Net 1 UEPS Technologies, Inc. CEO's Letter for 2019 Annual Report

Dear Fellow Shareholders:

We are glad to have our fiscal 2019 behind us. What should have been a planned and routine transition with the termination of our SASSA contract, turned into a barrage of challenges thrown at us with far reaching repercussions, most notably the unilateral and controversial migration of approximately two million of our EasyPay Everywhere ("EPE") customers, and more recently an adverse ruling from the Supreme Court to refund SASSA the ZAR 317 million plus interest that they paid us for reimbursement of costs related to bulk enrollment in 2014. The resulting lower level of business activity coupled with our existing cost structure left us with no choice but to take some of the hardest decisions imaginable to return to breakeven EBITDA in South Africa, predominantly through the retrenchment of approximately 50% of our staff, while also deleveraging our balance sheet. We have managed to accomplish both these near-term objectives.

With only legacy contract termination and legal issues remaining from the SASSA era, we now look forward to 2020 and beyond with the enthusiasm and vigor of knowing we have free reign to push forward with our aspirations of being a global fintech player that through its technology and experience, facilitates financial inclusion. Financial inclusion helps provide the unbanked and underbanked with access to financial services, drive adoption and usage, offer quality and choice of products, in turn resulting in a positive socioeconomic impact on the intended recipient. In emerging countries these are primarily individuals and in developed countries they are usually small businesses.

As we emerge from this difficult period, we also recognize the need for us to simplify our story, structure and reporting, while also being able to unlock value for our shareholders.

Looking ahead to 2020, imbibing the principles highlighted above, our focus will be on:

- **South Africa – accelerate transition from B2B to B2C**: our objective is to provide financial inclusion to low-income individuals in South Africa through the provision of bank accounts, which in turn becomes the channel through which we can provide access to various financial and other services in collaboration with Finbond;
- **Europe – scale up our payments and blockchain offerings**: We have developed and certified all the necessary technology required to address this market opportunity and will go to market with a new brand starting in fiscal 2020. Our efforts will be further supplemented by taking a controlling interest in Bank Frick, which has a universal pan-European banking license and issuing and acquiring licenses with Visa and/or MasterCard. For financial inclusion, we will offer state-of-the-art solutions for issuing, acquiring and neobank services, primarily to small businesses, as well as launch our internally developed blockchain and crypto-asset storage products in collaboration with Bank Frick;
- **Africa – rapidly grow our payment solutions**: We will pursue a mobile-first approach to financial inclusion in Africa, where the cost of physical cards and POS terminals make it prohibitively expensive to digitize transactions. Through ZappGroup, we have begun the deployment of QR-code based payments in Ghana, which will be followed by additional countries over the next year. Similarly, in Nigeria, Carbon is a digital consumer lender that has begun to expand its portfolio of products to include payments and other financial services. As our footprint in these markets evolves, our on-ground teams will begin to incorporate other Net1 products, including but not limited to UEPS/EMV;
- **South Korea – implement turnaround plan**: KSNET is one of the largest VAN companies in South Korea with 223,000 merchants, and the only one that is able to offer card VAN, banking VAN and payment gateway services. We have invested in external advisors to assist us with the formulation and implementation of a turnaround plan to drive top line growth and improving profitability, which will be an area of focus for us and KSNET in 2020; Simultaneously, we are actively evaluating our strategic alternatives for the business, and we have received a number of indicative offers to acquire KSNET that we are currently evaluating with the assistance of FT Partners, our corporate advisors; and
- **Unlock shareholder value**: There is a palpable dichotomy between the value of our businesses and investments, and the market value of Net1. While there are a number of factors that have led to this mismatch, we recognize the need for certain actions by the Company in order to realize some or all of the inherent value in Net1. In addition to simplifying the business and reporting structure, our Board has already commenced with a group-wide strategic review to identify the core businesses we need to operate and monetize the assets that are non-core to our simplified fintech strategy. We have already commenced with the partial disposition of our interest in DNI, with the remaining 30% interest to be realized in H1 2020. In addition to KSNET, other businesses and investments are also being evaluated - particularly if they are not core to the group's global fintech strategy.

At June 30, 2019, we had approximately 1.1 million EPE customers, which has been relatively stable since December 2018 but declined from a peak of 2.9 million customers prior to SASSA's auto-migration in August to November 2018. Our new South African banking and financial services products will be launched in 2020 under a different brand and with a different bank partner. We believe conservatively in 2020, we should be able to grow our customer base by at least 10% from our June 30, 2019 account base. Together with Finbond, from a distribution standpoint, we would operate the second largest bank branch infrastructure in the country with 808 branches in addition to 1,300 ATMs and 70,000 POS terminals. The products we have designed for the lowest income earners provide maximum functionality at the most affordable price.

Having reduced our interest in DNI from 55% to 30% in March and May 2019, the business has been deconsolidated from our financial statements in Q4 2019. Cell C has faced some challenges due to short-term liquidity constraints and a slowing economy, and is actively working with all stakeholders to conclude a recapitalization transaction, that will meaningfully improve its liquidity and set it on a path to profitability.

Financial Overview and Key Metrics. In fiscal 2019, our US dollar-based results were adversely impacted by a 12% year-over-year depreciation in the South African Rand, which remains volatile due to political and macroeconomic forces. Revenue declined 38% to $361 million (34% in ZAR[1]), while Fundamental EPS[2] was a loss of $4.53, including negative fair value adjustments for Cell C, impairments, a write-down of finance loans receivables, and operating losses following the expiration of our SASSA contract and auto-migration of EPE customers, and the impact of the September 2019 Supreme Court ruling. The decline in revenue was due to the expiration of our SASSA contract in Q1 2019, lower fee and financial services revenue from our EPE customer base, as well as lower revenue in South Korea due to the regulatory changes and fewer prepaid airtime and value-added services. Consolidated operating margin was negative 31% in fiscal 2019 compared to positive 10% a year ago, due to the reasons highlighted above.

Continuously Innovating. Innovation is in Net1's DNA and we will continue to provide relevant and accessible solutions for our increasingly diverse global customer base, while creating new mobile-based solutions along with Cell C, MobiKwik, ZappGroup and Carbon and new blockchain, virtual financial asset storage and processing solutions through IPG.

Management and Governance. We remain committed to expanding our management team and a large part of our focus in fiscal 2020 will be focused on building out management, product, sales and geographic specialists required to support our product-driven strategy, in turn driving higher and sustainable revenue and earnings.

Appreciation. To our stakeholders, we have tried to systematically address the external pressures on our share price over the past few years, which has been due to the apparent uncertainty surrounding the long-term sustainability of our business given the perceived reliance on SASSA, the volatility of the South African Rand, and political and regulatory interference in South Africa. The steps and actions we have taken to drive the new Net1 are meaningful, and we expect to deliver tangible benefits of our strategy starting in fiscal 2020, building off the more stable base experienced in Q4 2019. We have positioned the company to address the opportunities in South Africa, Europe, Africa and South Korea, while expending meaningful effort to unlock shareholder value.

[1] ZAR 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. Refer to —"Forward looking statements and use of non-GAAP measures—Use of non-GAAP measures in our Annual Report" for further information regarding these non-GAAP measures.

I would like to extend my sincere thanks to my colleagues on the Board, my unflagging management team and all of Net1's employees for their dedication and tireless pursuit of excellence in serving our new and existing customers, our communities and for constantly striving to return Net1 to a leadership position within our industry.

Sincerely,

Herman G. Kotzé
Chief Executive Officer

Financial results at a glance

Consolidated results (refer also Item 6 to our Annual Report on Form 10-K included in this Annual Report)
(in United States dollar thousands, except percentages, per share data and number of employees)

	Year Ended June 30(R)				
	2019	**2018 As restated**	**2017 As restated**	**2016 As restated**	**2015 As restated**
Revenue	**360,990**	612,889	610,066	590,749	625,979
Operating (loss) income	**(113,508)**	58,949	97,043	114,368	128,519
Operating (loss) income margin	**(31%)**	10%	16%	19%	21%
Net (loss) income Net1	**(307,618)**	64,246	73,070	82,137	94,735
(Loss) Earnings per share:					
Basic ($)	**(5.42)**	1.13	1.34	1.72	2.03
Diluted ($)	**(5.42)**	1.13	1.33	1.71	2.02
Fundamental net (loss) income[3]	**(256,906)**	113,720	94,721	92,113	108,205
Fundamental (loss) earnings per share[3]:					
Basic ($)	**(4.53)**	2.00	1.74	1.92	2.32
Number of employees	**3,146**	8,379	5,358	5,701	4,764
Cash flows (used in) provided by operating activities	**(4,460)**	132,605	97,161	116,552	135,258
Cash and cash equivalents	**46,065**	90,054	258,457	223,644	117,583
Total assets	**672,936**	1,217,314	1,448,829	1,261,649	1,315,108
Total equity	**319,429**	640,986	598,802	601,784	477,351

(R) – Certain 2018, 2017, 2016 and 2015 amounts restated - refer to Item 6 and Note 1 to our audited consolidated financial statements included in Item 8 of our Annual Report on Form 10-K in this Annual Report for additional information.

