA deferred tax assets. Our effective tax rate for fiscal 2012, was 26.4% and was lower than the South African statutory rate as a result of a change in South African tax law which resulted in a net deferred taxation benefit and a non-taxable profit on liquidation of SmartSwitch Nigeria, which was partially offset by an equity instrument issued pursuant to our BEE transaction and non-deductible expenses (including interest expense related to our long-term Korean borrowings and stock-based compensation charges) and the creation of a valuation allowance. Our effective tax rate for fiscal 2011, was 92.1% and was higher than the South African statutory rate as a result of the valuation allowance related to Net1 UTA deferred tax assets and non-deductible expenses (including interest expense related to our long-term Korean borrowings and transaction-related expenditure).

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

Results of operations by operating segment

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

Table 14

	In United States Dollars (US GAAP)				
	Year ended June 30,				
Operating Segment	**2012 $ '000**	**% of total**	**2011 $ '000**	**% of total**	**% change**
Consolidated revenue:					
South African transaction-based activities	201,207	52%	189,206	55%	6%
International transaction-based activities	118,281	30%	70,382	20%	68%
Smart card accounts	31,263	8%	33,315	10%	(6%)
Financial services	8,121	2%	7,350	2%	10%
Hardware, software and related technology sales	31,392	8%	43,167	13%	(27%)
Total consolidated revenue	390,264	100%	343,420	100%	14%
Consolidated operating income (loss):					
South African transaction-based activities	49,824	81%	75,668	202%	(34%)
Operating income before amortization	55,995		81,370		(31%)
Amortization of intangibles	(6,171)		(5,702)		8%
International transaction-based activities	1,257	2%	(220)	(1%)	(671%)
Operating income before amortization	14,272		8,382		70%
Amortization of intangibles	(13,015)		(8,602)		51%
Smart card accounts	12,820	21%	15,140	40%	(15%)
Financial services	4,636	8%	4,999	13%	(7%)
Hardware, software and related technology sales	3,619	6%	(48,372)	(129%)	(107%)
Operating income before amortization and impairment of intangibles	3,990		787		407%
Impairment of intangibles	-		(41,771)		nm
Amortization of intangibles	(371)		(7,388)		(95%)
Corporate/eliminations	(11,006)	(18%)	(9,787)	(25%)	12%
Total consolidated operating income	61,150	100%	37,428	100%	63%

Table 15

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

South African transaction-based activities

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

Our operating income margin for the fiscal 2012 and 2011 was 25% and 40%, respectively, and has declined primarily due to SASSA implementation costs and cash bonuses paid and higher low-margin prepaid airtime sales and higher intangible asset amortization attributable to the Eason acquisition. Excluding amortization of intangibles, our operating margin for fiscal 2012 and 2011 was 28% and 43%, respectively.

South African transaction processors:

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

Table 16

Transaction processor	Total volume ('000s) 2012	2011	Total value $ ('000) 2012	2011	Total value ZAR ('000) 2012	2011
CPS	55,973	37,820	6,768,469	4,851,192	52,243,105	33,939,908
EasyPay(1)	443,227	715,945	12,171,663	24,307,247	93,948,192	165,500,752
Remaining core	418,831	493,018	11,383,734	15,662,653	87,866,487	106,642,308
Discontinued	24,396	222,927	787,929	8,644,594	6,081,705	58,858,444
MediKredit	10,677	9,805	620,439	513,503	4,788,923	3,592,572
FIHRST	24,266	21,954	10,069,927	9,792,178	77,725,741	68,508,034

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

Our SASSA contract concluded in February 2012 had a positive impact on revenue but decreased our operating margin. Our pension and welfare operations generated the majority of our revenues and operating income in this operating segment and overall.

We refocused EasyPay's activities on higher-margin value-added services in fiscal 2012 and have terminated certain inefficient activities such as the hosting of processing servers for financial institutions. We reclassified the 2011 transaction volumes and values in the table above to reflect the consolidation of value-added services through EasyPay and to reflect the remaining core processing activities.

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

International transaction-based activities

Operating margin for the segment was negatively impacted by start-up expenditures related to our XeoHealth launch in the United States, MVC activities at Net1 UTA and on-going losses at Net1 Virtual Card, but these expenses were partially offset by revenue contributions from KSNET, and to a lesser extent from XeoHealth and NUETS' initiative in Iraq. Operating income margin for fiscal 2012 and 2011 was 1% and 0%, respectively. Excluding amortization of intangibles, our operating margin for each of fiscal 2012 and 2011, respectively was 12%.

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

Smart card accounts

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

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

Financial services

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

Operating income margin for the financial services segment decreased to 57% from 68%, primarily as a result of start-up expenditures related to Smart Life and other financial services offerings, which was offset by increased UEPS-based lending activities. Fiscal 2012 and 2011 results have not been restated to allocate the UEPS-based lending corporate administration and overhead expenses to this segment from South African transaction-based activities. The operating income margin for fiscal 2012 and 2011 would have been 52% and 65%, respectively, if these expenses had been allocated. The allocation of these expenses from the South African transaction-based activities segment has no meaningful impact on its operating margin for fiscal 2012 and 2011, respectively.

Hardware, software and related technology sales

In ZAR, the decrease in revenue was due to a lower contribution from all drivers of hardware and software sales. However, the increase in operating margin to 13% from 2% (before the intangible asset impairment) is attributable to the sale of more software and license revenues in 2012, which contribute higher margins compared to hardware sales. UETS was impacted by significantly lower hardware sales, primarily terminals and cards, as these sales are generally made on an ad hoc basis. Amortization of intangible assets during fiscal 2012 and 2011, respectively, was approximately $0.4 million (ZAR 2.9 million) and $0.7 million (ZAR 4.6 million) and reduced our operating income.

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

Corporate/ Eliminations

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

Liquidity and Capital Resources

At June 30, 2013, our cash balances were $53.7 million, which comprised mainly ZAR-denominated balances of ZAR 133.6 million ($13.5 million), KRW-denominated balances of KRW 32.5 billion ($28.4 million) and US dollar-denominated balances of $10.4 million and other currency deposits, primarily euro, of $1.3 million. The increase in our cash balances from June 30, 2012 was primarily from cash generated from operations, offset by implementation costs and capital expenditures related to our SASSA contract, scheduled repayments of our Korean debt and the acquisitions of Pbel and SmartSwitch Botswana.

We currently believe that our cash and credit facilities are sufficient to fund our future operations for at least the next four quarters. However, substantially all of our business is conducted through our South African and Korean subsidiaries and most of our cash reserves are in the form of ZAR or KRW held by our South African and Korean subsidiaries. Most of the legal costs relating to the DOJ and SEC investigations are incurred by us in US dollars in the U.S. We have upstreamed cash from our South African operations to fund a portion of these expenses, notwithstanding currency conversion at adverse rates and the incurrence of dividend withholding taxes that we would not have to pay absent such expenses.

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. In addition, we are required to invest the interest payable under our Korean debt facilities due in the next six months in an interest reserve account in Korea.

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

We have a South African short-term credit facility of approximately ZAR 250 million ($25.3 million) which remained fully undrawn as of June 30, 2013.

As of June 30, 2013, we had outstanding long-term debt of KRW 92.5 billion (approximately $80.8 million translated at exchange rates applicable as of June 30, 2013) under credit facilities with a group of Korean banks. The loans bear interest at the Korean CD rate in effect from time to time (2.79% as of June 30, 2013) plus a margin of 4.10%. Semi-annual principal payments of approximately $7.1 million (translated at exchange rates applicable as of June 30, 2013) were due starting in October 2011, with final maturity scheduled for October 2015.

The loans are secured by substantially all of KSNET's assets, a pledge by our subsidiary, Net1 Korea, of its entire equity interest in KSNET and a pledge by the immediate parent of Net1 Korea (also one of our subsidiaries) of its entire equity interest in Net1 Korea. The Facilities Agreement contains customary covenants that require Net1 Korea and its consolidated subsidiaries to maintain certain specified financial ratios (including a leverage ratio and a debt service coverage ratio) and restrict their ability to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make capital expenditures above specified levels, engage in certain business combinations and engage in other corporate activities. As of June 30, 2013, we were in compliance with all of the required covenants under the Facilities Agreement. The loans under the Facilities Agreement are without recourse to, and the covenants and other agreements contained therein do not apply to, us or any of our subsidiaries (other than Net1 Korea and its subsidiaries, including KSNET).

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

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

In addition, as a transaction processor, and in certain instances as a claims adjudicator, we receive cash from:

- health care plans which we disburse to health care service providers once we have adjudicated claims;
- customers on whose behalf we processes off payroll payments that we will disburse to customer employees, payroll-related payees and other payees designated by the customer; and
- credit card companies (as well as other types of payment services) which have business relationships with merchants selling goods and services via the internet in Korea that are our customers and on whose behalf we process the transactions between various parties and settle the funds from the credit card companies to our merchant customers.

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

Cash flows from operating activities

Cash flows from operating activities for fiscal 2013 increased to $55.9 million (ZAR 513.7 million) from $20.4 million (ZAR 157.5 million) for fiscal 2012. Excluding the impact of interest paid under our Korean debt facility and taxes presented in the table below, the increase in cash provided by operating activities resulted from a more favorable trading environment, notwithstanding the significant implementation costs paid in fiscal 2013, an increase in accounts payable and a decrease in prefunding to merchants participating in our merchant acquiring system. These increases to operating cash flows were offset by a moderate increase in accounts receivable and inventory and lower other payables and taxes which all decrease operating cash flow. During fiscal 2013, we paid interest of $7.1 million under our Korean debt facility.

Cash flows from operating activities for fiscal 2012 decreased to $20.4 million (ZAR 157.5 million) from $66.2 million (ZAR 463.4 million) for fiscal 2011. Excluding the impact of interest paid under our Korean debt and taxes, the decrease in cash provided by operating activities resulted from the timing of receipts of accounts receivable in our South African transaction-based activities operating segment and an increase in prefunding to merchants participating in our merchant acquiring system. We also incurred implementation costs related to our SASSA contract and, due to the timing of the opening of the July 2012 pay cycle, we did not have any significant amounts due to non-prefunded merchants participating in our merchant acquiring system as of June 30, 2012. During fiscal 2012, we paid interest of $8.7 million under our Korean debt facility.

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

During fiscal 2012, we made a first provisional payment of $15.0 million (ZAR 123.3 million), a second provisional payment of $8.5 million (ZAR 71.5 million) related to our 2012 tax year in South Africa and paid STC of $1.8 million (ZAR 14.6 million) related to cross-border intercompany dividends paid. We made an additional second provisional tax payment of $3.3 million (ZAR 24.8 million) related to our 2010 tax year in South Africa. We also paid taxes totaling $2.4 million in other tax jurisdictions, primarily Korea.

Taxes paid during fiscal 2013, 2012 and 2011 were as follows:

Table 17

	Year ended June 30,					
	2013 $ '000	**2012 $ '000**	**2011 $ '000**	**2013 ZAR '000**	**2012 ZAR '000**	**2011 ZAR '000**
First provisional payments	6,757	15,014	16,565	58,693	123,271	113,708
Second provisional payments	7,228	8,485	12,331	72,451	71,458	84,019
Third provisional payments	-	-	335	-	-	2,296
Taxation paid related to prior years	3,072	3,326	1,774	25,517	24,803	12,716
Taxation refunds received	(65)	(287)	(213)	(480)	(2,121)	(1,577)
Dividend withholding taxation	1,610	-	-	14,916	-	-
Secondary taxation on companies	-	1,811	15,216	-	14,615	106,500
Total South African taxes paid	18,602	28,349	46,008	171,097	232,026	317,662
Foreign taxes paid, primarily Korea	3,298	2,355	2,622	29,468	18,288	18,098
Total tax paid	21,900	30,704	48,630	200,565	250,314	335,760

Cash flows from investing activities

During fiscal 2013 we paid, net of cash acquired, $1.9 million (ZAR 16.8 million) for Pbel and $0.2 million for SmartSwitch Botswana. During fiscal 2012, we received a net settlement of $4.9 million from the former shareholders of KSNET. We also paid $4.5 million (ZAR 34.8 million) for the Eason prepaid electricity and airtime business during fiscal 2012. During fiscal 2011, we paid approximately $230.2 million (ZAR 1.6 billion), net of cash received, for 98.73% of KSNET.

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

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

Cash used in investing activities for fiscal 2011 includes capital expenditure of $15.1 million (ZAR 105.6 million), primarily for the acquisition of payment processing terminals in Korea, kiosks to service our EasyPay Kiosk pilot project, the acquisition of POS devices to service our merchant acquiring system, the replacement of computer and electronic hardware and the replacement of motor vehicles.

Cash flows from financing activities

During fiscal 2013, we made long-term debt repayments of $14.5 million and received $0.2 million from the exercise of stock options.

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

During fiscal 2011 we obtained long-term debt to fund a portion of the KSNET purchase price. We also repaid KSNET's outstanding debt of $7.1 million. In addition, we paid the facility fee of approximately $3.1 million in October 2010 and acquired 125,392 shares of our common stock for $1.0 million.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Capital Expenditures

Capital expenditures for the years ended June 30, 2013, 2012 and 2011 were as follows:

Table 18	Year ended June 30,					
Operating Segment	2013 $ '000	2012 $ '000	2011 $ '000	2013 ZAR '000	2012 ZAR '000	2011 ZAR '000
South African transaction-based activities	9,438	23,408	2,423	82,210	180,678	16,952
International transaction-based activities	12,490	14,978	12,113	108,794	115,610	84,745
Smart card accounts	-	-	-	-	-	-
Financial services	718	620	400	6,254	4,786	2,798
Hardware, software and related technology sales.	101	161	117	880	1,243	819
Corporate / Eliminations	-	-	-	-	-	-
Consolidated total	22,747	39,167	15,053	198,138	302,317	105,314

Our capital expenditures for fiscal 2013, 2012 and 2011, are discussed under "—Liquidity and Capital Resources—Cash flows from investing activities."

All of our capital expenditures for the past three fiscal years were funded through internally-generated funds. We had outstanding capital commitments as of June 30, 2013, of $0.3 million related mainly to computer equipment required to maintain and expand operations. We expect to fund these expenditures through internally-generated funds. In addition to these capital expenditures, we expect that capital spending for fiscal 2014 will also relate to providing a switching service through EasyPay and expanding our operations in Korea.