Operating segments information
(in United States dollar thousands)

	Year Ended June 30,				
Operating Segment	**2019**	**2018**	**2017**	**2016**	**2015**
Revenue:					
South African transaction processing	**96,038**	268,047	249,144	212,574	236,452
International transaction processing	**148,268**	180,027	176,729	169,807	164,554
Financial inclusion and applied technologies	**146,184**	221,906	235,901	249,403	272,600
Subtotal: Operating segments	**390,490**	669,980	661,774	631,784	673,606
Intersegment eliminations	**(29,500)**	(57,091)	(51,708)	(41,035)	(47,627)
Consolidated revenue	**360,990**	612,889	610,066	590,749	625,979
Operating income (loss):					
South African transaction processing	**(30,771)**	42,796	59,309	51,386	51,008
International transaction processing	**2,837**	(12,478)	13,705	23,389	26,805
Financial inclusion and applied technologies	**(14,758)**	55,372	57,785	54,999	72,725
Subtotal: Operating segments	**(42,692)**	85,690	130,799	129,774	150,538
Corporate/Eliminations	**(70,816)**	(26,741)	(33,756)	(15,406)	(22,019)
Consolidated operating income	**(113,508)**	58,949	97,043	114,368	128,519

Refer to Item 7 of our Annual Report on Form 10-K included in this Annual Report for a detailed discussion of our results per operating segment.

[3] Fundamental net income and earnings per share are non-GAAP measures. Refer to —"Forward looking statements and use of non-GAAP measures—Use of non-GAAP measures in this Annual Report" for further information regarding these non-GAAP measures.

Corporate social responsibility report

Net1 recognizes the importance of social-economic transformation in our society and is committed to contribute to meaningful transformation through the Black Economic Empowerment process. In fiscal 2019, despite our extremely challenging trading conditions experienced, we proudly contributed ZAR 10.5 million to these initiatives. We have strict guidelines and diligence requirements that govern any contribution made under our corporate social responsibility program and all contributions are approved by a Corporate Social Investment Committee and reported to our Audit Committee.

We are committed to responsible corporate citizenry through support of social transformation and job creation. We believe that this will ensure sustainable stability for future generations.

Our objectives to promote transformation, growth and prosperity in South Africa's economy through active involvement in programs that support the meaningful participation of black South Africans, including black women and youth, in the national economy and particularly within the Information Communications Technology ("ICT") sector.

We achieve these objectives through the establishment of programs in South Africa to assist:

- Management and skills development;
- Socio economic development; and
- Enterprise development, especially small and medium enterprises, promoting the entry of black entrepreneurs into the mainstream of economic activity, and the advancement of co-operatives.

Management and Skills Development

We support several educational initiatives across a number of discipline focus areas, specifically within the ICT sector, including the provision of resources. We also support education initiatives in relation to educational funding, upgrading of ICT equipment and training programs.

We believe that we can support the education of children by providing schools with the necessary resources, infrastructure and support required. Providing children in disadvantaged areas a fair opportunity to reach their potential is vital to the progression of South Africa. The following educational initiatives form part of our educational funding initiative:

LFP and The Business School of South Africa

We are passionate about developing skills, particularly for unemployed youth, through learnership programs. We provide learners with the opportunity to improve their skills and obtain nationally recognized qualifications through partnership with accredited learning institutions. We have partnered with LFP Training Consultants, an accredited provider of education and training, for the delivery of various learning programs.

LFP is a fully accredited institution through which we have provided learnerships to over 26 disabled, unemployed individuals. We also pay these learners a stipend for the duration of the course.

We have continued our strong association with The Business School of South Africa (Pty) Ltd ("BSSA"). BSSA is a Level 1 Broad-Based Black Economic Empowerment ("B-BBEE") Supplier in terms of the Amended Codes of Good Practice and offers a number of training programs. We have provided learnerships to over 30 able and disabled unemployed individuals with BSSA as the main training/skills development provider and we have also paid these learners a stipend for the duration of their studies.

Excalibur Skills and Learnerships

Excalibur is a Level 2 B-BBEE contributor with 51% black women ownership. Excalibur partnered with a few small learnership companies to offer its clients the ultimate learnership experience: service, affordability and step by step feedback. It has a 3-step process, and recruits all types of learners, performs a pre-assessment of the learner and then decides on the correct type of learnership for the learner to achieve the best results. Excalibur has provided learnerships to 20 individuals and also pays these learners market related stipends for the duration of the learnerships commencing from the first month of the contract.

SAME Foundation

The S.A. Medical and Education Foundation (the "SAME Foundation") provides schools with the necessary resources, infrastructure and support which are essential to the education of children. The SAME Foundation implements school monitoring and support after the completion of a project. This allows them to measure the impact of the investment and assist further to ensure objectives are reached. We have partnered with the SAME Foundation to establish two new science laboratories, nine fully equipped mathematics classes and to launch a computer centre which includes all the necessary hardware and software to ensure that learners and teachers have the opportunity to study computer literacy and further aims to introduce Computer Applied Technology to the curriculum. These projects have given learners and teachers access to all the resources they need to follow the curriculum effectively, as well as provide them with a learning-conducive environment. E-learning systems containing learning software have been made available in every classroom.

ACTION for the Blind and Disabled Children

Action for the Blind and Disabled Children ("ACTION") undertakes to provide computer literacy to less fortunate children at no cost. Many of the blind and disabled youngsters enrolled with ACTION hail from rural areas. ACTION enables disabled, blind or deaf learners to achieve fulfilling employment in a competitive job market by providing above average IT qualifications. As Net1 believes in the importance of education – especially for disabled, blind and/or deaf children who do not have the privilege of technology in their classrooms and care facilities – we partnered with ACTION. In partnership with ACTION, Net1 has funded 22 disabled students to enroll for Microsoft programs (National Certificate: Information Technology: End User Computing) that will enable them to write the Microsoft Office Specialist exams, which are internationally recognized. All computers are equipped with Job Access with Speech software which enables the computer to audibly read what appears on the screen.

Other

We have also contributed to Kungwini Welfare Organisation, the Melisizwe Computer Lab Project and Jicama 89.

Social Economic Development

Our contributions are made with the intent to transform, uplift and empower communities. We support a number of beneficiaries and work in partnership with various Non-profit Organizations ("NPOs") and local community members with the goal to support projects which are efficient, sustainable and valuable to the community. Our primary funding focus areas include:

- Education through improved teacher and learnership programs, providing necessary resources including bursaries;
- Community development through child and youth care centers – programs which support substance abuse awareness and awareness against violence specifically aimed at children and women; and
- The promotion of entrepreneurship and job creation and increased employment through skills development programs targeted at youth and community-based, informal entrepreneurs.

Reach for a Dream

Reach for a Dream provides continuous hope to children fighting life-threatening illness through the fulfilment of their dreams and to offer help to many children facing these illnesses. Fulfilling dreams enables these children to experience a fun aspect of life which they do not get to participate in due to their illness. The positive effect of the "dream come true" lingers, and the children often respond better to their medication and treatment. These children between the ages of 3 and 18 years have used their dreams to fight illnesses such as cancer, cystic fibrosis, muscular dystrophy, kidney failure, blood disorders and heart conditions. We contributed towards "laptop dreams" by enriching children's lives with making dreams come true and as a result, distracting them from medication and the hospital environment. The partnership has contributed towards offering children magical moments to regain their childhood which is being lost to illness.

Other

We have also contributed to Thandanani, E-Classroom (Pty) Ltd, Melisizwe School Computer Project NPC, Pretoria Police Rugby Club, Lantern School, Kingsway Centre of Concern, RoundAbout Watersolutions, Jicama 89 CPO, The Last Hope Organisation NPO, Kungwini Welfare Organisation, Grannies Who Care, Hope For All Outreach NPC and Christ Church Christian Care Centre.