Contractual Obligations

The following table sets forth our contractual obligations as of June 30, 2013:

Table 19	Payments due by Period, as of June 30, 2013 (in $ '000s)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations (A)	90,536	19,933	70,603	-	-
Operating lease obligations	10,129	4,192	4,840	1,097	-
Purchase obligations	3,875	3,875	-	-	-
Capital commitments	341	341	-	-	-
Other long-term obligations (B)	21,659	-	-	-	21,659
Total	126,540	28,341	75,443	1,097	21,659

(A) – Includes $80.8 million of long-term debt discussed under "—Liquidity and capital resources" and includes interest payable at the rate applicable as of June 30, 2013.

(B) – Includes policy holder liabilities $20.7 million related to our insurance business.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Currency Exchange Risk

We are subject to currency exchange risk because we purchase inventories that we are required to settle in other currencies, primarily the euro and US dollar. We have used forward contracts to limit our exposure in these transactions to fluctuations in exchange rates between the ZAR, on the one hand, and the US dollar and the euro, on the other hand. As of June 30, 2013, and 2012, our outstanding foreign exchange contracts were as follows:

As of June 30, 2013

Notional amount		Strike price		Fair market value price		Maturity
USD	4,000,000	ZAR	9.06	ZAR	10.1397	September 30, 2013

As of June 30, 2012

None.

Translation Risk

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

Interest Rate Risk

As a result of our normal borrowing and leasing activities, our operating results are exposed to fluctuations in interest rates, which we manage primarily through our regular financing activities. In addition, outstanding indebtedness under our Korean debt facility bears interest at the Korean CD rate plus 4.10%. As interest rates, and specifically the Korean CD rate, are outside our control, there can be no assurance that future increases in interest rates, specifically the Korean CD rate, will not adversely affect our results of operations and financial condition. As of June 30, 2013, the Korean CD rate was 2.79%.

The following table illustrates the effect on our annual expected interest charge, translated at exchange rates applicable as of June 30, 2013, as a result of a change in the Korean CD rate. The effects of a hypothetical 1% increase and a 1% decrease in the Korean CD rate as of June 30, 2013, is shown. The selected 1% hypothetical change does not reflect what could be considered the best or worst case scenarios.

Table 20	As of June 30, 2013		
	Annual expected interest charge ($ '000)	Hypothetical change in Korean CD rate	Estimated annual expected interest charge after change in Korean CD rate ($ '000)
Interest on debt facility	6,059	1%	6,939
		(1%)	5,180

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

Credit Risk

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

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

Equity Price and Liquidity Risk

Equity price risk relates to the risk of loss that we would incur as a result of the volatility in the exchange-traded price of equity securities that we hold and the risk that we may not be able to liquidate these securities. We have invested in approximately 26% of the issued share capital of Finbond Group Limited which are exchange-traded equity securities. The fair value of these securities as of June 30, 2013, represented approximately 1% of our total assets, including these securities. We expect to hold these securities for an extended period of time and we are not concerned with short-term equity price volatility with respect to these securities provided that the underlying business, economic and management characteristics of the company remain sound.

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

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

The following table summarizes our exchange-traded equity securities with equity price risk as of June 30, 2013. The effects of a hypothetical 10% increase and a 10% decrease in market prices as of June 30, 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.

Table 21

	As of June 30, 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.	8,303	10%	9,133	0.24%
		(10%)	7,473	(0.24%)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements, together with the report of our independent registered public accounting firm, appear on pages F-1 through F-51 of this Annual Report on Form 10-K.

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on this evaluation, the chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2013.

Internal Control over Financial Reporting

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

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

Inherent Limitations in Internal Control over Financial Reporting

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

Management's Report on Internal Control Over Financial Reporting

Management, including our chief executive officer and our chief financial officer, is responsible for establishing and maintaining adequate internal control over our financial reporting. Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of June 30, 2013. Deloitte & Touche (South Africa), our independent registered public accounting firm, has issued an audit report on our internal control over financial reporting.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal quarter ended June 30, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Shareholders of Net 1 UEPS Technologies, Inc.

We have audited the internal control over financial reporting of Net 1 UEPS Technologies, Inc. and subsidiaries (the "Company") as of June 30, 2013, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2013, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended June 30, 2013 of the Company and our report dated August 22, 2013, expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche (South Africa)
Per PJ Smit
Partner
August 22, 2013

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

A full list of partners and directors is available on request

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information about our executive officers is set out in Part I, Item 1 under the caption "Executive Officers and Significant Employees of the Registrant." The other information required by this Item is incorporated by reference to the sections of our definitive proxy statement for our 2013 annual meeting of shareholders entitled "Board of Directors and Corporate Governance" and "Additional Information."

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the sections of our definitive proxy statement for our 2013 annual meeting of shareholders entitled "Executive Compensation," "Board of Directors and Corporate Governance—Compensation of Directors" and "—Remuneration Committee Interlocks and Insider Participation."

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

The information required by this Item is incorporated by reference to the sections of our definitive proxy statement for our 2013 annual meeting of shareholders entitled "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information."

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

The information required by this Item is incorporated by reference to the sections of our definitive proxy statement for our 2013 annual meeting of shareholders entitled "Certain Relationships and Related Transactions" and "Board of Directors and Corporate Governance."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the sections of our definitive proxy statement for our 2013 annual meeting of shareholders entitled "Audit and Non-Audit Fees."

PART IV

ITEM 15. EXHIBITS and FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements

The following financial statements are included on pages F-1 through F-00.

2. Financial Statement Schedules

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

(b) Exhibits

Exhibit No.	Description of Exhibit	Included Herewith	Incorporated by Reference Herein		
			Form	Exhibit	Filing Date
3.1	Amended and Restated Articles of Incorporation		8-K	3.1	December 1, 2008
3.2	Amended and Restated By-Laws of Net 1 UEPS Technologies, Inc.		8-K	3.2	November 5, 2009
4.1	Form of common stock certificate		S-1	4.1	June 20, 2005
10.1	Distribution Agreement, dated July 1, 2002, between Net 1 UEPS Technologies, Inc. and Net 1 Investment Holdings (Pty) Limited		S-4	10.1	February 3, 2004
10.2	Patent and Technology Agreement, dated June 19, 2000, by and between Net 1 Holdings S.a.r.1. and Net 1 UEPS Technologies, Inc.		S-4	10.2	February 3, 2004
10.3	Technology License Agreement between Net 1 Investment Holdings (Proprietary) Limited and Visa International Service Association		S-1	10.12	May 26, 2005
10.4	Product License Agreement between Net 1 Holdings S.a.r.1. and Net 1 Operations S.a.r.1.		S-4/A	10.8	April 21, 2004
10.5	Non Exclusive UEPS License Agreement between Net 1 Investment Holdings (Proprietary) Limited and SIA Netcards		S-4/A	10.10	April 21, 2004
10.6	Assignment of Copyright and License of Patents and Trade Marks between MetroLink (Proprietary) Limited and Net 1 Products (Proprietary) Limited		S-1	10.18	May 26, 2005
10.7	Agreement between Nedcor Bank Limited and Net 1 Products (Proprietary) Limited		S-1/A	10.16	July 19, 2005
10.8	Patent and Technology Agreement by and among Net 1 Investment Holdings (Proprietary) Limited, Net 1 Applied Technology Holding Limited and Nedcor Bank Limited		S-1	10.19	May 26, 2005

10.9	Patent and Technology Agreement by and among Net 1 Holdings S.a.r.1., Net 1 Applied Technology Holdings Limited and Nedcor Bank Limited		S-1/A	10.19	July 19, 2005
10.10	Agreement by and among Nedbank Limited, Net 1 UEPS Technologies, Inc., and Net 1 Applied Technologies South Africa Limited		S-1/A	10.20	July 19, 2005
10.11	Banking Facility between Nedbank Limited and Net 1 Applied Technologies South Africa Limited dated as of April 30, 2010		10-K	10.13	August 26, 2010
10.12*	Amended and Restated Stock Incentive Plan of Net 1 UEPS Technologies, Inc.		14A	A	October 28, 2009
10.13*	Form of Restricted Stock Agreement		10-K	10.13	August 23, 2012
10.14*	Form of Stock Option Agreement		10-K	10.14	August 23, 2012
10.15*	Form of Restricted Stock Agreement (non-employee directors)		10-K	10.15	August 23, 2012
10.16	Senior Facilities Agreement dated October 29, 2010, between Net 1 Applied Technologies Korea, as borrower, Hana Daetoo Securities Co., Ltd., as mandated lead arranger, Shinhan Bank and Woori Bank, as co-arrangers, the financial institutions listed therein as original lenders and Hana Bank, as agent and security agent		8-K	10.51	November 3, 2010
10.17*	Employment agreement dated September 17, 2010 between KSNET, Inc. and Phil-Hyun Oh		10-K	10.19	August 25, 2011
10.18	Registration Rights Agreement dated November 10, 2011 between the Company and shareholders affiliated with General Atlantic LLC		8-K	99.1	November 10, 2011
10.19	Relationship Agreement dated January 25, 2012 by and among the Company, Business Venture Investments No 1567 (Proprietary) Limited (RF), Mosomo Investment Holdings (Proprietary) Limited and Brian Khomotso Mosehla		8-K	99.1	January 26, 2012
10.20	Form of Option issued by the Company to Business Venture Investments No 1567 (Proprietary) Limited (RF)		8-K	99.2	January 26, 2012
10.21	Contract for the Payment of Social Grants dated February 3, 2012 between CPS and SASSA		8-K	99.1	February 6, 2012
10.22	Service Level Agreement dated February 3, 2012 between CPS and SASSA		8-K	99.2	February 6, 2012
10.23	Agreement of Lease, Memorandum of an agreement entered into by and between Buzz Trading 199 (Pty) Ltd and Net 1 Applied Technologies South Africa (Pty) Ltd dated May 7, 2013		10-Q	10.25	May 9, 2013
12	Statement of Ratio of Earnings to Fixed Charges	X			
14	Amended and Restated Code of Ethics		8-K	14	August 27, 2009
21	Subsidiaries of Registrant	X			
23	Consent of Independent Registered Public Accounting Firm	X			
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended	X			

31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended	X
32	Certification pursuant to 18 USC Section 1350	X
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

† Confidential treatment has been granted for certain portions of this Exhibit pursuant to Rule 24b-2 of the Exchange Act, and thus, such portions have been omitted.
* Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

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

NET 1 UEPS TECHNOLOGIES, INC.

By: /s/ Serge C.P. Belamant

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

Date: August 22, 2013

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

NAME	TITLE	DATE
/s/ Serge C.P. Belamant Serge C.P. Belamant	Chief Executive Officer and Chairman of the Board and Director (Principal Executive Officer)	August 22, 2013
/s/ Herman Gideon Kotzé Herman Gideon Kotzé	Chief Financial Officer, Treasurer and Secretary and Director (Principal Financial and Accounting Officer)	August 22, 2013
/s/ Paul Edwards Paul Edwards	Director	August 22, 2013
/s/ Khomotso Brian Mosehla Khomotso Brian Mosehla	Director	August 22, 2013
/s/ Alasdair Jonathan Kemsley Pein Alasdair Jonathan Kemsley Pein	Director	August 22, 2013
/s/ Christopher Stefan Seabrooke Christopher Stefan Seabrooke	Director	August 22, 2013

NET 1 UEPS TECHNOLOGIES, INC.

LIST OF CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Shareholders of Net 1 UEPS Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Net 1 UEPS Technologies, Inc. and subsidiaries (the "Company") as of June 30, 2013 and 2012 and the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of the three years in the period ended June 30, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Net 1 UEPS Technologies, Inc. and subsidiaries as of June 30, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2013, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 22, 2013, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche (South Africa)
Per PJ Smit
Partner
August 22, 2013

NET 1 UEPS TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS
as of June 30, 2013 and 2012

	2013	2012
	(In thousands, except share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 53,665	$ 39,123
Pre-funded social welfare grants receivable (Note 4)	2,934	9,684
Accounts receivable, net (Note 5)	102,614	101,918
Finance loans receivable, net	8,350	8,141
Inventory (Note 6)	12,222	10,779
Deferred income taxes (Note 19)	4,938	5,591
Total current assets before settlement assets	184,723	175,236
Settlement assets	752,476	409,166
Total current assets	937,199	584,402
PROPERTY, PLANT AND EQUIPMENT, net (Note 8)	48,301	52,616
EQUITY-ACCOUNTED INVESTMENTS	1,183	1,508
GOODWILL (Note 9)	175,806	182,737
INTANGIBLE ASSETS, net (Note 9)	77,257	93,930
OTHER LONG-TERM ASSETS, including available for sale securities (Note 7)	36,576	40,700
TOTAL ASSETS	1,276,322	955,893
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	26,567	13,172
Other payables (Note 1 and Note 11)	33,808	40,167
Current portion of long-term borrowings (Note 13)	14,209	14,019
Income taxes payable	2,275	6,019
Total current liabilities before settlement obligations	76,859	73,377
Settlement obligations	752,476	409,166
Total current liabilities	829,335	482,543
DEFERRED INCOME TAXES (Note 19)	18,727	20,988
LONG-TERM BORROWINGS (Note 13)	66,632	79,760
OTHER LONG-TERM LIABILITIES	21,659	25,791
TOTAL LIABILITIES	936,353	609,082
COMMITMENTS AND CONTINGENCIES (Note 23)		
EQUITY		
COMMON STOCK (Note 14)		
Authorized: 200,000,000 with $0.001 par value; Issued and outstanding shares, net of treasury - 2013: 45,592,550; 2012: 45,548,902	59	59
PREFERRED STOCK		
Authorized shares: 50,000,000 with $0.001 par value; Issued and outstanding shares, net of treasury: 2013: -; 2012: -	-	-
ADDITIONAL PAID-IN-CAPITAL (Note 1)	160,670	155,350
TREASURY SHARES, AT COST: 2013: 13,455,090; 2012: 13,455,090 (Note 14)	(175,823)	(175,823)
ACCUMULATED OTHER COMPREHENSIVE LOSS	(100,858)	(75,722)
RETAINED EARNINGS	452,618	439,641
TOTAL NET1 EQUITY	336,666	343,505
NON-CONTROLLING INTEREST	3,303	3,306
TOTAL EQUITY	339,969	346,811
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,276,322	$ 955,893

See accompanying notes to consolidated financial statements.

NET 1 UEPS TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended June 30, 2013, 2012 and 2011

	2013	2012	2011
	(In thousands, except per share data)		
REVENUE (Note 15)	$ 452,147	$ 390,264	$ 343,420
Sale of goods	15,266	19,152	30,130
Loan-based interest and fees received	6,613	8,433	7,276
Services rendered	430,268	362,679	306,014
EXPENSE			
Cost of goods sold, IT processing, servicing and support	196,834	141,000	109,858
Selling, general and administration	191,552	137,404	119,692
Equity instrument issued pursuant to BEE transaction (Note 16)	-	14,211	-
Depreciation and amortization	40,599	36,499	34,671
IMPAIRMENT LOSSES (Note 9)	-	-	41,771
OPERATING INCOME	23,162	61,150	37,428
INTEREST INCOME	12,083	8,576	7,654
INTEREST EXPENSE	7,966	9,345	8,672
INCOME BEFORE INCOME TAXES	27,279	60,381	36,410
INCOME TAX EXPENSE (Note 19)	14,656	15,936	33,525
NET INCOME BEFORE EARNINGS (LOSS) FROM EQUITY-ACCOUNTED INVESTMENTS	12,623	44,445	2,885
EARNINGS (LOSS) FROM EQUITY-ACCOUNTED INVESTMENTS	351	220	(339)
NET INCOME	12,974	44,665	2,546
(ADD) LESS: NET (LOSS) INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST	(3)	14	(101)
NET INCOME ATTRIBUTABLE TO NET1	$ 12,977	$ 44,651	$ 2,647
Net income per share, in United States dollars: (Note 20)			
Basic earnings attributable to Net1 shareholders	0.28	0.99	0.06
Diluted earnings attributable to Net1 shareholders	0.28	0.99	0.06

See accompanying notes to consolidated financial statements.

NET 1 UEPS TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the years ended June 30, 2013, 2012 and 2011

	2013	2012	2011
		(In thousands)	
NET INCOME	$ 12,974	$ 44,665	$ 2,546
OTHER COMPREHENSIVE INCOME (LOSS):			
Net unrealized income (loss) on asset available for sale, net of tax	915	1,547	(691)
Movement in foreign currency translation reserve	(26,051)	(43,617)	34,002
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(25,136)	(42,070)	33,311
COMPREHENSIVE (LOSS) INCOME	(12,162)	2,595	35,857
Less (Add) comprehensive income (loss) attributable to non-controlling interest	3	113	(303)
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO NET1	$ (12,159)	$ 2,708	$ 35,554

See accompanying notes to consolidated financial statements.

NET 1 UEPS TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (in thousands)

		Net 1 UEPS Technologies, Inc. Shareholder									
	Number of Shares	Amount	Number of Treasury Shares	Treasury Shares	Number of shares, net of treasury	Additional Paid-In Capital	Retained Earnings	Accumulated other comprehensive (loss) income	Total Net1 Equity	Non-controlling Interest	Total
Balance – July 1, 2010 (Note 1)	58,527,439	$59	(13,149,042)	$(173,671)	45,378,397	$135,533	$392,343	$(66,396)	$287,868	$1,423	$289,291
Restricted stock granted (Note 17)	156,956				156,956				-		-
Settlement of loan note consideration for stock issued in accordance with 2004 Stock Incentive Plan						20			20		20
Stock-based compensation charge (Note 17)						5,212			5,212		5,212
Reversal of stock-based compensation charge (Note 17)	(257,156)				(257,156)	(3,492)			(3,492)		(3,492)
Treasury shares acquired (Note 14)			(125,392)	(1,023)	(125,392)				(1,023)		(1,023)
Utilization of income tax benefits from stock awards sold by employees						(68)			(68)		(68)
Acquisition of KSNET (Note 3)									-	3,097	3,097
Acquisition of 19.90% non-controlling interest (Note 3)						1,215		(290)	925	(1,809)	(884)
Net income (loss)							2,647		2,647	(101)	2,546
Other comprehensive income								32,907	32,907	404	33,311
Balance – June 30, 2011	58,427,239	$59	(13,274,434)	$(174,694)	45,152,805	$138,420	$394,990	$(33,779)	$324,996	$3,014	$328,010

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

		Net 1 UEPS Technologies, Inc. Shareholder									
	Number of Shares	Amount	Number of Treasury Shares	Treasury Shares	Number of shares, net of treasury	Additional Paid-In Capital	Retained Earnings	Accumulated other comprehensive (loss) income	Total Net1 Equity	Non-controlling Interest	Total
Balance – July 1, 2011 (Note 1)	58,427,239	$59	(13,274,434)	$(174,694)	45,152,805	$138,420	$394,990	$(33,779)	$324,996	$3,014	$328,010
Restricted stock granted (Note 17)	582,729				582,729				-		-
Stock-based compensation charge (Note 17)						2,909			2,909		2,909
Reversal of stock-based compensation charge (Note 17)	(5,976)				(5,976)	(134)			(134)		(134)
Equity instrument charge (Note 16)						14,211			14,211		14,211
Treasury shares acquired (Note 14)			(180,656)	(1,129)	(180,656)				(1,129)		(1,129)
Utilization of APIC pool related to vested restricted stock						(56)			(56)		(56)
Liquidation of SmartSwitch Nigeria (Note 18)										280	280
Sale of 10% of Smart Life (Note 3)										188	188
KSNET purchase accounting adjustment (Note 3)										(63)	(63)
Net income							44,651		44,651	14	44,665
Other comprehensive loss								(41,943)	(41,943)	(127)	(42,070)
Balance – June 30, 2012	59,003,992	$59	(13,455,090)	$(175,823)	45,548,902	$155,350	$439,641	$(75,722)	$343,505	$3,306	$346,811

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

		Net 1 UEPS Technologies, Inc. Shareholder									
	Number of Shares	**Amount**	**Number of Treasury Shares**	**Treasury Shares**	**Number of shares, net of treasury**	**Additional Paid-In Capital**	**Retained Earnings**	**Accumulated other comprehensive (loss) income**	**Total Net1 Equity**	**Non-controlling Interest**	**Total**
Balance – July 1, 2012 (Note 1)	59,003,992	$59	(13,455,090)	$(175,823)	45,548,902	$155,350	$439,641	$(75,722)	$343,505	$3,306	$346,811
Restricted stock granted (Note 17)	21,569				21,569				-		-
Exercise of stock option (Note 17)	30,000	-			30,000	240			240		240
Stock-based compensation charge (Note 17)						4,387			4,387		4,387
Reversal of stock-based compensation charge (Note 17)	(55,333)				(55,333)	(480)			(480)		(480)
Utilization of APIC pool related to vested restricted stock						(11)			(11)		(11)
Pbel acquisition (Note 3)	47,412				47,412	1,184			1,184		1,184
Net income							12,977		12,977	(3)	12,974
Other comprehensive income								(25,136)	(25,136)		(25,136)
Balance – June 30, 2013	59,047,640	$59	(13,455,090)	$(175,823)	45,592,550	$160,670	$452,618	$(100,858)	$336,666	$3,303	$339,969

See accompanying notes to consolidated financial statements.

NET 1 UEPS TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2013, 2012 and 2011

	2013	2012	2011
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
NET INCOME	$ 12,974	$ 44,665	$ 2,546
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation and amortization	40,599	36,499	34,671
Impairment of intangible asset	-	-	41,771
(Earnings) Loss from equity-accounted investments	(351)	(220)	339
Fair value adjustment	631	(3,375)	728
Interest payable	4,313	8,823	2,487
Facility fee amortized	302	389	1,958
Loss (Profit) on disposal of property, plant and equipment	110	(64)	(5)
Net loss (profit) on sale of 10% of Smart Life (2012) and VinaPay (2011)	-	81	(14)
Profit on liquidation of subsidiary (Note 18)	-	(3,994)	-
Realized loss on sale of Smart Life investments	-	25	-
Stock compensation charge, net of forfeitures	3,907	2,775	1,720
Fair value of BEE equity instrument granted (Note 16)	-	14,211	-
Increase in accounts and finance loans receivable, and pre-funded grants receivable	(5,726)	(31,974)	(3,568)
(Increase) Decrease in inventory (Note 6)	(2,890)	(5,271)	289
Increase (Decrease) in accounts payable and other payables	8,113	(18,496)	(1,041)
Decrease in taxes payable	(2,748)	(7,483)	(1,800)
Decrease in deferred taxes	(3,317)	(16,185)	(13,858)
NET CASH PROVIDED BY OPERATING ACTIVITIES	55,917	20,406	66,223
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(22,747)	(39,167)	(15,053)
Proceeds from disposal of property, plant and equipment	510	764	76
Acquisitions, net of cash acquired (Note 3)	(2,143)	(6,154)	(230,225)
Repayment of loan by equity-accounted investment	3	122	475
Settlement from former shareholders of KSNET (Note 3)	-	4,945	-
Acquisition of available-for-sale securities (Note 7)	-	(948)	-
Purchase of investments related to Smart Life	-	(2,320)	-
Proceeds from maturity of investments related to Smart Life	-	2,321	-
Proceeds from disposal of VinaPay	-	-	150
Acquisition of and advance of loans to equity-accounted investments	-	-	(375)
Other investing activities, net	545	(1)	35
Net change in settlement assets	(423,984)	(252,101)	(78,768)
NET CASH USED IN INVESTING ACTIVITIES	(447,816)	(292,539)	(323,685)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term borrowings (repaid) obtained (Note 13)	(14,508)	(19,172)	116,353
Proceeds from issue of common stock (Note 17)	240	-	-
Acquisition of treasury stock (Note 14)	-	(1,129)	(1,023)
Proceeds on sale of 10% of Smart Life (Note 3)	-	107	-
Loan portion related to options	-	-	20
Payment of facility fee (Note 13)	-	-	(3,088)
Repayment of short-term borrowings	-	-	(6,705)
Repayment of bank overdraft	-	-	(462)
Acquisition of remaining 19.9% of Net1 UTA	-	-	(594)
Net change in settlement obligations	423,984	252,101	78,768
NET CASH PROVIDED BY FINANCING ACTIVITIES	409,716	231,907	183,269
Effect of exchange rate changes on cash	(3,275)	(15,914)	15,714
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,542	(56,140)	(58,479)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	39,123	95,263	153,742
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 53,665	$ 39,123	$ 95,263

See accompanying notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

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

Basis of presentation

The accompanying consolidated financial statements include subsidiaries over which Net1 exercises control and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). During the year ended June 30, 2013, the Company identified an immaterial balance sheet misclassification related to prior periods that involved an overstatement of other payables and an understatement of additional paid-in capital of $2.0 million, respectively. The Company has corrected these amounts in the current period effective July 1, 2010. This reclassification has no impact on the Company's previously reported consolidated income, comprehensive income or cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

The Company, if it is the primary beneficiary, consolidates entities which are considered to be variable interest entities ("VIE"). The primary beneficiary is considered to be the entity that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. No entities were required to be consolidated in terms of these requirements during the years ended June 30, 2013, 2012 and 2011.

Use of estimates

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Translation of foreign currencies

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

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

Loan provisions and allowance for doubtful accounts receivable

UEPS-based lending

Beginning in fiscal 2012, the Company no longer insures its UEPS-based lending book and provides for the principal and services fees upon default. The Company considers a UEPS-based loan and related service fee to be in default when the borrower dies or cannot be found. For the year ended June 30, 2011, no provision was required for UEPS-based lending. The principal amount of the loan was insured and the amount due to be recovered from the insurer is recorded as a receivable once the amount is deemed unrecoverable. Once the loan was deemed unrecoverable, service fees related to the unrecoverable insured loan were not recognized.

Allowance for doubtful accounts receivable

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

Inventory

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

Equity-accounted investments

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

Leasehold improvement costs

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

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

Goodwill

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

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

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

Intangible assets

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Policy reserves and liabilities

Reserves for future policy benefits and claims payable:

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

Deposits on investment contracts

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

Reinsurance contracts held

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

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

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

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

Sales taxes

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

Revenue recognition

The Company recognizes revenue when:

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

Fees

Pension and welfare and South African participating merchants

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

Recipient cardholders are able to load their welfare grants at merchants enrolled in the Company's participating merchant system in certain provinces. There is no charge to the recipient cardholder to load the grant onto a smart card at the merchant location, however, a fee is charged to the merchant for purchases made at the merchant using the smart card. A fee is also charged to the merchant when the recipient cardholder makes a cash withdrawal. Fee income received for these services is recognized in the statement of operations when the transaction occurs.

Card VAN, banking VAN and payment gateway

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Fees (continued)

Card VAN, banking VAN and payment gateway (continued)

VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company's best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis. Because the Company has neither VSOE nor TPE for the two deliverables, the allocation of revenue has been based on the Company's ESPs. Amounts allocated to the authorization and the collection service are recognized at the time of service, provided the other conditions for revenue recognition have been met.

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

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

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

Microlending service fee

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

Other fees and commissions

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

Contract variations fees

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Hardware and prepaid airtime voucher sales

Revenue from hardware and airtime voucher sales is recognized when risk of loss has transferred to the customer and there are no unfulfilled Company obligations that affect the customer's final acceptance of the arrangement. Any cost of warranties and remaining obligations that are inconsequential or perfunctory are accrued when the corresponding revenue is recognized.

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

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

Software

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

Systems implementation projects

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

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

Terminal rental income

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

Other income

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

Research and development expenditure

Research and development expenditures is charged to net income in the period in which it is incurred. During the years ended June 30, 2013, 2012 and 2011, the Company incurred research and development expenditures of $1.3 million, $3.9 million and $5.7 million, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Computer software development

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

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

Income taxes

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

The Company measured its South African income taxes and deferred income taxes for the years ended June 30, 2013 and 2012, using the enacted statutory tax rate in South Africa of 28%. On December 20, 2011, there was a change in South African tax law to impose a dividends withholding tax (a tax levied and withheld by a company on distributions to its shareholders) to replace the Secondary Taxation on Companies (a tax levied directly on a company on dividend distributions) ("STC"). The change was effective on April 1, 2012. For years prior to 2012 the tax rate in South Africa varied depending on whether income was distributed. During the year ended June 30, 2011, the income tax rate was 28%, but upon distribution, STC of 10% was due based on the amount of dividends declared net of dividends received during a dividend cycle. The Company therefore measured its income taxes and deferred income taxes for the year ended June 30, 2011 using a combined rate of 34.55%.