Enterprise Development

Net1 believes in equal and fair opportunities for all, including the empowerment and improvement of previously disadvantaged individuals and communities. We are currently working with various partners to explore and create corporate social development initiatives which will bring about sustainable and scalable outcomes.

We have partnered with Tshokoma Business Consultancy as part of our enterprise development with the main focus of creating a sustainable environment for growth in the small enterprise sector. This is critical for the sustainable economic growth of South Africa. Through this partnership value added enterprise development has been implemented which will develop small businesses, and in particular, create sustainable small businesses which will, in effect, create more employment and empower the previously disadvantaged. Tshokoma Business Consultancy uses a triple-down approach to poverty alleviation and sustainable development. This is achieved by employing individuals from townships and rural areas, thereby creating synergistic impact on previously disadvantaged areas. The direct and indirect impact of the investment includes the following:

- 9 jobs retained from the previous financial year;
- 15 permanent jobs created;
- 8 temporary jobs created;
- 13 jobs provided to women;
- 1 job provided to people with disabilities;
- 21 jobs created for youth;
- 12 enterprises established for men;
- 15 enterprises established for women;
- 27 enterprises established for youth;
- 28 direct procurement opportunities and clients acquired during the period;
- 22 indirect procurement opportunities and clients acquired during the period;
- Procurement towards 68 SMMEs within the Tshokoma ecosystem;
- 34 essential training and courses attended at formal institutions;
- 55 essential training and courses attended through online platforms;
- 8 international investment opportunities; and
- 11 local investment opportunities.

Additional information

Further details of our corporate social investment initiatives are available on our website at www.net1.com.

Report Assurance

We have not obtained independent third party assurance of this corporate social responsibility report for the 2019 reporting period.

Forward looking statements and use of non-GAAP measures

Forward looking statements

This Annual Report 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. 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. For more information about the factors that could cause our actual results to differ materially from current expectations, you should refer to the section entitled “Risk Factors” in our 2019 Annual Report on Form 10-K and in our Quarterly Reports on Form 10-Q that we file from time to time with the United States Securities and Exchange Commission.

Use of non-GAAP measures in this Annual Report

US securities laws require that when we publish any non-GAAP measures, we disclose the reason for using the non-GAAP measure and provide a reconciliation to the directly comparable GAAP measure. The presentation of fundamental net (loss) income and fundamental (loss) earnings per share and headline (loss) earnings per share are non-GAAP measures.

Why we use non-GAAP measures

Management believes that the fundamental net (loss) income and (loss) earnings per share metric enhances its own evaluation, as well as an investor’s understanding, of our financial performance.

How we calculate our non-GAAP measures

Fundamental net (loss) income and (loss) earnings per share is GAAP net (loss) income and (loss) 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 (refer to captions included in the table below).

Reconciliation of GAAP net income to fundamental net income

The table below presents the reconciliation between GAAP net (loss) income to fundamental net (loss) income for our last five fiscal years:

	Net income (USD’000)				
	2019	**2018**	**2017**	**2016**	**2015**
GAAP	**(307,618)**	**64,246**	**72,954**	**82,454**	**94,735**
Impairment loss	19,745	20,917	-	-	-
Intangible asset amortization, net of tax	16,290	9,385	10,491	8,413	11,263
Loss on disposal of DNI	5,771	-	-	-	-
Retrenchment costs, net	4,514	-	-	-	-
Transaction-related costs	3,485	2,239	3,347	1,018	-
Intangible asset amortization, net related to non-controlling interest	(2,737)	-	-	-	-
Accreted interest on DNI contingent consideration	1,848	-	-	-	-
Intangible asset amortization, net (equity-accounted investments)	1,082	2,908	-	-	-
Stock-based compensation charge	393	2,607	1,982	3,598	3,195
Facility fees for debt	321	589	1,268	138	208
Non-recurring Mastertrading allowance for doubtful accounts	-	7,803	-	-	-
Loss resulting from acquisition of DNI	-	4,614	-	-	-
Refund of South Korean indirect taxes	-	(1,985)	-	-	-
Change in US tax rate	-	860	-	-	-
Profit on sale of XeoHealth	-	(463)	-	-	-
Former CEO separation payment, net of tax	-	-	5,200	-	-
Refund for KSNET litigation	-	-	(643)	-	(1,354)
US government investigations-related and US lawsuit expenses	-	-	122	133	158
Gain resulting from acquisition of Transact24	-	-	-	(1,909)	-
Accounting change for Finbond	-	-	-	(1,732)	-
Fundamental	(256,906)	113,720	94,721	92,113	108,205

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, 2019

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	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value $0.001 per share	**UEPS**	**The Nasdaq Stock Market LLC (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 every Interactive Data File required to be submitted 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

[ ]	Large accelerated filer	[X]	Accelerated filer
[ ]	Non-accelerated filer	[X]	Smaller reporting company
		[ ]	Emerging growth company

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

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, 2018 (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 $174,172,483. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of September 23, 2019, 56,568,425 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 2019 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, 2019

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 during our 2020 fiscal year, which runs from July 1, 2019 to June 30, 2020.

ITEM 1. BUSINESS

Overview

We are a leading provider of financial technology, or fintech, products and services to the unbanked and underbanked in a number of emerging and developed economies. In emerging economies these customers are typically individuals, while in developed countries, they are primarily small businesses. We have developed and own most of our payment technologies, and where possible, utilize this technology to provide financial and value-added services to our customers by including them into the formal financial system.

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

Our off-line UEPS system also offers the highest level of availability and affordability by removing any components that are costly and prone to outages. Our UEPS/EMV solution enables our traditional proprietary UEPS system to interoperate with the global EMV standard and allows card holders to transact at any EMV-enabled point of sale terminal or automated teller machine, or ATM. The UEPS/EMV technology has been deployed on an extensive scale in South Africa through the issuance of MasterCard-branded UEPS/EMV cards to our under-banked customers, including social welfare grant recipients. In addition to effecting purchases, cash-backs and any form of payment, our system can be used for banking, healthcare management, money transfers, voting and identification.

Our transaction processing services include multiple forms of payment processing. We operate leading merchant processors in South Africa through EasyPay and in South Korea through KSNET, a fixed and mobile ATM infrastructure in South Africa, as well as end-to-end issuing, acquiring and processing services across Asia and Europe through our International Payments Group, or IPG. We managed more than 300,000 merchants worldwide and processed more than three billion transactions in Fiscal 2019. With two decades of experience in cryptography and secure transactions, through IPG, we have established a leadership position in partnership with Bank Frick & Co. AG, or Bank Frick, a Liechtenstein-based bank, in Europe focused on cryptocurrency processing and the development of a number of block-chain related products such as our new crypto-asset storage product.

Our financial inclusion products and services are delivered through our UEPS-based core banking system, providing a low-cost, biometrically secure transactional bank account to our customers, and distributing a number of financial, telecom and other value-added products through this platform in order to garner a greater share of wallet. In South Africa, this system is currently deployed under the brand EasyPay Everywhere, or EPE, and at June 30, 2019, we have approximately 1.1 million active customers on the platform.

Our technology businesses include the development and deployment of our UEPS and Mobile Virtual Card, or MVC, solutions worldwide, cryptographic solutions including the STS-6 standard for utility vending solutions, hardware security modules or HSM, chip and subscriber identity module, or SIM, cards, and the reselling of point of sale equipment.

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: Dozens of national governments have adopted policies to expand financial inclusion to their citizens. According to the most recent World Bank's 2017 Global Findex Database, 69% of adults worldwide have access to an account at a financial institution or through a mobile money service. In developing economies, this percentage is 63%. As a result, 1.7 billion adults around the world remain entirely excluded from the financial system. Globally, 20% of the banked population have inactive accounts, i.e. no transactions for twelve months, taking the market opportunity to well over 2 billion adults. This situation arises when banking fees are either too high relative to an individual's income, a bank account provides little or no meaningful benefit or there is insufficient infrastructure to provide financial services economically in the individual's geographic location. We refer to these people as the unbanked and the under-banked. These individuals typically receive wages, welfare benefits, money transfers or loans in the form of cash, and conduct commercial transactions, including the purchase of food and clothing, also in cash.

Globally, 1.7 billion adults lack an account
Adults without an account, 2017

Source: Global Findex database.
Note: Data are not displayed for economies where the share of adults without an account is 5 percent or less.

Our target under-banked customer base in most emerging economies, and particularly in sub-Saharan Africa, has limited access to formal financial services and therefore relies heavily on the unregulated informal sector for such services. The power of financial technology to expand access to, and use of accounts is particularly relevant in sub-Saharan Africa, where 21% of adults have a mobile money account. Globally, the share of adults who borrow from formal sources, has remained flat between 2014 and 2017 at 23%, which implies that half of the borrowers globally rely on informal lenders resulting in exorbitant borrowing costs, questionable recovery practices and the inevitable downward debt spiral. By leveraging our smart card and mobile technologies, we are able to offer affordable, secure and reliable financial services such as transacting accounts, loans and insurance products to these consumers and alleviate some of the challenges they face in dealing with the informal sector, while also allowing them to build a credit history and gain access to the broader formal financial services industry.

Over the past two decades we have issued millions of cards across more than ten developing countries, and therefore our track record and scale uniquely position us to continue further geographical penetration of our technology in additional emerging countries.

Similarly, in developed countries, Small and Micro Enterprises, or SMEs, frequently fall into the underbanked category due to cumbersome and costly efforts to secure banking relationships, payment processing and credit. According to a Deloitte report, titled Digital banking for small and medium-sized enterprises Improving access to finance for the underserved, on Digital Banking for Small Businesses, several factors drive low financial inclusion of SMEs, including 1) limited financial infrastructure such as poor coverage by credit bureaus limit availability and cost of securing credit; 2) inadequate distribution channels limit banks from reaching and servicing SMEs in either the physical or digital space; 3) lack of cash-flow visibility forces banks to adopt stringent collateral-based credit risk models which hinder lending to SMEs without collateral; and 4) regulations and compliance costs adversely impact banks from serving small customers and invariably drive up costs.

These inefficiencies have created an opportunity for neo-or-challenger banks and fintech companies to improve reach and coverage for SMEs and accelerate access to, and reduce cost of banking and financial services. Our issuing, acquiring and platforms together with our e-money licenses and relationship with Bank Frick, a European bank in which we have a sizeable strategic investment, allows SMEs to open accounts and accept electronic payments almost instantly, letting them focus on running their core business.

Transaction processing services: The continued global growth of retail credit, debit and prepaid card transactions is reflected in the May 2019 Nilson Report, according to which worldwide annual general purpose card dollar volume increased 19.1% to $33.7 trillion in 2018, while transaction volume increased by 22.4% to 406.3 billion transactions and cards issued increased by 10.4% to 13.2 billion cards during the same period. General purpose cards include the major card network brands such as MasterCard, Visa, UnionPay and American Express. In South Africa, we operate the largest bank-independent transaction processing service through EasyPay, where we have developed a suite of value-added services such as bill payment, airtime top-up, gift card, money transfer and prepaid utility purchases that we offer as a complete solution to merchants and retailers. In South Korea, through KSNET, we are one of the largest Value-added network, or VAN, processors, and we provide card processing, banking value-added services and payment gateway functionality to more than 223,000 retailers. IPG operates as an established end-to-end provider of issuing, acquiring, and processing, particularly for small merchants or those with significant cross-border operations. Another key differentiator of IPG is its extensive catalog of licenses and regulated entities, including some within the fast-growing fields of cryptocurrencies and blockchain. IPG is ably supported by Bank Frick.

Mobile payments: The rapid growth of online commerce and the emergence of mobile devices as the preferred access channel for transacting online has created a global opportunity for the provision of secure payment services to online retailers and service providers. Our MVC technology focuses on card-not-present transactions and enables interoperability between closed or semi-closed networks, and has been deployed in South Africa, India and the United States. Additionally, through ZappGroup Africa, one of our strategic investments, we are able to provide QR technology to emerging countries in Africa, allowing them leapfrog the 50+ year old card technology and go straight to mobile, as many countries like China, India, Nigeria, Ghana and Kenya have done.

Despite lacking access to formal financial services, large proportions of the under-banked customer segment own and utilize mobile phones. The World Bank's research has confirmed the rising popularity of using mobile phones to transfer money and for banking that often does not require setting up an account at a brick-and-mortar bank. The World Bank has stated that mobile banking, which allows account holders to pay bills, make deposits or conduct other transactions via text messaging, has rapidly expanded in Sub-Saharan Africa, where traditional banking has been hampered by transportation and other infrastructure problems. The 2017 Global Findex Database: Measuring Financial Inclusion and the Fintech Revolution states that 21% of adults in Sub-Saharan Africa have a mobile-money account – nearly twice the percentage compared to 2014. In developing economies, 19% of adults reported making at least one direct payment using a mobile money account, a mobile phone, or the internet.

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

Our Strategy

Our core purpose is to improve people's lives by bringing financial inclusion to the world's under-banked customers and helping small businesses access the financial services they need to prosper. We achieve this through our unique ability to efficiently digitize or tokenize the expensive and difficult to achieve last mile of financial inclusion.

Our strategy varies by geography and service, and accordingly our approach is based on four pillars which are supplemented by our strategic investments:

South Africa—we own or control most of the components of the vertical chain in South Africa, from core banking to lending and insurance to payments, processing and value-added services as well as a significant last mile distribution network. Our focus remains squarely on the underbanked population who are low-wage earners or those receiving welfare grants, as well as any customers accessing our payment infrastructure, ATMs and bill payment platforms.

Our EPE banking product provides our target market with an affordable all-inclusive transactional bank account with access to financially inclusive services such as microloans, life insurance, remittances, value added services such as prepaid utilities and bill payments through their mobile phones and our national network of ATMs and POS devices. At June 30, 2019, we had approximately 1.1 million active EPE customers. Going forward, we will also work more closely with Finbond Group Limited, or Finbond, a South African bank in which we have a significant strategic investment, to issue new and expanded banking and financial services offerings. Additionally, our combined branch, point-of-sale and ATM network with Finbond, would make us the second largest bank in South Africa from a distribution and coverage perspective.

We are also one of the leading independent transaction processors, and have deployed the most extensive distribution network comprising of mobile and fixed ATM’s and POS devices to the country’s large unbanked and under-banked population, we are the largest third-party processor of retail merchant transactions, bill payments and third-party payroll payments. We believe that our large cardholder base, specialized technology and payment infrastructure, together with our strong business relationships, position us at the epicenter of commerce in the country. Through our national distribution platform and relationships with a number of leading companies across multiple industries, we believe that we can provide many of the services consumed by our cardholders who would normally not have access to these services or would otherwise have to rely on the informal sector. We have a network of mobile ATMs to provide services to our cardholders, and we have established a national fixed ATM and POS network.

We aim to increase the adoption of our existing services by expanding our cardholder base and our transacting network, and increase our service offerings by developing new products and distribution networks and by forging partnerships with industry participants who share our vision and can accelerate the implementation of our business plan.

Africa—Depending on the country, only 10% to 30% of the adult populations have access to financial services and thus the deployment of cloud-based bank-in-a-box and mobile-based solutions, together with strong local partners, remains a substantial opportunity for us. Today we are operational in nine African countries through our Virtual Top Up, or VTU, offerings in partnership with MTN, UEPS is deployed as the national payment system in Ghana and extensively used in Namibia and Botswana, a rapidly growing digital consumer finance business in Nigeria through OneFi, and our relatively new QR-based payment initiatives through ZappGroup Africa. We also intend to increase cooperation across our operations in various African countries to build a substantial continent-wide fintech platform that is home to a billion people.

Our mobile-first approach is predicated on the belief that mobile payments, mobile wallets and the related applications should be a critical component of a payment processor’s future strategy and we have dedicated a significant portion of our research and development and business development resources to ensure that we remain at the forefront of this rapidly evolving technological space.

Europe and Asia (ex-Korea)—This opportunity is driven by IPG and focuses primarily on the SME market as well as solutions utilizing blockchain and cryptocurrencies. IPG was created by combining a number of regional assets and licenses to form a comprehensive international payments business providing issuing, acquiring and processing, supported by Bank Frick in Europe. IPG has developed new, state-of-the-art issuing and acquiring platforms that have now been certified by Visa and MasterCard.

In India, we own an interest in MobiKwik, one of the largest digital financial services platforms in India with over 80 million users. MobiKwik helps us gain entry to a large and complex market and we have already deployed our MVC technology, allowing their wallet to become interoperable and offering an effective disbursement tool for their loan products.