Currently the Company intends to permanently reinvest its undistributed South African earnings as of June 30, 2013 in South Africa. Accordingly, the Company has not recognized a deferred tax liability related to any future distributions of these undistributed earnings. The Company will be required to record a taxation charge if it decides not to permanently reinvest its undistributed earnings. This may result in an increase in the Company's effective tax rate in future periods.

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

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

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

Stock-based compensation

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-based compensation (continued)

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

Equity instruments issued to third parties

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

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

Settlement assets and settlement obligations

Settlement assets comprise (1) cash received from the South African government that the Company holds pending disbursement to recipient cardholders of social welfare grants, (2) cash received from 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 recipient cardholders 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.

Recent accounting pronouncements adopted

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

In September 2012, the Financial Accounting Standards Board ("FASB") issued guidance regarding *Testing Goodwill for Impairment*. The guidance allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this guidance, an entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The guidance includes a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The Company adopted this guidance beginning July 1, 2012. The adoption of this guidance did not have a significant impact on the Company's condensed consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent accounting pronouncements not yet adopted as of June 30, 2013

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. Early adoption is permitted. Other than requiring additional disclosures, the Company does not anticipate a material impact on its financial statements upon adoption.

In March 2013, the FASB issued guidance regarding *Parent's Accounting for the Cumulative Translation Adjustment Upon Derecognition of Certain Subsidiaries or Group 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.

3. ACQUISITIONS

The cash paid, net of cash received related to the Company's various acquisitions during the years ended June 30, 2013, 2012 and 2011 are summarized in the table below:

	2013	2012	2011
Pbel (Proprietary) Limited ("Pbel")	$1,913	$-	$-
SmartSwitch Botswana (Proprietary) Limited ("SmartSwitch Botswana")	230	-	-
The Smart Life Insurance Company Limited ("Smart Life")	-	1,673	-
Prepaid business	-	4,481	-
KSNET	-	-	230,225
Total cash paid, net of cash received	$2,143	$6,154	$230,225

2013 acquisitions

SmartSwitch Botswana (Proprietary) Limited

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

The Company believes that the acquisition of the remaining 50% of SmartSwitch Botswana will allow it to directly pursue its growth strategy in Botswana, which includes the introduction of additional services in that country. SmartSwitch Botswana has been allocated to the Company's International transaction-based activities operating segment.

Pbel (Proprietary) Limited

On September 14, 2012, the Company acquired all of the outstanding and issued ordinary shares in Pbel, a South African private company, for ZAR 33 million (approximately $3.8 million). ZAR 23 million of the purchase price was paid in cash and the remaining ZAR 10 million was paid by issuing 142,236 shares of the Company's common stock, which are earned by the sellers to the extent that Pbel achieves certain pre-defined financial performance milestones over a three-year measurement period. The 142,236 shares are divided into three equal tranches of 47,412 shares and the sellers earn the shares for each tranche only if the milestones for that particular tranche are achieved. However, the sellers will be entitled to earn all 142,236 shares if the cumulative pre-defined Pbel projected profit over the measurement period is achieved or if the Company decides to abandon its Mobile Virtual Card initiative. During the year ended June 30, 2013, Pbel achieved its pre-defined financial performance milestones for the first year and the sellers earned 47,412 shares of the Company's common stock.

3. ACQUISITIONS (continued)

2013 acquisitions (continued)

Pbel (Proprietary) Limited (continued)

The Company had historically engaged the services of Pbel to perform software development services, primarily software utilized on mobile phones and by cash-accepting kiosks. All software developed was the Company's property. Prior to the acquisition, Pbel was jointly owned by the Company's chief executive officer, Dr. Serge Belamant and his son, Mr. Philip Marc Belamant. Dr. Belamant is a non-employee director of Pbel and Mr. Philip Marc Belamant is its chief executive officer. Prior to the acquisition, Mr. Philip Marc Belamant was not employed by the Company. See also Note 24.

The Company believes that the acquisition of Pbel is important in the execution of its strategy to commercialize and develop its world-wide virtual card patents and to supply secure, leading-edge technological solutions to the global payments market with particular focus on mobile-based payment solutions. Mr. Philip Marc Belamant, in his new position as Managing Director of Net1 Mobile Solutions, will oversee the Company's Mobile Virtual Card, Kiosk, Web and WAP application research and development activities as well as related global business development initiatives. Pbel has been allocated to the Company's South African transaction-based activities operating segment.

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

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

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

2012 acquisitions

Acquisition of prepaid airtime and electricity business

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

3. ACQUISITIONS (continued)

2012 acquisitions (continued)

Acquisition of prepaid airtime and electricity business (continued)

The business has been integrated with EasyPay and allocated to the Company's South African transaction-based activities operating segment. The Company believes that the acquisition will enable it to expand its prepaid customer base and over time integrate all of its prepaid offerings onto the EBOS system.

Smart Life

On July 1, 2011, the Company acquired Smart Life (formerly known as Saambou Life Assurers Limited), a South African long-term insurance company, for ZAR 13 million (approximately $1.8 million) in cash. Prior to its acquisition by the Company, Smart Life had been administered as a ring-fenced life-insurance license by a large South African insurance company, had not written any new insurance business for a number of years and had reinsured all of its risk exposure under its life insurance products. Smart Life has been allocated to the Company's financial services operating segment. In November 2011, the Company sold 10% of Smart Life to a strategic partner for $0.1 million and recognized a loss on sale of $0.08 million.

The acquisition of Smart Life provides the Company with an opportunity to offer relevant insurance products directly to its existing customer and employee base in South Africa. The Company intends to offer this customer base a full spectrum of products applicable to this market segment, including credit life, group life, funeral and education insurance policies.

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

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

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

2011 acquisitions

98.73% of KSNET Inc. ("KSNET") in October 2010 and final settlement in December 2011

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

3. ACQUISITIONS (continued)

2011 acquisitions (continued)

98.73% of KSNET Inc. ("KSNET") in October 2010 and final settlement in December 2011 (continued)

Most of KSNET's revenue is derived from the provision of payment processing services to approximately 220,000 merchants and to card issuers in Korea through its VAN. KSNET has a diverse product offering and the Company believes it is the only total payments solutions provider offering card VAN, PG and banking VAN services in Korea, which differentiates KSNET from other Korean payment solution providers and allows it to cross-sell its products across its customer base.

The following table sets forth the allocation of the purchase price:

	June 30, 2012	Fiscal 2012 settlement	June 30, 2011
Cash and cash equivalents	$10,507	$-	$10,507
Accounts receivable, net	28,748	-	28,748
Inventory	2,788	-	2,788
Current deferred tax assets	837	(74)	911
Settlement assets	13,164	-	13,164
Long-term receivable	288	-	288
Property, plant and equipment	24,052	-	24,052
Goodwill (Note 9)	115,900	(4,239)	120,139
Intangible assets (Note 9)	102,829	-	102,829
Other long-term assets	6,324	-	6,324
Trade payables	(9,643)	-	(9,643)
Other payables	(14,789)	(696)	(14,093)
Income taxes payable	(3,363)	-	(3,363)
Settlement obligations	(13,164)	-	(13,164)
Long-term deferred income tax liabilities (Note 19)	(24,459)	-	(24,459)
Other long-term liabilities	(1,199)	-	(1,199)
Total net assets attributable to shareholders, including goodwill	238,820	(5,009)	243,829
Less attributable to non-controlling interest	(3,033)	64	(3,097)
Total purchase price	$235,787	$(4,945)	$240,732

The Company incurred transaction-related expenditures of $5.6 million during the year ended June 30, 2011.

19.9% of Net1 Universal Electronic Technologies (Austria) AG, formerly BGS Smartcard Systems AG ("Net1 UTA")

On December 23, 2010, the Company acquired the remaining 19.9% of the issued share capital of Net 1 Universal Technologies (Austria) AG ("Net1 UTA") for $0.6 million in cash. The Company now owns 100% of Net1 UTA. 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 Net1 UTA. The difference between the fair value of the consideration paid and the amount by which the non-controlling interest was adjusted, of $0.9 million, was recognized in equity attributable to Net1.

4. PRE-FUNDED SOCIAL WELFARE GRANTS RECEIVABLE

Pre-funded social welfare grants receivable represents amounts pre-funded by the Company to certain merchants participating in the merchant acquiring system. The July 2013 payment service commenced on July 1, 2013, but the Company pre-funded certain merchants participating in the merchant acquiring systems in the last two days of June 2013. The July 2012 payment service commenced on July 1, 2012, but the Company pre-funded certain merchants participating in the merchant acquiring systems in the last two days of June 2012.

5. ACCOUNTS RECEIVABLE, net

	2013	2012
Accounts receivable, trade, net	$41,225	$50,406
Accounts receivable, trade, gross	45,926	51,194
Allowance for doubtful accounts receivable, end of year	4,701	788
Allowance for doubtful accounts receivable, beginning of year re-measured at year end rates	709	621
Allowance reversed to statement of operations, re-measured at year end rates	(85)	(114)
Allowance acquired in acquisitions, re-measured at year end rates	-	131
Allowance charged to statement of operations, re-measured at year end rates	4,082	50
Amount utilized, re-measured at year end rates	(5)	100
Other receivables	61,389	51,512
Total accounts receivable, net	$102,614	$101,918

Receivables from customers renting POS equipment from the Company are included in accounts receivable, trade, and are stated net of an allowance for certain amounts that the Company's management has identified may be unrecoverable. Accounts receivable, trade, also includes amounts due by customers from the sale of hardware, software licenses and SIM cards and provision of transaction processing services. During the year ended June 30, 2013, 2012 and 2011, respectively, the Company recorded a bad debt expense of $0.4 million, $0.2 million and $1.3 million.

Cash payments to agents in Korea are amortized over the contract period with the agent. As of June 30, 2013 and 2012, respectively, other receivables include approximately $32.4 million and $24.5 million related to these prepayments.

6. INVENTORY

The Company's inventory comprised the following categories as of June 30, 2013 and 2012.

	2013	2012
Raw materials	$-	$30
Finished goods	12,222	10,749
	$12,222	$10,779

The Company presented deferred expenditures on smart cards of $4.6 million under a separate caption on its consolidated balance sheet in its 2012 Annual Report. Deferred expenditures on smart cards represented the cost of smart cards to be issued to grant recipient cardholders in South Africa pursuant to the Company's SASSA contract. Recipient cardholders receive their first card for free but are charged a replacement card fee if the card is lost and a replacement card is issued. The Company believes it appropriate to reclassify these deferred expenditures on smart cards to inventory as the smart card is a consumable item. Accordingly the finished goods as of June 30, 2012, presented in the table above of $10,749 include the deferred expenditures on smart cards of $4,587 presented under a separate caption in the Company's 2012 Annual Report.

The Company also presented (increase) decrease in deferred expenditures on smart cards under a separate caption on its consolidated statements of cash flow in its 2012 Annual Report. The Company has reclassified the increase in deferred expenditures on smart cards of $4,554 presented in its consolidated statements of cash flow for the twelve months ended June 30, 2012, in its 2012 Annual Report to (increase) decrease in inventory in this Annual Report. Accordingly, the $5,271 presented in (increase) decrease in inventory for the twelve months ended June 30, 2012, in the Company's consolidated statements of cash flow includes the $4,554. There were no cash flow movements in deferred expenditures on smart cards during the twelve months ended June 30, 2011.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of financial instruments

Initial recognition and measurement

Financial instruments are recognized when the Company becomes a party to the transaction. Initial measurements are at cost, which includes transaction costs subsequent to initial recognition. These instruments are measured as set out below:

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 June 30, 2013

Notional amount		Strike price		Fair market value price		Maturity
USD	4,000,000	ZAR	9.06	ZAR	10.1397	September 30, 2013

As of June 30, 2012

None.

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.

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. The Company, through its recently acquired insurance business, maintains investments in fixed maturity investments which are exposed to fluctuations in interest rates.

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.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments (continued)

Risk management (continued)

Credit risk (continued)

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, primarily its social grant recipient cardholder base. The Company manages this risk by performing an affordability test for each prospective customer and assigns a "creditworthiness score," which takes into account a variety of factors such as other debts and total expenditures on normal household and lifestyle expenses.

Equity price and liquidity risk

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

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

Financial instruments

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

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

These levels are:

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

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

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

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial instruments (continued)

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

Investments in common stock

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

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

The Company's Level 3 asset represents an investment of 156,788,712 shares of common stock of Finbond, which are exchange-traded equity securities. Finbond's shares are traded on the 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. In determining the fair value of Finbond, the Company has considered amongst other things Finbond's historical financial information (including its most recent public accounts), press releases issued by Finbond and its published net asset value. The Company believes that the best indicator of fair value of Finbond is its published net asset value and has used this value to determine the fair value.

The fair value of these securities as of June 30, 2013, represented approximately 1% of the Company's total assets, including these securities. The Company expects to hold these securities for an extended period of time and it is not concerned with short-term equity price volatility with respect to these securities provided that the underlying business, economic and management characteristics of the company remain sound.

In March 2012, Finbond completed a rights issue and the Company acquired an additional 72,156,187 shares for approximately $1 million. The Company's ownership interest in Finbond as of June 30, 2013, is approximately 26%. The Company has no rights to participate in the financial, operating, or governance decisions made by Finbond. The Company also has no participation on Finbond's board of directors whether through contractual agreement or otherwise. Consequently, the Company has concluded that it does not have significant influence over Finbond and therefore equity accounting is not appropriate.

Derivative transactions - Foreign exchange contracts

As part of the Company's risk management strategy, the Company enters into derivative transactions to mitigate exposures to foreign currencies using foreign exchange contracts. These foreign exchange contracts are over-the-counter customized derivative transactions. Substantially all of the Company's derivative exposures are with counterparties that have long-term credit ratings of BBB or better. The Company uses quoted prices in active markets for similar assets and liabilities to determine fair value. The Company has no derivatives that require fair value measurement under level 1 or 3 of the fair value hierarchy.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial instruments (continued)

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

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
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
Total assets at fair value	$1,833	$147	$8,303	$10,283
Liabilities				
Foreign exchange contracts	$-	$436	$-	$436
Total liabilities at fair value	$-	$436	$-	$436

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 according to the fair value hierarchy:

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Related to insurance business (included in other long-term assets):				
Cash and cash equivalents	$2,628	$-	$-	$2,628
Investment in Finbond (available for sale assets included in other long-term assets)	-	-	8,679	8,679
Other	-	262	-	262
Total assets at fair value	$2,628	$262	$8,679	$11,569

Changes in the Company's investment in Finbond (Level 3 that are measured at fair value on a recurring basis) were insignificant during the years ended June 30, 2013 and 2012, respectively. There have been no transfers in or out of Level 3 during the years ended June 30, 2013 and 2012, respectively.