South Korea—KSNET in Korea is one of the largest VANs in the country with 223,000 merchants and over 359,000 POS deployed. It processed in excess of 1.7 billion transactions in fiscal 2019. KSNET is also the only one of the large VANs that provides Card VAN, Banking VAN and payment gateway, or PG, services. Banking VAN and payment gateway markets are faster growing and are an area of focus for KSNET. We are introducing new products such as working capital finance to leverage their high-fixed cost infrastructure.

Our Businesses

Our company is organized into the following business lines:

South African Banking and Financial Services

We have developed a suite of financial services that is offered to customers utilizing our payment solutions. We are able to provide our UEPS/EMV cardholders with competitive transacting accounts, microfinance, life insurance and money transfer products based on our understanding of their risk profiles, demographics and lifestyle requirements. Our financial services offerings are designed on the principles of simplicity and cost-efficiency as they bring financial inclusion to our millions of cardholders who were previously unable to access any formal financial services in a convenient or cost-effective manner. Our banking product, EPE, provides our target market with an affordable all-inclusive transactional bank account with unfettered access to financial services such as microloans, life insurance, remittances, value added services such as prepaid utilities and bill payments through their mobile phones and our national network of ATMs and POS devices.

Our largest financial services offering is the provision of short-term microloans to our South African UEPS/EMV cardholders, where we provide the loans using our surplus cash reserves and earn revenue from the service fees charged on these loans. We believe our loans are the most affordable form of credit available to our target market as, unlike our competitors, we do not charge interest or credit life insurance premiums on our loans. We also offer our customer base affordable insurance products relevant to this market segment, focusing on group life and funeral insurance policies.

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

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

KSNET

Our KSNET business unit is based in Seoul, South Korea, and is a national payment solutions provider. KSNET has one of the broadest product offerings in the South Korean payment solutions market, a base of approximately 223,000 merchants and an extensive direct and indirect sales network. The merchant base is predominantly serviced via a network of independent agents. KSNET's core operations comprise three primary product offerings, namely card VAN, PG, and Banking VAN. KSNET is able to realize significant synergies across these core operations because it is the only payment solutions provider that offers all three of these offerings in South Korea. Approximately 78% of KSNET's revenue comes from the provision of payment processing services to merchants and card issuers through its card VAN. KSNET has also started providing working capital financing to those merchants where we provide payment processing services.

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

International Payments Group

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

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

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

Applied Technology

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

- *Payment Infrastructure*—The deployment of our South African ATM and POS network and the sale of biometric and POS solutions to various South African banks, retailers and financial services providers. Our biometrically-enabled ATM network is fully EMV-compliant and integrated into the South African national payment system. We deploy our ATMs in areas where our UEPS/EMV cardholders have limited access to the national payment system, or where the cost of accessing the national payment system through other service providers is prohibitive for our cardholders.
- *Chip & SIM*—Through our partnerships with MNOs as well as card and semiconductor manufacturers, we provide a strong lineup of feature rich chip and SIM solutions. All of these offerings include our wide range of GSM Masks and custom software that enables mobile telephony, transactions and on-chip VAS. We support the above chip and SIM developments with dedicated chip-card based commerce frameworks. These incorporate POS, terminal and interbank transaction switching and clearance aimed at national government, petroleum and retail industries.

- *Cryptography*—Our Cryptography business line focuses on security-orientated products which include our range of PIN encryption devices, card acceptance modules and hardware security modules. These focus on financial, retail, cryptocurrency, telecommunications, utilities and petroleum sectors. In order to constantly enhance and improve our product offerings, special attention is placed on the development of security initiatives including Triple Data Encryption Algorithm, also known as TDES, EMV and Payment Card Industry, or PCI. We are a member of the STS Association, actively participating in developing new and improved standards that address the needs of the modern cryptographic market.

This business unit has been allocated to our financial inclusion and applied technologies reporting segments.

Corporate

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

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

Competition

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

We further intend to differentiate our value proposition for our end users by offering bundled lifestyle products to include affordable telephony solutions in addition to banking and finance, as well as the development of new payment technologies specifically for mobile phones. We estimate that we process less than 1% of all global payment transactions in the international marketplace.

In South Africa, and specifically in the payment of salaries and wages and our affordable EPE transactional account and our financial services offering, our competitors include the local traditional and digital banks, insurance companies, micro-lenders and other transaction processors. The South African banks and South African Post Office, or SAPO, also offer low cost bank accounts that enable account holders to receive their salaries, wages or social grants through the formal banking payment networks.

EasyPay's competitors include BankservAfrica, UCS, eCentric and Transaction Junction. BankservAfrica is the largest transaction processor in South Africa, which processes all transactions on behalf of the South African banks and processes more than 2.5 billion transactions per annum.

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

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

IPG competitors typically include local or regional issuers, acquirers and processors as well as a few large multinational companies such as Wirecard and WorldPay. A number of new fintech entrants and neo-banks, usually locally or occasionally regionally such as Stripe, Revolut, N26, Klarna, Transferwise, and Digibank are also rapidly establishing their market presence.

In addition to our traditional competitors, we expect that we will increasingly compete with a number of emerging entities in the mobile payments industry. While the industry is still rapidly evolving, a number of entities are establishing their presence in this space. Specifically identified entities include traditional payment networks such as Visa, MasterCard and American Express; commercial banks such as Barclays and Citigroup; established technology companies such as Apple, Google, Facebook, Samsung and PayPal; local and global fintech companies; as well as companies specifically focused on mobile payments such as Ant Financial, WeChat, M-Pesa and Square.

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 21 to our audited consolidated financial statements included in this annual report contains detailed financial information about our operating segments for fiscal 2019, 2018 and 2017. 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		
	2019	2018	2017	2019	2018(R)	2017(R)
	$'000	$'000	$'000	$'000	$'000	$'000
South Africa	212,722	433,421	434,124	143,924	496,442	72,443
South Korea	138,426	153,314	153,403	149,390	177,388	192,473
Rest of world	9,842	26,154	22,539	83,972	116,643	77,723
Total	360,990	612,889	610,066	377,286	790,473	342,639

(R) Long-lived assets as of June 30, 2018 and 2017, restated to correct the misstatement discussed in Note 1 to the audited consolidated financial statements. Long-lived assets as of June 30, 2018 and 2017, decreased by $2.0 million and 1.9 million, respectively, following the restatement.

Employees

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

	Number of employees		
	2019	2018(1)	2017
Management	186	272	236
South African transaction processing	869	1,902	2,487
International transaction processing	330	330	354
Financial inclusion and applied technologies(2)	1,761	5,875	2,281
Total	3,146	8,379	5,358

(1) Fiscal 2018 number of employees includes 2,651 DNI employees, of which 51 are included in management and 2,600 are included in Financial inclusion and applied technologies. We sold our controlling interest in DNI during fiscal 2019.

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

On a functional basis, five of our employees were part of executive management, 148 were employed in sales and marketing, 181 were employed in finance and administration, 271 were employed in information technology and 2,541 were employed in operations. Our staffing levels have reduced significantly from fiscal 2018 following the expiration of our SASSA contract in September 2018 and the deconsolidation of DNI in March 2019.

As of June 30, 2019, approximately 195 of the 257 employees we have in South Korea who perform international transaction-based activities were members of a union in Korea. We believe that we have a good relationship with our employees and these unions.

Corporate history

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

Available information

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

Executive Officers of the Registrant

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

Name	Age	Title
Herman G. Kotzé	49	Chief Executive Officer and Director
Alex M.R. Smith	50	Chief Financial Officer, Treasurer, Secretary, and Director
Philip S. Meyer	62	Managing Director: International Payments Group
Phil-Hyun Oh	60	Chief Executive Officer and President, KSNET, Inc.
Nanda Pillay	48	Managing Director: Southern Africa

Herman Kotzé has been our Chief Executive Officer since May 2017 and was our Chief Financial Officer, Secretary and Treasurer from June 2004 to February 2018. From January 2000 until June 2004, he served on the board of Aplitec as Group Financial Director. Mr. Kotzé joined Aplitec in November 1998 as a strategic financial analyst. Prior to joining Aplitec, Mr. Kotzé was a business analyst at the Industrial Development Corporation of South Africa. Mr. Kotzé has a bachelor of commerce honors degree, a post graduate diploma in treasury management, a higher diploma in taxation, completed his articles at KPMG, and is a member of the South African Institute of Chartered Accountants.

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

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

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

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

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

Management has identified certain conditions or events, which, considered in the aggregate, could raise substantial doubt about our ability to continue as a going concern and our auditors have drawn attention to this uncertainty in their report on our consolidated financial statements. Management has developed a plan to mitigate our going concern risk. If we are unable to execute our plan, it is possible that we will exhaust our resources and will be unable to continue operations. If we cannot continue as a viable entity, our shareholders would likely lose most or all of their investment in us.

Our audited consolidated financial statements were prepared under the assumption that we would continue our operations as a going concern. Our independent registered public accounting firm included an explanatory paragraph regarding a going concern uncertainty in its report on our consolidated financial statements as of, and for the year ended, June 30, 2019, indicating that, as discussed in Note 1 to such audited consolidated financial statements, we are experiencing difficulty in generating sufficient cash flow to meet our obligations and sustain our operations, which raises substantial doubt about our ability to continue as a going concern. Continued operations and our ability to continue as a going concern are dependent on our ability to execute our plan described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Consideration of Going Concern," and there are no assurances that we will be able to execute such plan. Uncertainty concerning our ability to continue as a going concern may also hinder our ability to obtain future financing.

Our audited consolidated financial statements do not include any adjustments that may result from the outcome of this uncertainty. If we are unable to execute our plan, it is possible that we will exhaust our resources and will be unable to continue operations. If we cannot continue as a viable entity, our shareholders would likely lose most or all of their investment in us. See also "–Our ability to return to profitability and positive cash flow is substantially dependent on our ability to execute our strategic plan in South Africa" and "–Ongoing losses and cash demands may place the group under liquidity pressure, particularly if various asset realizations are not concluded.

SASSA's migration of EPE customers to the SAPO account during the first half of fiscal 2019 resulted in the loss of a significant portion of our EPE customer base. Unless we are able to maintain our EPE customer base, our South African financial services business will likely become unsustainable and result in the closure of most or all of that business.

During September and October 2018, SASSA migrated those of our EPE customers who had not submitted to SASSA a signed Annexure C form and failed to process many of the Annexure C forms submitted by our potential customers. As a result, we experienced a decline in the EPE customer base to under 1.1 million EPE accounts receiving grants during December 2018 and January 2019. These same factors have had an adverse impact on our ability to sign up new customers to the EPE product and, as a result, we have experienced very low levels of gross new EPE accounts. As described under "Item 3.—Legal Proceedings—Legal proceedings against SASSA in respect of transfer of grant payments from EPE to SAPO accounts", we commenced legal proceedings against SASSA challenging its actions but, in late January 2019, the High Court ruled that SASSA may pay grants into SAPO accounts unless the grant recipient has delivered a signed Annexure C form to SASSA.

While our EPE customer base has been relatively stable since November 2018, any decision by SASSA to migrate more of our EPE customers to SAPO accounts would threaten our entire South African financial services business and materially and adversely affect our business, results of operations, financial condition and cash flows.

Even if we are able to maintain a sufficient EPE customer base, we may still face challenges in transforming our South African operations to a business-to-consumer model through our EPE bank account and ATM infrastructure.

Following the conclusion of the SASSA contract on September 30, 2018, we refocused our resources and technology on the provision of financial inclusion services to our target market. In particular we enabled our mobile ATM payment infrastructure to become part of the South African National Payment System and concentrated on taking our ATMs to the rural populations of South Africa so that they have the same access to financial inclusion as they had during the tenure of our contract, without the many inconveniences and inefficiencies of SASSA's new payment model.

While we believe that our financial services offerings are convenient and cost-effective, the success of our strategy will depend on the extent to which South African customers continue to use our financial products and services on a widespread basis. As discussed in the risk factor immediately above, SASSA's unilateral decision to move EPE customers to the SASSA account and the subsequent judgment that has limited our ability to oppose SASSA's actions, will likely make it more difficult for us to attract and retain as many EPE customers as we had previously planned.

Even if we continue to maintain our current EPE customer base, to the extent where such business remains viable, other factors may prevent us from successfully operating and growing our South African financial services business include, but are not limited to:

- reduced adoption and utilization of our EPE accounts and related products and services;
- insufficient utilization of our ATM infrastructure, especially our mobile ATM infrastructure;
- inability to access sufficient funding for our ATM infrastructure;
- competition in the marketplace;
- restrictions imposed by SASSA or government on the manner in which recipients may transact;
- additional and/ or protracted legal proceedings with SASSA or other parties;
- political interference;
- changes in the regulatory environment;
- dependence on existing suppliers to provide the hardware (such as ATMs, cards and POS devices) we require to execute our rollout as anticipated;
- logistical and communications challenges; and
- loss of key technical and operations staff.

Our ability to return to profitability and positive cash flow is substantially dependent on our ability to execute our strategic plan in South Africa.

No assurance can be provided that, if we fail to effectively execute our strategic plan in South Africa, we will be able to return to profitability and, even if we do return to profitability, extended periods of profitability and net income do not assure positive cash flows. Future periods of net losses from operations could result in negative cash flow and may hamper ongoing operations and prevent us from sustaining or expanding our business. We cannot assure you that we will achieve, sustain or increase profitability on a quarterly or annual basis in the future. If we do not achieve, sustain or increase profitability, our business will be materially and adversely affected and our share price may decline.

Ongoing losses and cash demands may place the group under liquidity pressure, particularly if various asset realizations are not concluded.

During the last twelve months, we have seen a significant decline in our cash balances due to significant operating losses, which were attributed primarily to the significant losses we incurred during the six-month extension of the SASSA contract and the exceptional bad debt write-offs caused by the migration of EPE customers to SAPO accounts by SASSA. While we have taken significant actions in the last six months to reduce the debt on our balance sheet, should our operating performance not improve, or if various adverse events occur, then our liquidity may come under significant pressure. This would have a material adverse effect on our business, cash flows, results of operations and financial condition.

Our ability to operate effectively and efficiently in South Africa in the future will be adversely impacted if we are unable to communicate persuasively that our business practices comply with South African law and are fair to the customers who purchase our financial services products.

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

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

We have been ordered by the Supreme Court to repay to SASSA certain reimbursed implementation costs. We are analyzing the ruling in order to determine our next course of action, but if we are ultimately required to repay substantial monies to SASSA, such repayment would adversely affect our results of operations, financial position and cash flows.

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

On February 22, 2018, the matter was heard by the Gauteng Division, Pretoria of the High Court of South Africa. On March 23, 2018, the High Court ordered that the June 15, 2012 variation agreement between SASSA and CPS be reviewed and set aside. CPS was ordered to refund ZAR 317.0 million to SASSA, plus interest from June 2014 to date of payment. On April 4, 2018, we filed an application seeking leave to appeal the whole order and judgment of the High Court because we believed that the High Court erred in its application of the law and/or in fact in its findings. On April 25, 2018, the High Court rejected the application seeking leave to appeal. CPS filed an application seeking leave to appeal the whole order and judgment of the High Court with the Supreme Court of Appeal. In September 2018, CPS received notification from the Supreme Court that its petition seeking leave to appeal had been granted. The matter was heard on September 10, 2019. On September 30, 2019 the Supreme Court dismissed our appeal and ordered us to pay Corruption Watch's costs. We are analyzing the ruling in order to determine our next course of action. We have recorded a liability of $34.0 million (ZAR 479.4 million, translated at exchange rates applicable as of June 30, 2019, comprising the refund of ZAR 317.0 million, accrued interest of ZAR 161.0 million and estimated costs of ZAR 1.4 million) in our audited consolidated balance sheet as of June 30, 2019 in the caption other payables.

In addition, in an April 2014 ruling, the Constitutional Court ordered SASSA to re-run the tender process and required us to file with the Court, after completion of our SASSA contract in March 2017, an audited statement of our expenses, income and net profit under the contract. The March 2018 Constitutional Court order contains a similar requirement that we file an audited statement of our expenses, income and net profit within 30 days of the completion of the contract. We have filed the required independently audited information with the Constitutional Court as ordered and the auditors expressed an unqualified opinion with an emphasis of matter regarding the basis of preparation and restriction as to use. The Constitutional Court also ordered SASSA to audit the audited information filed with the Constitutional Court and SASSA appointed an independent firm to audit our submission. The independent audit is currently underway and we understand that the independent firm is due to file its report by October 31, 2019. Parties to the March 2018 court proceedings also requested the Constitutional Court to consider further orders, including the repayment of any profits derived by CPS under its SASSA contract. The Constitutional Court did not provide for this in its March 2018 order; however, one or more third parties may in the future institute litigation challenging our right to retain a portion of the amounts we will have received from SASSA under our contract. We cannot predict whether any such litigation will be instituted, or if it is, whether it would be successful. Any successful challenge to our right to receive and retain payments from SASSA that requires substantial repayments would adversely affect our results of operations, financial position and cash flows.