Trade and other receivables

Trade and other receivables originated by the Company are stated at cost less allowance for doubtful accounts receivable. The fair value of trade and other receivables approximate their carrying value due to their short-term nature.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial instruments (continued)

Trade and other payables

The fair values of trade and other payables approximates their carrying amounts, due to their short-term nature.

Assets and liabilities measured at fair value on a nonrecurring basis

The Company measures its assets at fair value on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. The Company has no liabilities that are measured at fair value on a nonrecurring basis. The Company reviews the carrying values of its assets when events and circumstances warrant and considers all available evidence in evaluating when declines in fair value are other-than-temporary. The fair values of the Company's assets are determined using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost of the assets exceeds its fair value and the excess is determined to be other-than-temporary. The Company has not recorded any impairment charges during the reporting periods presented herein.

8. PROPERTY, PLANT AND EQUIPMENT, net

	2013	2012
Cost:		
Land	$858	$847
Building and structures	471	465
Computer equipment	101,536	88,669
Furniture and office equipment	7,864	14,091
Motor vehicles	22,127	20,413
Plant and equipment	253	2,373
	133,109	126,858
Accumulated depreciation:		
Land	-	-
Building and structures	92	67
Computer equipment	69,573	59,062
Furniture and office equipment	5,627	5,815
Motor vehicles	9,263	7,178
Plant and equipment	253	2,120
	84,808	74,242
Carrying amount:		
Land	858	847
Building and structures	379	398
Computer equipment	31,963	29,607
Furniture and office equipment	2,237	8,276
Motor vehicles	12,864	13,235
Plant and equipment	-	253
	$48,301	$52,616

9. GOODWILL AND INTANGIBLE ASSETS, net

Goodwill

Summarized below is the movement in the carrying value of goodwill for the years ended June 30, 2013, 2012 and 2011:

	Gross value	Accumulated impairment	Carrying value
Balance as of July 1, 2010	$117,734	$(41,388)	$76,346
Acquisition of KSNET (Note 3)	120,139	-	120,139
Foreign currency adjustment (1)	20,211	(7,126)	13,085
Balance as of June 30, 2011	258,084	(48,514)	209,570
Reduction in goodwill related to net settlement (Note 3)	(4,239)	-	(4,239)
Foreign currency adjustment (1)	(28,957)	6,363	(22,594)
Balance as of June 30, 2012	224,888	(42,151)	182,737
Acquisition of Pbel (Note 3)	1,710	-	1,710
Acquisition of SmartSwitch Botswana (Note 3)	657	-	657
Foreign currency adjustment (1)	(8,697)	(601)	(9,298)
Balance as of June 30, 2013	$218,558	($42,752)	$175,806

(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 associated with the acquisition of Pbel, SmartSwitch Botswana and KSNET represents the excess of cost over the fair value of acquired net assets. The Pbel, SmartSwitch Botswana and KSNET goodwill is not deductible for tax purposes. See Note 3 for the allocation of the purchase price to the fair value of acquired net assets. Pbel has been allocated to the Company's South African transaction-based activities operating segment and SmartSwitch Botswana and KSNET to the international transaction-based activities operating segment.

The Company assesses the carrying value of goodwill for impairment annually, or more frequently, whenever events occur and circumstances change indicating potential impairment. The Company performs its annual impairment test as at June 30 of each year. The results of our impairment tests during the year ended June 30, 2013 and 2012, indicated that the fair value of the Company's reporting units exceeded their carrying values and therefore the Company's reporting units were not at risk of potential impairment.

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

	2013	2012
South African transaction-based activities	$30,525	$34,692
International transaction-based activities	113,972	111,798
Smart card accounts	-	-
Financial services	-	-
Hardware, software and related technology sales	31,309	36,247
Total	$175,806	$182,737

9. GOODWILL AND INTANGIBLE ASSETS, net (continued)

Intangible assets, net

Impairment loss during the year ended June 30, 2011

The Company assesses the carrying value of intangible assets for impairment whenever events occur or circumstances change indicating that the carrying amount of the intangible asset may not be recoverable. During the year ended June 30, 2011, one of Net1 UTA's largest customers advised the Company of its intention to transition to an alternative payment platform. As a consequence of this development, as well as deteriorating trading conditions and uncertainty surrounding the timing and quantum of future net cash inflows, the Company reviewed customer relationships acquired as part of the Net1 UTA acquisition for impairment. As a result of this review, the Company recognized an impairment loss of $41.8 million during its third quarter of fiscal 2011 related to the entire carrying value of customer relationships acquired in the Net1 UTA acquisition in August 2008. In addition, the Company reversed the deferred tax liability of $10.4 million associated with this intangible asset.

The impairment loss recognized was allocated to the Company's hardware, software and related technology sales operating segment.

Intangible assets acquired

Summarized below is the fair value of intangible assets acquired, translated at the exchange rate applicable as of the relevant acquisition dates, and the weighted-average amortization period:

	Fair value as of acquisition date	Weighted-Average Amortization period (in years)
Finite-lived intangible asset:		
KSNET customer relationships	$74,663	10
Pbel customer relationships	1,113	3
Prepaid business customer relationships	895	0.75
KSNET software and unpatented technology	24,380	5
Prepaid business software and unpatented technology	2,449	3
Pbel software and unpatented technology	672	3
KSNET trademarks	$3,786	8

The Company recognized a deferred tax liability of approximately $0.5 million related to the acquisition of the Pbel intangible assets during the year ended June 30, 2013. The Company recognized a deferred tax liability of approximately $0.2 million related to the acquisition of the prepaid business customer relationships during the year ended June 30, 2012. The Company recognized a deferred tax liability of approximately $24.5 million related to the acquisition of the KSNET intangible assets during the year ended June 30, 2011.

9. GOODWILL AND INTANGIBLE ASSETS, net (continued)

Intangible assets, net (continued)

Summarized below is the carrying value and accumulated amortization of intangible assets as of June 30, 2013 and 2012:

	As of June 30, 2013			As of June 30, 2012		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Finite-lived intangible assets:						
Customer relationships(1)	$90,469	$(29,818)	$60,651	$91,692	$(22,617)	$69,075
Software and unpatented technology(1)	34,951	(22,151)	12,800	36,082	(15,968)	20,114
FTS patent	3,873	(3,873)	-	4,623	(4,623)	-
Exclusive licenses	4,506	(4,506)	-	4,506	(4,506)	-
Trademarks	6,611	(2,805)	3,806	7,125	(2,507)	4,618
Customer database	614	(614)	-	734	(611)	123
Total finite-lived intangible assets	$141,024	$(63,767)	$77,257	$144,762	$(50,832)	$93,930

(1) June 30, 2013 balances include the customer relationships and software and unpatented technology acquired as part of the Pbel acquisition in September 2012;

Amortization expense charged for the years to June 30, 2013, 2012 and 2011 was $18.2 million, $19.4 million, and $22.5 million, respectively.

Future estimated annual amortization expense for the next five fiscal years, assuming exchange rates prevailing on June 30, 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	$14,984
2015	14,929
2016	10,730
2017	8,474
2018	8,474
Thereafter	$19,659

10. REINSURANCE ASSETS AND POLICY HOLDER LIABILITIES UNDER INSURANCE AND INVESTMENT CONTRACTS

Reinsurance assets and policy holder liabilities under insurance contracts

Summarized below is the movement in reinsurance assets and policy holder liabilities under insurance contracts during the years ended June 30, 2013 and 2012:

	Reinsurance assets (1)	Insurance contracts (2)
Balances acquired on July 1, 2011	$28,492	$(28,492)
Claims and policyholders' benefits under insurance contracts	254	(360)
Foreign currency adjustment (3)	(5,151)	5,151
Balance as of June 30, 2012	23,595	(23,701)
Claims and policyholders' benefits under insurance contracts	(211)	146
Foreign currency adjustment (3)	(3,827)	3,844
Balance as of June 30, 2013	$19,557	$(19,711)

(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.

10. REINSURANCE ASSETS AND POLICY HOLDER LIABILITIES UNDER INSURANCE AND INVESTMENT CONTRACTS (continued)

Reinsurance assets and policy holder liabilities under insurance contracts (continued)

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 years ended June 30, 2013 and 2012:

	Assets (1)	Investment contracts (2)
Balances acquired on July 1, 2011	$1,353	$(1,353)
Foreign currency adjustment (3)	(244)	244
Balance as of June 30, 2012	$1,109	$(1,109)
Foreign currency adjustment (3)	(156)	156
Balance as of June 30, 2012	$953	$(953)

(1) Included in other long-term assets;
(2) Included in other long-term liabilities;
(3) The foreign currency adjustment represents the effects of the fluctuations between the ZAR against the US dollar.

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

11. OTHER PAYABLES

	2013	2012
Participating merchants settlement obligation	$2,005	$5,291
Payroll-related payables	1,611	2,199
Accruals	10,522	11,413
Value-added tax payable	2,560	2,405
Other (Note 1)	7,009	7,705
Provisions	10,101	11,154
	$33,808	$40,167

12. SHORT-TERM FACILITIES

The Company has a ZAR 250 million ($25.3 million, translated at exchange rates applicable as of June 30, 2013) short-term South African credit facility. As of June 30, 2013, the overdraft rate on this facility was 7.85%. The Company has ceded its investment in Cash Paymaster Services (Proprietary) Limited, a wholly owned South African subsidiary, as security for the facility. As of June 30, 2013 and June 30, 2012, the Company had utilized none of its South African short-term facility.

The Company believes that this facility is sufficient in order to meet its future obligations as they arise.

13. LONG-TERM BORROWINGS

The Company financed a portion of the KSNET acquisition price and related transaction expenses with the proceeds of a KRW 130.5 billion (approximately $115.9 million based on October 29, 2010 exchange rates) five-year senior secured loan facility provided by a consortium of banks under a facilities agreement (the "Facilities Agreement"). The current carrying value as of June 30, 2013, is $80.8 million. The Facilities Agreement provides for three separate facilities: a Facility A loan to the Company's wholly owned subsidiary, Net1 Applied Technologies Korea ("Net1 Korea"), of up to KRW 130.5 billion (divided into Facility A1 (KRW 65.5 billion) and Facility A2 (KRW 65.0 billion)) and a Facility B loan to KSNET of up to KRW 65.0 billion. The Facility B loan, if drawn, must be used to repay the Facility A2 loan and may be borrowed only if Net1 Korea and KSNET complete a merger transaction with each other. Interest on the loans is payable quarterly and is based on the Korean CD rate in effect from time to time plus a margin of 4.10% for Facility A loans and 3.90% for the Facility B loan. The CD rate was 2.79% on June 30, 2013. Total interest expense for the year ended June 30, 2013, 2012 and 2011, respectively, was $7.1 million, $8.8 million and $7.5 million, and includes amortization of facility fees of $0.3 million, $0.4 million and $2.0 million. Interest of approximately $0.9 million, translated at exchange rates applicable as of June 30, 2013, has been accrued as of June 30, 2013.

The Facility A1 loan matures on the fifth anniversary of the initial drawdown with no required principal prepayments. Principal on the Facility A2 loan and Facility B loan is repayable in scheduled installments, beginning twelve months after initial drawdown and thereafter, semi-annually with final maturity scheduled for 54 months after initial drawdown. During the year ended June 30, 2013, the Company made the third and fourth principal payments totaling approximately $14.5 million. During the year ended June 30, 2012, the Company made the first and second principal payments totaling approximately $14.3 million and an unscheduled $4.8 million principal payment with the proceeds of the net settlement received from the former shareholders of KSNET. The fifth and sixth scheduled installments of approximately $14.2 million, translated at exchange rates applicable as of June 30, 2013, are due in equal installments of $7.1 million each, on October 29, 2013 and April 29, 2014, respectively, and have been classified as current in the Company's consolidated balance sheet. As of June 30, 2013, the carrying amount of the long-term borrowings approximated its fair value

The loans are secured by substantially all of KSNET's assets, a pledge by Net1 Korea of its entire equity interest in KSNET and a pledge by the immediate parent of Net1 Korea (also one of the Company's subsidiaries) of its entire equity interest in Net1 Korea. The Facilities Agreement contains customary covenants that require Net1 Korea and its consolidated subsidiaries to maintain certain specified financial ratios (including a leverage ratio and a debt service coverage ratio) and restrict their ability to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make capital expenditures above specified levels, engage in certain business combinations and engage in other corporate activities. 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 and its subsidiaries, including KSNET).

14. COMMON STOCK

Common stock

Holders of shares of Net1's common stock are entitled to receive dividends and other distributions when declared by Net1's board of directors out of funds available. Payment of dividends and distributions is subject to certain restrictions under the Florida Business Corporation Act, including the requirement that after making any distribution Net1 must be able to meet its debts as they become due in the usual course of its business.

Upon voluntary or involuntary liquidation, dissolution or winding up of Net1, holders of common stock share ratably in the assets remaining after payments to creditors and provision for the preference of any preferred stock according to its terms. There are no pre-emptive or other subscription rights, conversion rights or redemption or scheduled installment payment provisions relating to shares of common stock. All of the outstanding shares of common stock are fully paid and non-assessable.

14. COMMON STOCK (continued)

Common stock (continued)

Each holder of common stock is entitled to one vote per share for the election of directors and for all other matters to be voted on by shareholders. Holders of common stock may not cumulate their votes in the election of directors, and are entitled to share equally and ratably in the dividends that may be declared by the board of directors, but only after payment of dividends required to be paid on outstanding shares of preferred stock according to its terms. The shares of Net1 common stock are not subject to redemption.

The Company's number of shares, net of treasury, presented in the consolidated balance sheets and consolidated statement of changes in equity includes participating non-vested equity shares (specifically contingently returnable shares) as described in Note 17—Amended and Restated Stock Incentive Plan—Restricted Stock—General Terms of Awards. The following table presents reconciliation between the number of shares, net of treasury, presented in the consolidated statement of changes in equity and the number of shares, net of treasury, excluding non-vested equity shares that have not vested during the years ended June 30, 2013, 2012 and 2011:

	2013	2012	2011
Number of shares, net of treasury:			
Statement of changes in equity	45,592,550	45,548,902	45,152,805
Less: Non-vested equity shares that have not vested as of end of year (Note 17)	405,226	646,617	103,672
Number of shares, net of treasury excluding non-vested equity shares that have not vested	45,187,324	44,902,285	45,049,133

Common stock repurchases

In February 2010 and in May 2010, the Company's Board of Directors authorized the repurchase of up to $50 million of the Company's common stock, for a total of $100 million. The authorization does not have an expiration date.