The pricing recommended by National Treasury to the Constitutional Court for our services provided at pay points for the period from April 1, 2018 through September 30, 2018, has not yet been paid and we have commenced legal action for payment against SASSA. If we are not paid, or if the amount ultimately paid to us is not commercially reasonable, our results of operations, financial position and cash flows would be adversely affected.

Under the Constitutional Court order of March 23, 2018, related to the extension of the SASSA contract to September 30, 2018 in respect of the recipients paid at cash pay points, we were granted permission to approach National Treasury to request revised pricing of the contract. National Treasury provided a recommendation to the Constitutional Court in compliance with their order at a price per recipient of R51.00 (VAT inclusive) per month. Although we offered to accept this amount in respect of the three months ended June 30, 2018 when the number of recipients paid approximated two million per month, we asked the Constitutional Court to reconsider the last three months of the contract. In line with SASSA's public statements, there was a material reduction in the number of recipients paid at the pay points during July, August and September 2018.

In December 2018, we received correspondence from the Constitutional Court informing the parties that it believes that "nothing prevents the parties from coming to an agreement on increased payments without court sanction, and if they do not, normal legal processes in other courts must be filed to determine the effects." We engaged SASSA directly in order to resolve this matter however we were not able to reach an amicable agreement and have commenced legal action as described under "Item 3.—Legal Proceedings—Dispute with SASSA regarding payment of fees for the last six months of the contract". If we do not receive payment from SASSA, our results of operations, financial position and cash flows would be adversely affected.

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

Acquisitions and strategic investments are an integral part of our long-term growth strategy as we seek to grow our business internationally and to deploy our technologies in new markets both inside and outside South Africa. However, we may not be able to locate suitable acquisition or investment candidates at prices that we consider appropriate. If we do identify an appropriate acquisition or investment candidate, we may not be able to successfully negotiate the terms of the transaction, finance it or, if the transaction occurs, integrate the new business into our existing business. These transactions may require debt financing or additional equity financing, resulting in additional leverage or dilution of ownership. For instance, in July 2017, we invested in Cell C Proprietary Limited, or Cell C, utilizing a combination of existing cash reserves and external debt from South African banks.

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

In addition, we may need to record write-downs from future impairments of goodwill or other intangible assets, which could reduce our future reported earnings. For instance, in December 2018, we recorded an impairment loss of $7.0 million related to goodwill identified in the T24 acquisition and in March 2019, we recorded an impairment loss of $5.3 million related to the certain intangible assets identified in the DNI acquisition. In March 2018, we recorded an impairment loss of $19.9 million related to the goodwill identified in the Masterpayment and Masterpayment Financial Services acquisitions. Finally, acquisition candidates may have liabilities or adverse operating issues that we fail to discover through due diligence prior to the acquisition.

We have not achieved the expected benefits from our Cell C and DNI investments and may incur further losses related to these investments.

We invested more than $240 million, in aggregate, to acquire a 15% interest in Cell C and a 55% controlling interest in DNI. At the time of each investment, we believed that there were potential synergies that we could derive from each of these transactions, including the integration of certain of our service offerings with those of Cell C and DNI. However, we have not yet realized some of the synergies that we had anticipated to achieve by now, and it is possible that we may not realize such synergies at all.

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

In addition, Cell C and DNI may not be able to successfully execute their respective business plans, which may adversely affect, or impair, the carrying value of our investments in them. As an example, during the year ended June 30, 2019, we recorded a loss related to the change in fair value for Cell C of $167.5 million which adversely impacted our results of operations and financial position. Our investments in Cell C and Cedar Cellular Investment 1 (RF) (Pty) Ltd, or Cedar Cellular, 8.625% notes were carried at $0 as of June 30, 2019, refer to Notes 7 and 9 to our audited consolidated financial statements for additional information regarding these investments. We also incurred a loss of $5.8 million during the year ended June 30, 2019, related to the reduction in our investment in DNI from 55% to 30%.

We have granted a call option to DNI to acquire our remaining 30% interest in DNI in order to improve our liquidity. If we are unable to dispose of our entire, or a partial interest in DNI, in the short-term our financial position and cash flows may be adversely affected.

We have determined to sell all or a portion of our remaining investment in DNI in order to generate additional liquidity to fund certain of our other businesses. On May 3, 2019, our wholly owned subsidiary, Net1 Applied Technologies South Africa Proprietary Limited, or Net1 SA, entered into an agreement pursuant to which it granted a call option to DNI to acquire Net1 SA’s remaining 30% interest in DNI. The option expires on December 31, 2019, but may be exercised at any time prior to expiration.

The option strike price is calculated as ZAR 2.827 billion ($200.8 million, translated at exchange rates applicable as of June 30, 2019) less any special distribution made by DNI multiplied by Net1 SA's retained interest (i.e. assuming no special distribution, the strike price for the 30% retained interest is ZAR 859.3 million, or $61.0 million, translated at exchange rates applicable as of June 30, 2019). The call option may be split into smaller denominations, but Net1 SA cannot be left with less than 20% unless the whole remaining interest is disposed of. DNI may nominate another party to exercise the call option in the place of DNI, provided that the nominated party acquires call options representing at least 1.0% of DNI's voting and participation interests.

If we are unable to dispose of our entire, or a partial interest in DNI, in the short-term our financial position and cash flows may be adversely affected.

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

DNI's business comprises of a number of separate entities that are primarily involved in the distribution of mobile phone starter packs, mainly on behalf of Cell C. DNI also provides funding for the expansion of Cell C's mobile telecommunications infrastructure. If Cell C were to terminate any of these contractual relationships that have multi-year notice periods, it would have a material adverse effect on our results of operations, financial condition and cash flow as a consequence of the impact on DNI. In particular our remaining 30% interest in DNI is likely to be worth less in the event that these contractual relationships are terminated.

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

We have credit facilities from Rand Merchant Bank, a division of FirstRand Bank Limited, or RMB, and Nedbank Limited, South African banks. The facilities are secured by intercompany cross-guarantees, a guarantee from Net1 and a pledge by Net1 SA of its entire equity interests in Cell C, DNI and FIHRST. The terms of the lending arrangement contain covenants that require Net1 SA to maintain certain asset cover ratios and restrict the ability of Net1 SA, and certain of its subsidiaries to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make investment above specified levels, engage in certain business combinations and engage in other corporate activities without the approval of the lenders.

In addition, DNI has a three year revolving credit facility of ZAR 200 million ($14.2 million, translated at exchange rates applicable as of June 30, 2019) from RMB to expand its operations. We are a reversionary guarantor of this credit facility as a result of our shareholding in DNI. The revolving credit facility is secured by intercompany cross-guarantees within the DNI group and a pledge by DNI of its entire equity interests in its subsidiaries. The terms of the lending arrangement contain customary covenants that require DNI to remain in accordance with specified net senior debt to EBITDA and EBITDA to net senior interest ratios and restrict the ability of DNI, and certain of its subsidiaries to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make investment above specified levels, engage in certain business combinations and engage in other corporate activities without the approval of the lenders.

These security arrangements and covenants may reduce our operating flexibility or our ability to engage in other transactions that may be beneficial to us. If we are unable to comply with the covenants in South Africa, we could be in default and the indebtedness could be accelerated. If this were to occur, we might not be able to obtain waivers of default or to refinance the debt with another lender and as a result, our business and financial condition would suffer.

We may be unable to secure the necessary facilities that will enable us to maintain the cash requirements for our ATM network

The expansion of our fixed and mobile ATM network, along with an increase in our consumer banking client base, necessitates access to large amounts of cash to stock the ATMs and maintain uninterrupted service levels. We currently utilize debt facilities that expire in September 2020 to fund these ATMs. Any adverse change to the terms of these credit facilities, a significant reduction in the amounts available under these credit facilities, or our failure to increase our facilities if required, will have an adverse impact on our ability to continue uninterrupted operation of our ATM network and our revenues from this business. We will also suffer reputational damage if our service levels are negatively impacted due to the unavailability of cash.