The share repurchase authorization will be used at management's discretion, subject to limitations imposed by SEC Rule 10b-18 and other legal requirements and subject to price and other internal limitations established by the Board. Repurchases will be funded from the Company's available cash. Share repurchases may be made through open market purchases, privately negotiated transactions, or both. There can be no assurance that the Company will purchase any shares or any particular number of shares.

The authorization may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing shares, liquidity and other factors that management deems appropriate. During the year ended June 30, 2012 and 2011, respectively, the Company repurchased 180,656 and 125,392 shares for approximately $1.1 million and $1.0 million. The Company did not repurchase any of its shares during the year ended June 30, 2013 under this authorization.

15. REVENUE

	2013	2012	2011
Sale of goods – comprising mainly hardware and software sales	$15,266	$19,152	$30,130
Loan-based interest and fees received	6,613	8,433	7,276
Services rendered – comprising mainly fees and commissions	430,268	362,679	306,014
	$452,147	$390,264	$343,420

During the years ended June 30, 2013, 2012 and 2011, the Company did not recognize any revenue using the percentage of completion method.

16. EQUITY INSTRUMENT ISSUED PURSUANT TO BEE TRANSACTION

On April 19, 2012, the Company issued an option to purchase 8,955,000 shares of its common stock to a BEE consortium pursuant to a BEE transaction that it entered into on January 25, 2012. The option expired unexercised on April 19, 2013. The fair value of the option was determined as approximately $14.2 million and was expensed in full during the year ended June 30, 2012 because the option vested immediately on the grant date. Accordingly, the expense recorded during the year ended June 30, 2012, was not reversed during the year ended June 30, 2013, because the option had vested in full on the grant date.

The fair value was determined on the date that all conditions to the BEE transaction had been fulfilled using the Cox Ross Rubinstein binomial model. The Company used an expected volatility of 47%, an expected life of one year, a risk free rate of 0.90% and no future dividends in its calculation of the fair value. The estimated expected volatility is calculated based on the Company's 250 day volatility.

17. STOCK-BASED COMPENSATION

Amended and Restated Stock Incentive Plan

The Company's Amended and Restated Stock Incentive Plan (the "Plan") has been approved by its shareholders. No evergreen provisions are included in the Plan. This means that the maximum number of shares issuable under the Plan is fixed and cannot be increased without shareholder approval, the plan expires by its terms upon a specified date, and no new stock options are awarded automatically upon exercise of an outstanding stock option. Shareholder approval is required for the repricing of awards or the implementation of any award exchange program. The Plan permits Net1 to grant to its employees, directors and consultants incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, performance-based awards and other awards based on its common stock. The Remuneration Committee of the Company's Board of Directors ("Remuneration Committee") administers the Plan.

The total number of shares of common stock issuable under the Plan is 8,552,580. The maximum number of shares for which awards, other than performance-based awards, may be granted in any combination during a calendar year to any participant is 569,120. The maximum limits on performance-based awards that any participant may be granted during a calendar year are 569,120 shares subject to stock option awards and $20 million with respect to awards other than stock options. Shares that are subject to awards which terminate or lapse without the payment of consideration may be granted again under the Plan. Shares delivered to the Company as part or full payment for the exercise of an option or to satisfy withholding obligations upon the exercise of an option may be granted again under the Plan in the Remuneration Committee's discretion. No awards may be granted under the Plan after June 7, 2019, but awards granted on or before such date may extend to later dates.

Options

General Terms of Awards

Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant, with vesting conditioned upon the recipient's continuous service through the applicable vesting date and expire 10 years after the date of grant. The options generally become exercisable in accordance with a vesting schedule ratably over a period of five years from the date of grant. The Company issues new shares to satisfy stock option award exercises but may also use treasury shares.

17. STOCK-BASED COMPENSATION (continued)

Amended and Restated Stock Incentive Plan (continued)

Options (continued)

Valuation Assumptions

The fair value of each option is estimated on the date of grant using the Cox Ross Rubinstein binomial model that uses the assumptions noted in the following table. The estimated expected volatility is calculated based on the Company's 250 day volatility. The estimated expected life of the option was determined based historical behavior of employees who were granted options with similar terms. The Company has estimated no forfeitures for options awarded in 2013, 2012 and 2011. The table below presents the range of assumptions used to value options granted during the years ended June 30, 2013, 2012 and 2011:

	2013	2012	2011
Expected volatility	49%	37% - 39%	35%
Expected dividends	0%	0%	0%
Expected life (in years)	3	3	3
Risk-free rate	0.3%	1.9% - 0.9%	2.0%

Restricted Stock

General Terms of Awards

Shares of restricted stock are considered to be participating non-vested equity shares (specifically contingently returnable shares) for the purposes of calculating earnings per share (refer Note 20) because, as discussed in more detail below, the recipient is obligated to transfer any unvested restricted stock back to the Company for no consideration and these shares of restricted stock are eligible to receive non-forfeitable dividend equivalents at the same rate as common stock. Restricted stock generally vests ratably over a three year period, with vesting conditioned upon the recipient's continuous service through the applicable vesting date and under certain circumstances, the achievement of certain performance targets, as described below.

Restricted stock awarded to non-employee directors and employees of the Company vests ratably over a three-year period. In addition, for awards granted to certain non-employee directors in 2009, until 11 months after the restricted stock become vested and nonforfeitable, the shares may not be sold, assigned, transferred, pledged, hypothecated, exchanged, or disposed of in any way (whether by operation of law or otherwise). Recipients are entitled to all rights of a stockholder of the Company except as otherwise provided in the restricted stock agreements. These rights include the right to vote and receive dividends and/or other distributions. However, the restricted stock agreements generally prohibit transfer of any nonvested and forfeitable restricted stock. If a recipient ceases to be a member of the Board of Directors or an employee for any reason, all shares of his restricted stock that are not then vested and nonforfeitable will be immediately forfeited and transferred to the Company for no consideration.

The Company issues new shares to satisfy restricted stock awards.

Valuation Assumptions

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

Performance Conditions - Restricted Stock Granted in August 2007

In August 2007, the Remuneration Committee approved an award of 591,500 shares of restricted stock to executive officers and other employees of the Company. The award provided for vesting of one-third of the award shares on each of September 1, 2009, 2010 and 2011, conditioned upon each recipient's continuous service through the applicable vesting date and the Company achieving the financial performance target for that vesting date.

17. STOCK-BASED COMPENSATION (continued)

Amended and Restated Stock Incentive Plan (continued)

Restricted Stock (continued)

Performance Conditions - Restricted Stock Granted in August 2007 (continued)

Specifically, the financial performance targets were a 20% increase, compounded annually, in fundamental diluted earnings per share (expressed in South African rand) ("2007 Fundamental EPS") above Fundamental EPS for the fiscal year ended June 30, 2007. For award shares vesting prior to September 1, 2009, the annual required increase in the case of Dr. Belamant and Mr. Kotzé was 25% rather than 20%. On November 5, 2009, the Company's board of directors, on the recommendation of the Remuneration Committee, determined that the annual required target for Dr. Belamant and Mr. Kotzé be 20%, effective immediately, to be consistent with the terms of the restricted stock awards granted to other employees. There were no other amendments to the terms of the restricted stock awards. For the purpose of the award, 2007 Fundamental EPS was calculated by adjusting GAAP diluted earnings per share (as reflected in the Company's audited consolidated financial statements) to exclude the effects related to the amortization of intangible assets, stock-based compensation charges, one-time, large, unusual expenses as determined at the discretion of the Remuneration Committee, and assuming a constant tax rate of 30%. If Fundamental EPS for the specified fiscal year did not equal or exceed the 2007 Fundamental EPS target for such year, no award shares would become vested or nonforfeitable on the corresponding vesting date but would be available to become vested and nonforfeitable as of a subsequent vesting date if the 2007 Fundamental EPS target for a subsequent fiscal year were met; provided that the recipient's service continued through such subsequent vesting date. Any outstanding award shares that had not become vested and nonforfeitable as of September 1, 2011, would be forfeited by the recipient on September 1, 2011, and transferred to the Company for no consideration.

The first two tranches of this award vested on September 1, 2009 and 2010, for employees that continued to provide the requisite service as the financial performance targets were met. The third tranche did not vest because the financial performance target was not met. Refer also "—Stock option and restricted stock activity—restricted stock" below.

Performance Conditions - Restricted Stock Granted in October and November 2010

In October 2010, the Remuneration Committee approved an award of 60,000 shares of restricted stock to an employee of the Company. Under the terms of the award, the shares would vest on June 30, 2014, conditioned upon the employee's continuous service through June 30, 2014, and on the employee receiving an incremental incentive bonus, as defined in the employee's employment agreement for each of the periods ended June 30, 2011, 2012, 2013 and 2014. Any outstanding award shares that had not become vested and nonforfeitable as of June 30, 2014, would be forfeited by the recipient on June 30, 2014, and transferred to the Company for no consideration. The October 2010 restricted stock award did not vest because the financial performance target was not met for June 30, 2011. Refer also "—Stock option and restricted stock activity—restricted stock" below.

In November 2010, the Remuneration Committee approved an award of 83,000 shares of restricted stock to two of the Company's executive officers. The award provides for vesting of one-third of the award shares on each of November 10, 2011, 2012 and 2013, conditioned upon each recipient's continuous service through the applicable vesting date and the Company achieving the financial performance target for that vesting date. Specifically, the financial performance targets is Fundamental EPS, as defined below, of $1.44, $1.60 and $1.90 for the years ended June 30, 2011, 2012 and 2013, respectively. For the purpose of this award, Fundamental EPS is calculated as Company's diluted earnings per share as reflected in the Company's consolidated financial statements, measured in U.S. dollars and determined in accordance with GAAP, adjusted to exclude the effects related to the amortization of intangible assets and acquisition-related costs, stock-based compensation charges, foreign exchange gains and losses arising from foreign currency hedging transactions, and other items that the Committee may determine in its discretion to be appropriate (for example, accounting changes and one-time or unusual items), and assumes a constant tax rate equal to the Company's effective tax rate for the year ended June 30, 2010. If Fundamental EPS for the specified fiscal year does not equal or exceed the Fundamental EPS target for such year, no award shares will become vested or nonforfeitable on the corresponding vesting date but are available to become vested and nonforfeitable as of a subsequent vesting date if the Fundamental EPS target for a subsequent fiscal year is met; provided that the recipient's service continues through such subsequent vesting date.

17. STOCK-BASED COMPENSATION (continued)

Amended and Restated Stock Incentive Plan (continued)

Restricted Stock (continued)

Performance Conditions - Restricted Stock Granted in October and November 2010 (continued)

Any outstanding award shares that have not become vested and nonforfeitable as of November 10, 2013, will be forfeited by the recipient on November 10, 2013, and transferred to the Company for no consideration. One-third of the award shares vested on November 10, 2011. The remaining two-thirds of the restricted stock award did not vest because the financial performance target of $1.90 was not met for June 30, 2013. Refer also "—Stock option and restricted stock activity—restricted stock" below.

Stock Appreciation Rights

The Remuneration Committee also may grant stock appreciation rights, either singly or in tandem with underlying stock options. Stock appreciation rights entitle the holder upon exercise to receive an amount in any combination of cash or shares of common stock (as determined by the Remuneration Committee) equal in value to the excess of the fair market value of the shares covered by the right over the grant price. No stock appreciation rights have been granted.

Stock option and restricted stock activity

Options

The following table summarizes stock option activity for the years ended June 30, 2013, 2012 and 2011:

	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, 2010	1,813,656	19.76	7.41	$585	-
Granted under Plan: November 2010	307,000	10.59	10.00	-	2.61
Outstanding – June 30, 2011	2,120,656	18.44	6.82	243	
Granted under Plan: August 2011	165,000	6.59	10.00	297	1.80
Granted under Plan: October 2011	202,000	7.98	10.00	442	2.19
Forfeitures	(240,073)	21.68	-	-	-
Outstanding – June 30, 2012	2,247,583	16.28	6.43	602	-
Granted under Plan: August 2012	431,000	8.75	10.00	1,249	2.90
Exercised	(30,000)	7.98		24	
Outstanding – June 30, 2013	2,648,583	15.15	5.98	$313	

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

17. STOCK-BASED COMPENSATION (continued)

Stock option and restricted stock activity (continued)

Options (continued)

	Number of shares	Weighted average exercise price ($)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value ('000)
Exercisable	1,786,583	18.06	4.92	$229

During the years ended June 30, 2013, 2012 and 2011, approximately 442,666, 300,000 and 380,000, stock options became exercisable, respectively. Included in the 442,666 stock options are 30,000 stock options with respect to which the Remuneration Committee of the Board agreed to accelerate vesting prior to the resignation of a non-employee director. The stock option vesting was accelerated in recognition of this director's long service and valued contributions. During the year ended June 30, 2013, the Company received approximately $0.2 million from 30,000 stock options exercised by the non-employee director that resigned. No stock options were exercised during the years ended June 30, 2012 and 2011, respectively. During the year ended June 30, 2012, employees forfeited 240,073 stock options. There were no forfeitures during the years ended June 30, 2013 and 2011. The Company issues new shares to satisfy stock option exercises.

Restricted stock

The following table summarizes restricted stock activity for the years ended June 30, 2013, 2012 and 2011:

	Number of Shares of Restricted Stock	Weighted Average Grant Date Fair Value ('000)
Non-vested – July 1, 2010	407,828	
Granted – August 2010	13,956	$185
Granted – October 2010	60,000	740
Granted – November 2010	83,000	879
Vested	(203,956)	2,267
Awards not vesting	(257,156)	3,492
Non-vested – June 30, 2011	**103,672**	**1,235**
Granted – August 2011	30,155	199
Granted – February 2012	550,000	6,111
Granted – May 2012	2,574	23
Vested - August 2011	(6,141)	40
Vested - November 2011	(27,667)	209
Total vested	(33,808)	
Forfeitures	(5,976)	50
Non-vested – June 30, 2012	**646,617**	**7,061**
Granted – August 2012	21,569	189
Vested – August 2012	(23,436)	216
Vested – February 2013	(183,333)	1,016
Vested – May 2013	(858)	7
Total vested	(207,627)	
Forfeitures	(55,333)	407
Non-vested – June 30, 2013	**405,226**	**$4,393**

17. STOCK-BASED COMPENSATION (continued)

Stock option and restricted stock activity (continued)

Restricted stock (continued)

The fair value of restricted stock vested during the years ended June 30, 2013, 2012 and 2011, was $1.4 million, $0.2 million and $2.3 million, respectively. Included in the 23,436 shares of restricted stock that vested in August 2012 are 8,547 shares with respect to which the Remuneration Committee of the Board agreed to accelerate vesting prior to the resignation of a non-employee director. The second and third tranche totaling 55,333 shares of restricted stock granted in November 2010 to two executive officers did not vest because the agreed performance target was not achieved.

One of the Company's non-employee directors resigned effective June 29, 2012, and he forfeited 5,976 restricted shares that had not vested. The third tranche of 197,156 shares of restricted stock granted in August 2007 to executive officers and other employees of the Company and 60,000 shares granted to an employee of the Company in October 2010 did not vest because the agreed performance target was not achieved. The Company has recorded a reversal of the compensation charge related to August 2007 and October 2010 restricted stock of $3.4 million and $0.09 million, respectively, during the year ended June 30, 2011.

Forfeited shares of restricted stock are returned to the Company and, in accordance with the Plan, are available for future issuances by the Remuneration Committee.

Stock-based compensation charge and unrecognized compensation cost

The Company has recorded a net stock compensation charge of $3.9 million, $2.8 million and $1.7 million for the years ended June 30, 2013, 2012 and 2011, respectively, which comprised:

	Total charge (reversal)	Allocated to cost of goods sold, IT processing, servicing and support	Allocated to selling, general and administration
Year ended June 30, 2013			
Stock-based compensation charge	$4,387	$-	$4,387
Reversal of stock compensation charge related to restricted stock forfeited	(480)	-	(480)
Total – year ended June 30, 2013	$3,907	$-	$3,907
Year ended June 30, 2012			
Stock-based compensation charge	$2,909	$-	$2,909
Reversal of stock compensation charge related to options forfeited	(134)	-	(134)
Total – year ended June 30, 2012	$2,775	$-	$2,775
Year ended June 30, 2011			
Stock-based compensation charge	$5,212	$193	$5,019
Reversal of stock compensation charge related to August 2007 and October 2010 restricted stock that did not vest	(3,492)	-	(3,492)
Total – year ended June 30, 2011	$1,720	$193	$1,527

The stock compensation charge and reversals have been allocated to cost of goods sold, IT processing, servicing and support and selling, general and administration based on the allocation of the cash compensation paid to the employees.

As of June 30, 2013, the total unrecognized compensation cost related to stock options was approximately $1.2 million, which the Company expects to recognize over approximately two years. As of June 30, 2013, the total unrecognized compensation cost related to restricted stock awards was approximately $3.5 million, which the Company expects to recognize over approximately two years.

17. STOCK-BASED COMPENSATION (continued)

Tax consequences

There are no tax consequences related to options and restricted stock granted to employees of Company subsidiaries incorporated in South Africa. The Company has recorded a deferred tax asset of approximately $1.4 million and $1.1 million, respectively, for the years ended June 30, 2013 and 2012, related to the stock-based compensation charge recognized related to employees of Net1 as it is able to deduct the difference between the market value on date of exercise by the option recipient and the exercise price from income subject to taxation in the United States.

18. PROFIT ON LIQUIDATION OF SMARTSWITCH NIGERIA

The Company has ceased operations in the Federation of Nigeria due to an inability to implement its technology on a profitable basis. During the year ended June 30, 2012, the Company, together with the other shareholders, agreed to liquidate SmartSwitch Nigeria, the company through which operating activities in Nigeria were performed. SmartSwitch Nigeria was capitalized primarily with shareholder loans. The shareholders of SmartSwitch Nigeria have agreed to waive all outstanding capital and interest repayments related to the loan funding initially provided as part of the liquidation processes. The non-cash profit on liquidation of SmartSwitch Nigeria of $4.0 million includes the write back of all assets and liabilities, including non-controlling interest loans, of SmartSwitch Nigeria, except for expected liabilities related to the liquidation of SmartSwitch Nigeria. The profit has been allocated to corporate/eliminations.

19. INCOME TAXES

Income tax provision

The table below presents the components of income before income taxes for the years ended June 30, 2013, 2012 and 2011:

	2013	2012	2011
South Africa	$38,654	$67,054	$108,349
United States	(10,075)	(6,340)	(15,053)
Other	(1,300)	(333)	(56,886)
Income before income taxes	$27,279	$60,381	$36,410

Presented below is the provision for income taxes by location of the taxing jurisdiction for the years ended June 30, 2013, 2012 and 2011:

	2013	2012	2011
Current income tax	$33,968	$49,092	$117,141
South Africa	15,418	26,787	38,882
United States	16,061	20,746	77,085
Other	2,489	1,559	1,174
Deferred taxation (benefit) charge	(4,915)	(4,598)	(4,862)
South Africa	(2,037)	(2,941)	(776)
United States	(331)	31	2,306
Other	(2,547)	(1,688)	(6,392)
Capital gains tax	7	1,465	-
Secondary taxation on companies	-	327	-
Change in tax rate	-	(18,315)	-
Foreign tax credits generated – United States	(14,404)	(12,035)	(78,754)
Income tax provision	$14,656	$15,936	$33,525

There were no significant capital gains taxes paid during the years ended June 30, 2013 and 2011, respectively. The capital gains tax paid during the year ended June 30, 2012, represents the taxes paid resulting from an intercompany capital transaction in South Africa.

19. INCOME TAXES (continued)

Income tax provision (continued)

The Company's South African subsidiary paid a dividend to Net1 after the tax law had changed but before the effective date of the South African dividends withholding tax which resulted in the payment of STC in the third quarter of the year ended June 30, 2012. For the first half of the year ended June 30, 2012, and in the year ended June 30, 2011, the Company's effective tax rate included an accrual for STC and therefore any STC obligation arising during these periods was charged against the STC liability provided. This STC liability was released during the year end June 30, 2012, as a result of the change in tax law discussed below.

There were no changes to the enacted tax rate in the years ended June 30, 2013 and 2011. On December 20, 2011, there was a change in South African tax law to impose a dividends withholding tax (a tax levied and withheld by a company on distributions to its shareholders) to replace STC. The change was effective on April 1, 2012. As a result, the Company has recorded a net deferred taxation benefit of approximately $18.3 million in income taxation expense in its consolidated statements of operations during the year ended June 30, 2012.

The movement in the valuation allowance for the year ended June 30, 2013, relates to valuation allowances for foreign tax credits and valuation allowances related to net operating loss carryforwards for the Company's South African subsidiaries, primarily MediKredit. As a result of the change in South African tax law during the year ended June 30, 2012, and the Company's intention to permanently reinvest its undistributed earnings in South Africa, the Company did not believe it would be able to recover foreign tax credits previously recognized of $8.2 million. The movement in the valuation allowance during the year ended June 30, 2012, included a valuation allowance related to this foreign tax credits. The movement in the valuation allowance for the year ended June 30, 2011, relates to valuation allowances for foreign tax credits and the Net1 UTA valuation allowances related to its license ruling, tax deductible goodwill, and net operating loss carryforwards.

Net1 included actual and deemed dividends received from one of its South African subsidiaries in its years ended June 30, 2013, 2012 and 2011, taxation computation. Net1 applied net operating losses against this income. Net1 generated foreign tax credits as a result of the inclusion of the dividends in its taxable income. Net1 has applied certain of these foreign tax credits against its current income tax provision for the year ended June 30, 2013, 2012 and 2011, respectively.

A reconciliation of income taxes, calculated at the fully-distributed South African income tax rate to the Company's effective tax rate, for the years ended June 30, 2013, 2012 and 2011 is as follows:

	2013	2012	2011
Income tax rate reconciliation:			
Income taxes at fully-distributed South African tax rates	28.00%	28.00%	34.55%
Non-deductible items	6.78%	6.60%	6.93%
Foreign tax rate differential	10.39%	7.22%	5.46%
Foreign tax credits	(52.80%)	(21.12%)	(209.00%)
Taxation on deemed dividends in the United States	57.32%	31.29%	217.52%
Capital gains tax paid	0.03%	2.43%	-%
Secondary taxation on companies	0.00%	0.54%	-%
Movement in valuation allowance	9.40%	1.23%	34.01%
Prior year adjustments	(5.39%)	0.53%	2.61%
Change in tax law	-%	(30.33%)	-%
Income tax provision	53.73%	26.39%	92.08%

The non-deductible items during the year ended June 30, 2013, relates principally to expenses that are not deductible for tax purposes, including stock-based compensation charges, costs incurred to support foreign related entities and interest expense. The non-deductible items during the year ended June 30, 2012, relates principally to expenses that are not deductible for tax purposes, including stock-based compensation charges, interest expense and an equity award issued pursuant to the Company's BEE transaction. The non-deductible items during the year ended June 30, 2011 relates principally to expenses that are not deductible for tax purposes, including interest expense and transaction-related expenditure. The foreign tax rate differential represents the difference between statutory tax rates in South Africa and foreign jurisdictions, primarily the U.S.

19. INCOME TAXES (continued)

Deferred tax assets and liabilities

Deferred income taxes reflect the temporary differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The primary components of the temporary differences that gave rise to the Company's deferred tax assets and liabilities as at June 30, and their classification, were as follows:

	2013	2012
Total deferred tax assets		
Net operating loss carryforwards	$12,024	$11,869
Provisions and accruals	3,164	2,450
FTS patent	1,088	1,436
Intangible assets	17,150	18,290
Foreign tax credits	24,637	19,089
Other	5,537	5,006
Total deferred tax assets before valuation allowance	63,600	58,140
Valuation allowances	(54,117)	(47,496)
Total deferred tax assets, net of valuation allowance	9,483	10,644
Total deferred tax liabilities:		
Intangible assets	18,729	22,215
Other	4,543	3,826
Total deferred tax liabilities	23,272	26,041
Reported as		
Current deferred tax assets	4,938	5,591
Long term deferred tax liabilities	18,727	20,988
Net deferred income tax liabilities	$13,789	$15,397

Decrease in total deferred tax assets

Net operating loss carryforwards

Included in total deferred tax assets – net operating loss carryforwards are net operating losses generated by MediKredit of $2.7 million. MediKredit continues to incur losses and its net operating losses increased by $0.2 million during the year ended June 30, 2013, and therefore the Company has determined to provide a valuation allowance for the full amount of its operating losses incurred. Accordingly, during the year ended June 30, 2013, the Company provided an additional valuation allowance related to MediKredit's operating losses of $1.6 million. Net operating loss carryforwards also includes $7.7 million related to Net1 UTA. A valuation allowance has been created for the full amount of the Net1 UTA net operating losses.

Intangible assets

Included in total deferred tax assets – intangible assets as of June 30, 2013, is an intangible asset related to license rights in Net1 UTA. These license rights are termed software for Austrian tax purposes and were valued for Austrian tax purposes based on previous license payments at €50.76 million in June 2006. The Company expects to amortize the license rights in its tax returns over a period of 15 years. Any unused amounts are not carried forward to the subsequent year of assessment. During the years ended June 30, 2013 and 2012, Net1 UTA utilized approximately $0.05 million and $0.04 million, respectively, of these license rights against its taxable income and in 2011 expensed $1.2 million unutilized deferred tax asset. In addition, during the year ended June 30, 2011, the Company provided in full for this deferred tax asset and recognized an additional valuation allowance of $2.7 million. As of June 30, 2013, the gross carrying value of this deferred tax asset is approximately $8.8 million and there is a full valuation allowance.

19. INCOME TAXES (continued)

Deferred tax assets and liabilities (continued)

Decrease in total deferred tax assets (continued)

Intangible assets (continued)

Net1 Applied Technologies Austria GmbH ("Net1Austria") generated tax deductible goodwill related to the acquisition of Net1 UTA in August 2008 and under Austrian tax law Net1Austria can deduct up to 50% of the goodwill recognized, as defined under Austrian tax law, over a period of 15 years. Unused amounts are carried forward to subsequent years of assessment and are included in net operating loss carryforwards. During the year ended June 30, 2011, the Company provided in full for the deferred tax asset and recognized an additional valuation allowance of approximately $1.7 million. As of June 30, 2013, the gross value of this goodwill deferred tax asset was approximately $8.2 million and there is a full valuation allowance. The Company did not utilize the goodwill deferred tax asset during the years ended June 30, 2013 and 2012, respectively.

Decrease in total deferred tax liabilities

Intangible assets

Deferred tax liabilities – intangible assets have decreased during the year ended June 30, 2013, primarily as a result of the amortization of the underlying KSNET intangible assets during the year.

Valuation allowance

At June 30, 2013, the Company had deferred tax assets of $9.5 million (2012: $10.6 million), net of the valuation allowance. Management believes, based on the weight of available positive and negative evidence it is more likely than not that the Company will realize the benefits of these deductible differences, net of the valuation allowance. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised.

At June 30, 2013, the Company had a valuation allowance of $54.1 million (2012: $47.5 million) to reduce its deferred tax assets to estimated realizable value. The valuation allowances at June 30, 2013 and 2012, relate primarily to intangible assets including foreign tax credits (2013: $24.6 million, 2012: $19.1 million); tax deductible goodwill (2013: $17.0 million, 2012: $18.0 million); net operating loss carryforwards (2013: $11.8 million, 2012: $9.6 million); the FTS patent (2013: $0.5 million, 2012: $0.7 million) and other (2013: $0.1 million).

Net operating loss carryforwards and foreign tax credits

United States

As of June 30, 2013, Net1 had net operating loss carryforwards that will expire, if unused, as follows:

Year of expiration	US net operating loss carry forwards
2024	$3,706

During the years ended June 30, 2013 and 2012, Net1 generated additional foreign tax credits related to the cash dividends received. Net1 had no net unused foreign tax credits that are more likely than not to be realized as of June 30, 2013 and 2012, respectively. The unused foreign tax credits generated expire after ten years in 2023, 2022, 2021, 2020 and 2019.

19. INCOME TAXES (continued)

Deferred tax assets and liabilities (continued)

Net operating loss carryforwards and foreign tax credits (continued)

South Africa and Austria

Net operating losses incurred in South Africa generally expire if a company does not trade during the year. In South Africa, the subsidiary companies that incurred the losses are currently trading and will continue to trade for the foreseeable future. Net operating losses incurred in Austria generally do not expire.

Uncertain tax positions

As of June 30, 2013 and 2012, respectively the Company has unrecognized tax benefits of $1.1 million and $1.3 million, all of which would impact the Company's effective tax rate. The Company files income tax returns mainly in South Africa, Korea, Austria, the Russian Federation and in the US federal jurisdiction. As of June 30, 2013, the Company's South African subsidiaries are no longer subject to income tax examination by the South African Revenue Service for periods before June 30, 2009. The Company is subject to income tax in other jurisdictions outside South Africa, none of which are individually material to its financial position, statement of cash flows, or results of operations. The Company does not expect the change related to unrecognized tax benefits will have a significant impact on its results of operations or financial position in the next 12 months.

The following is a reconciliation of the total amounts of unrecognized tax benefits for the year ended June 30, 2013, 2012 and 2011:

	2013	2012	2011
Unrecognized tax benefits - opening balance	$1,314	$2,664	$1,460
Gross decreases - tax positions in prior periods	(170)	(1,159)	-
Gross increases - tax positions in current period	216	97	1,233
Lapse of statute limitations	-	-	-
Foreign currency adjustment	(210)	(288)	(29)
Unrecognized tax benefits - closing balance	$1,150	$1,314	$2,664

As of June 30, 2013 and 2012, the Company had accrued interest related to uncertain tax positions of approximately $0.2 million and $0.03 million, respectively, on its balance sheet.

20. EARNINGS PER SHARE

Basic earnings per share include shares of restricted stock that meet the definition of a participating security because these shares are eligible to receive non-forfeitable dividend equivalents at the same rate as common stock. Basic earnings per share have been calculated using the two-class method and basic earnings per share for the years ended June 30, 2013, 2012 and 2011, reflects only undistributed earnings. The computation below of basic earnings per share excludes the net income attributable to shares of unvested restricted stock (participating non-vested restricted stock) from the numerator and excludes the dilutive impact of these unvested shares of restricted stock from the denominator.

Diluted earnings per share has been calculated to give effect to the number of shares of additional common stock that would have been outstanding if the potential dilutive instruments had been issued in each period. Stock options are included in the calculation of diluted earnings per share utilizing the treasury stock method and are not considered to be participating securities as the stock options do not contain non-forfeitable dividend rights. The calculation of diluted earnings per share includes the dilutive effect of a portion of the restricted stock granted to employees in August 2007, October 2010, November 2010 and February 2012 as these shares of restricted stock are considered contingently returnable shares for the purposes of the diluted earnings per share calculation and the vesting conditions in respect of a portion of the restricted stock had been satisfied. The vesting conditions are discussed in Note 17.

20. EARNINGS PER SHARE (continued)

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:

	2013	2012	2011
	(in thousands except percent and per share data)		
Numerator:			
Net income attributable to Net1	$12,977	$44,651	$2,647
Undistributed earnings	12,977	44,651	2,647
Percent allocated to common shareholders (Calculation 1)	99%	99%	100%
Numerator for earnings per share: basic and diluted	$12,836	$44,397	$2,644
Denominator			
Denominator for basic earnings per share: weighted-average common shares outstanding	45,057	44,930	45,122
Effect of dilutive securities:			
Performance shares related to acquisition	95	-	-
Stock options	30	45	30
Denominator for diluted earnings per share: adjusted weighted average common shares outstanding and assumed conversion	45,182	44,975	45,152
Earnings per share:			
Basic	$0.28	$0.99	$0.06
Diluted	$0.28	$0.99	$0.06
(Calculation 1)			
Basic weighted-average common shares outstanding (A)	45,057	44,930	45,122
Basic weighted-average common shares outstanding and unvested restricted shares expected to vest (B)	45,553	45,187	45,175
Percent allocated to common shareholders (A) / (B)	99%	99%	100%

Options to purchase 2,605,863 shares of the Company's common stock at prices ranging from $6.59 to $24.46 per share were outstanding during the year ended June 30, 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 on August 22, 2022, were still outstanding as of June 30, 2013.

21. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information:

The following table presents the supplemental cash flow disclosures for the years ended June 30, 2013, 2012 and 2011:

	2013	2012	2011
Cash received from interest	$12,043	$9,180	$8,764
Cash paid for interest	$7,927	$9,773	$5,660
Cash paid for income taxes	$21,900	$30,704	$48,630

22. 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.

22. OPERATING SEGMENTS (continued)

The Company currently has five reportable segments: South African transaction-based activities, international transaction-based activities, smart card accounts, financial services and hardware, software and related technology sales. Each segment, other than international transaction-based activities and the hardware, software and related technology sales segments, operates mainly within South Africa. The Company's reportable segments offer different products and services and require different resources and marketing strategies and share the Company's assets.

The South African transaction-based activities segment currently consists mainly of a state pension and welfare benefit distribution service provided to the South African government and transaction processing for retailers, utilities, medical-related claim service customers and banks. Fee income is earned based on the number of recipient cardholders paid as well as from merchants and card holders using the Company's merchant acquiring system. Utility providers and banks are charged a fee for transaction processing services performed on their behalf at retailers. In addition, the operating segment includes sales of prepaid products (electricity and airtime). The Company earns a commission for prepaid electricity sales and revenue from the sale of airtime vouchers. This segment has individually significant customers that each provides more than 10% of the total revenue of the Company. For the year ended June 30, 2013, there was one such customer, providing 42% of total revenue (2012: one such customer, providing 41% of total revenue; 2011: one such customer, providing 47% of total revenue).

The international transaction-based activities segment currently consists mainly of KSNET which generates revenue from the provision of payment processing services to merchants and card issuers through its VAN. This segment generates fee revenue from the provision of payment processing services and to a lesser extent from the sale of goods, primarily point of sale terminals, to customers in Korea. The segment also generates transaction fee revenue from transaction processing of UEPS-enabled smartcards in Botswana and, until February 2013, through NUETS initiative in Iraq as well as transaction processing of medical-related claims. The Company allocated its international transaction-based activities to this segment effective July 1, 2010, and the Company's reported results for the year ended June 30, 2011, include all legacy international transaction-processing activities from July 1, 2010 and include KSNET from November 1, 2010.

The smart card accounts segment derives revenue from the provision of smart card accounts, as a fixed monthly fee per card is charged for the maintenance of these accounts. The financial services segment provides short-term loans as a principal and life insurance products on an agency basis and generates service fees and insurance premium income. As a result of the acquisition of Smart Life, we earn premium income from the sale of life insurance products and investment income.

The hardware, software and related technology sales segment markets, sells and implements the UEPS as well as develops and provides Prism secure transaction technology, solutions and services. The segment also includes the operations of Net1 UTA, which comprise mainly hardware sales and licenses of the DUET system. The segment undertakes smart card system implementation projects, delivering hardware, software and business solutions in the form of customized systems. Sales of hardware, SIM cards, cryptography services, SIM card licenses and other software licenses are recorded within this segment. This segment also generates rental income from hardware provided to merchants enrolled in the Company's merchant retail application. The impairment losses incurred during the years ended June 30, 2011, of approximately $41.8 million as discussed in Note 9 are included in the results of this operating segment.

Corporate/eliminations includes the Company's head office cost centers in addition to the elimination of inter-segment transactions. The profit related to the liquidation of SmartSwitch Nigeria during the year ended June 30, 2012, as discussed in Note 18, has been allocated to corporate/eliminations.

22. OPERATING SEGMENTS (continued)

The Company evaluates segment performance based on operating income. The following tables summarize segment information which is prepared in accordance with GAAP:

	June 30,		
	2013	**2012**	**2011**
Revenues to external customers			
South African transaction-based activities	$240,405	$201,207	$189,206
International transaction-based activities	133,481	118,281	70,382
Smart card accounts	36,990	31,263	33,315
Financial services	6,545	8,121	7,350
Hardware, software and related technology sales	34,726	31,392	43,167
Total	452,147	390,264	343,420
Inter-company revenues			
South African transaction-based activities	9,518	5,452	4,015
International transaction-based activities	-	-	-
Smart card accounts	-	-	-
Financial services	1,344	1,065	-
Hardware, software and related technology sales	1,198	1,784	2,281
Total	12,060	8,301	6,296
Operating income			
South African transaction-based activities	13,196	49,824	75,668
International transaction-based activities	34	1,257	(220)
Smart card accounts	10,543	12,820	15,140
Financial services	3,646	4,636	4,999
Hardware, software and related technology sales	6,694	3,619	(48,372)
Corporate/ Eliminations	(10,951)	(11,006)	(9,787)
Total	23,162	61,150	37,428
Interest earned			
South African transaction-based activities	-	-	-
International transaction-based activities	-	-	-
Smart card accounts	-	-	-
Financial services	-	-	-
Hardware, software and related technology sales	-	-	-
Corporate/ Eliminations	12,083	8,576	7,654
Total	12,083	8,576	7,654
Interest expense			
South African transaction-based activities	731	463	652
International transaction-based activities	-	44	526
Smart card accounts	-	-	-
Financial services	15	2	15
Hardware, software and related technology sales	350	109	59
Corporate/ Eliminations	6,870	8,727	7,420
Total	7,966	9,345	8,672
Depreciation and amortization			
South African transaction-based activities	12,144	9,370	8,997
International transaction-based activities	27,580	26,206	16,584
Smart card accounts	-	-	-
Financial services	463	345	539
Hardware, software and related technology sales	412	624	7,846
Corporate/ Eliminations	-	(46)	705
Total	$40,599	$36,499	$34,671

22. OPERATING SEGMENTS (continued)

	June 30,		
	2013	**2012**	**2011**
Income taxation expense			
South African transaction-based activities	$3,489	$13,948	$21,003
International transaction-based activities	(1,189)	(449)	(1,003)
Smart card accounts	2,952	3,590	4,238
Financial services	1,039	1,286	1,394
Hardware, software and related technology sales	1,570	894	(3,111)
Corporate/ Eliminations	6,795	(3,333)	11,004
Total	14,656	15,936	33,525
Net income attributable to Net1			
South African transaction-based activities	8,973	35,414	54,009
International transaction-based activities	1,657	2,190	652
Smart card accounts	7,589	9,230	10,904
Financial services	2,670	3,309	3,587
Hardware, software and related technology sales	4,785	2,616	(45,191)
Corporate/ Eliminations	(12,697)	(8,108)	(21,314)
Total	12,977	44,651	2,647
Expenditures for long-lived assets			
South African transaction-based activities	9,438	23,408	2,423
International transaction-based activities	12,490	14,978	12,113
Smart card accounts	-	-	-
Financial services	718	620	400
Hardware, software and related technology sales	101	161	117
Corporate/ Eliminations	-	-	-
Total	$22,747	$39,167	$15,053

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.

Geographic Information

Revenues based on the geographic location from which the sale originated for the years ended June 30, are presented in the table below:

	2013	**2012**	**2011**
South Africa	$317,916	$272,063	$264,485
Korea	129,338	114,096	68,392
Europe	2,738	2,413	10,465
Rest of world	2,155	1,692	78
Total	$452,147	$390,264	$343,420

22. OPERATING SEGMENTS (continued)

Long-lived assets based on the geographic location for the years ended June 30, are presented in the table below:

	Long-lived assets		
	2013	2012	2011
South Africa	$117,858	$140,308	$115,809
Korea	213,589	224,272	258,791
Europe	86	38	139
Rest of world	7,590	6,873	6,817
Total	$339,123	$371,491	$381,556

23. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Company leases certain premises. At June 30, 2013, the future minimum payments under operating leases consist of:

Due within 1 year	$4,192
Due within 2 years	2,675
Due within 3 years	2,165
Due within 4 years	714
Due within 5 years	$383

Operating lease payments related to the premises and equipment were $15.9 million, $7.5 million and $7.0 million, respectively, for the years ended June 2013, 2012 and 2011, respectively.

Capital commitments

As of June 30, 2013 and 2012, the Company had outstanding capital commitments of approximately $0.3 million and $5.0 million, respectively.

Purchase obligations

As of June 30, 2013 and 2012, the Company had purchase obligations totaling $3.9 million and $13.7 million, respectively. The purchase obligations as of June 30, 2013, primarily include inventory that will be delivered to the Company and sold to customers in the next twelve months.

Contingencies

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.

24. RELATED PARTY TRANSACTIONS

As described in Note 3, on September 14, 2012, the Company acquired all of the outstanding and issued ordinary shares in Pbel. During the year ended June 30, 2010, the Company engaged the services of Pbel to perform software development services, primarily software utilized on mobile phones and by cash-accepting kiosks. All software developed under this engagement became the Company's property. During the years ended June 30, 2013, 2012 and 2011, the Company recognized expenses of approximately $0.1 million, $0.8 million and $0.9 million, respectively, for these software development services. As of June 30, 2013, and since acquisition, the Company's has eliminated all intercompany balance sheet accounts with Pbel on consolidation. As of June 30, 2012, the Company's accounts payable included $0.08 million due to Pbel.

25. UNAUDITED QUARTERLY RESULTS

The following tables contain selected unaudited consolidated statements of operations information for each quarter of fiscal 2013 and 2012:

	Three months ended				
	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012	Sep 30, 2012	Total YTD
	(In thousands except per share data)				
Revenue	$117,882	$111,141	$111,442	$111,682	$452,147
Operating income	13,591	(4,726)	4,972	9,325	23,162
Net income attributable to Net1	$8,285	$(4,681)	$2,629	$6,744	$12,977
Earnings per share, in United States dollars					
Basic earnings per share	0.18	(0.10)	0.06	0.15	0.28
Diluted earnings per share	0.18	(0.10)	0.06	0.15	0.28

	Three months ended				
	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011	Sep 30, 2011	Total YTD
	(In thousands except per share data)				
Revenue	$107,616	$90,664	$92,058	$99,926	$390,264
Operating (loss) income	(2,402)	12,478	20,228	30,846	61,150
Net (loss) income attributable to Net1	$(7,977)	$7,766	$25,094	$19,768	$44,651
(Loss) Earnings per share, in United States dollars					
Basic (loss) earnings per share	(0.17)	0.17	0.56	0.44	0.99
Diluted (loss) earnings per share	(0.17)	0.17	0.56	0.44	0.99

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