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

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 2018 FinScope SA 2018 Fact Sheet, a survey conducted by the FinMark Trust, a non-profit independent trust, 80% of South Africans are banked. As the competition to bank the unbanked in South Africa intensifies, we may not be successful in marketing our low-cost products to our target population. Moreover, as our product offerings increase, gain market acceptance and pose a competitive threat in South Africa, especially our UEPS/EMV product with biometric verification and our financial services offerings, the banks and SAPO may seek governmental or other regulatory intervention if they view us as disrupting their transactional or other businesses.

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

All of these microfinance loans made are for a period of six months or less. We have created an allowance for doubtful finance loans receivable related to this book. Management has considered factors including the period of the finance loan outstanding, creditworthiness of the customers and the past payment history of the borrower when creating the allowance. We consider this policy to be appropriate taking into account factors such as historical bad debts, current economic trends and changes in our customer payment patterns. However, additional allowances may be required should the ability of our customers to make payments when due deteriorate in the future. A significant amount of judgment is required to assess the ultimate recoverability of these finance loan receivables, including on-going evaluation of the creditworthiness of each customer. Furthermore, as a result of SASSA's migration of customers to SAPO during the first half of fiscal 2019, we saw a significant increase in the number of our customers no longer receiving their grant income into their EPE bank account. This resulted in a very significant increase in unrecoverable amounts and a significant bad debt expense. As EPE accounts have remained largely stable since November 2018, we have seen our recoverability risk return to levels consistent with our previous experience. Nevertheless, these events have increased our recoverability risk and the risk that our allowance is insufficient.

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

We have created an allowance for doubtful working capital finance receivables related to our Korean lending activities and previously to our Mastertrading business. We have considered factors including the period of the working capital receivable outstanding, creditworthiness of the customers and the past payment history of the borrower when creating the allowance. A significant amount of judgment is required to assess the ultimate recoverability of these and other working capital finance receivables because these are new offerings and we continue to refine and improve our processes, including the maximum amount of exposure per customer that we are willing to accept and the on-going evaluation of the creditworthiness of each customer. A determination that requires a change in our allowance for doubtful working capital finance receivables, or a failure by one or more of our customers to pay a significant portion of outstanding working capital finance receivables, could have a negative impact on our business, operating results, cash flows and financial condition.

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

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

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

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

A prolonged economic downturn or recession could materially impact our results from operations. Also, economic confidence in South Africa, our main operating environment, is currently low and as a result the risk of an economic downturn is inflated. A recessionary economic environment could have a negative impact on mobile phone operators, our cardholders and retailers and could reduce the level of transactions we process, the sales of mobile phone starter packs, the take-up of the financial services we offer and the ability of our customers to repay our microloans or to pay their insurance premiums, which would, in turn, negatively impact our financial results. If financial institutions and retailers experience decreased demand for their products and services our hardware, software and related technology sales will reduce, resulting in lower revenue.

The loss of the services of certain of our executive officers would adversely affect our business.

Our future financial and operational performance depends, in large part, on the continued contributions of our senior management, in particular, Mr. Herman Kotzé, our Chief Executive Officer, and Mr. Alex Smith, our Chief Financial Officer. Many of our key responsibilities in South Africa are currently performed by Messrs. Kotzé and Smith, as well as by Mr. Nanda Pillay, our Managing Director: Southern Africa. The loss of the services of any of these executives would disrupt our development efforts or business relationships and our ability to continue to innovate and to meet customers' needs, which could have a material adverse effect on our business and financial performance.

The success of our KSNET business depends heavily on the continued services of its president, Phil-Hyun Oh and the other senior members of the KSNET management team. In addition, the growth and future profitability of IPG is reliant on Mr. Philip Meyer's leadership, industry knowledge and contacts. We do not maintain any "key person" life insurance policies.

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

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

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

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

Protection against fraud is of key importance to the purchasers and end users of our solutions. We incorporate security features, including encryption software, biometric identification and secure hardware, into our solutions to protect against fraud in electronic transactions and to provide for the privacy and integrity of card holder data. Our solutions may be vulnerable to breaches in security due to defects in the security mechanisms, the operating system and applications or the hardware platform.

Security vulnerabilities could jeopardize the security of information transmitted using our solutions. If the security of our solutions is compromised, our reputation and marketplace acceptance of our solutions will be adversely affected, which would cause our business to suffer, and we may become subject to damage claims. We have not yet experienced any significant security breaches affecting our business.

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

Our proprietary rights may not adequately protect our technologies.

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

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

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

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

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

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

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

In order for us to expand our operations into foreign markets, it may be necessary for us to establish partnering arrangements with companies outside South Africa, such as the one we have co-established in Namibia and Mauritius (in V2 Limited) and our non-controlling investments in Nigeria, Liechtenstein and India.

The success of these endeavors is, however, subject to a number of factors over which we have little or no control, such as finding suitable partners with the appropriate financial, business and technical backing and continued governmental support for planned implementations. In some countries, finding suitable partners and obtaining the appropriate support from the government involved may take a number of years before we can commence implementation. Some of these partnering arrangements may take the form of joint ventures in which we receive a non-controlling interest. Non-controlling ownership carries with it numerous risks, including dependence on partners to provide knowledge of local market conditions and to facilitate the acquisition of any necessary licenses and permits, as well as the inability to control the joint venture vehicle and to direct its policies and strategies.

Such a lack of control could result in the loss of all or part of our investment in such entities. In addition, our foreign partners may have different business methods and customs which may be unfamiliar to us and with which we disagree. Our joint venture partners may not be able to implement our business model in new areas as efficiently and quickly as we have been able to do in South Africa. Furthermore, limitations imposed on our South African subsidiaries by South African exchange control regulations, as well as limitations imposed on us by the Investment Company Act of 1940, may limit our ability to establish partnerships or entities in which we do not obtain a controlling interest.

We pre-fund certain merchant and customer payments in South Africa and South Korea and a significant level of payment defaults by these merchants or customers would adversely affect us.

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

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

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

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

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

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

Smart Life is a life insurance company and exposes us to risks typically experienced by life assurance companies. Some of these risks include the extent to which we are able to continue to reinsure our risks at acceptable costs, reinsurer counterparty risk, maintaining regulatory capital adequacy, solvency and liquidity requirements, our ability to price our insurance products appropriately, the risk that actual claims experience may exceed our estimates, the ability to recover policy premiums from our customers and the competitiveness of the South African insurance market. If we are unable to maintain our desired level of reinsurance at prices that we consider acceptable, we would have to either accept an increase in our exposure risk or reduce our insurance writings. If our reinsurers are unable to meet their commitments to us in a timely manner, or at all, we may be unable to discharge our obligations under our insurance contracts. As such, we are exposed to counterparty, including credit, risk of these reinsurers.

Our product pricing includes long-term assumptions regarding investment returns, mortality, morbidity, persistency and operating costs and expenses of the business. Using the wrong assumptions to price our insurance products could materially and adversely affect our financial position, results of operations and cash flows.

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

Risks Relating to Operating in South Africa and Other Foreign Markets

If we do not achieve applicable broad-based black economic empowerment objectives in our South African businesses, we risk losing our government and/or private contracts and/or risk not being in compliance with any government and/or private contracts which we have already entered into. In addition, it is possible that we may be required to increase the black shareholding of our company in a manner that could dilute your ownership and/or change the companies from which we purchase goods or procure services (to companies with a better BEE Contributor Status Level).

The legislative framework for the promotion of broad-based black economic empowerment, or BEE, in South Africa has been established through the Broad-Based Black Economic Empowerment Act, No. 53 of 2003, as amended from time to time, and the Amended BEE Codes of Good Practice, 2013, or BEE Codes, and any sector-specific codes of good practice, or Sector Codes, published pursuant thereto. Sector Codes are fully binding between and among businesses operating in a sector for which a Sector Code has been published. Achievement of BEE objectives is measured by a scorecard which establishes a weighting for the various elements. Save for certain instances where entities are only required to obtain an affidavit (for example, exempted micro enterprises and a qualifying small enterprise that is 51% Black Owned or 100% Black Owned (as defined in the BEE Codes and/or Sector Codes)), scorecards are independently reviewed by accredited BEE verification agencies which issue a certificate that presents an entity's BEE Contributor Status Level.

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

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

We expect that our BEE Contributor Status Level will be important for us in order to remain competitive in the South African marketplace and we continually seek ways to improve our BEE Contributor Status Level, especially the ownership (so-called "equity element") element thereof. We have entered into various BEE transactions in the past in an effort to improve our score, including transactions in which we issued equity to BEE partners.

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

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

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

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

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

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

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

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

Our businesses in South Africa are dependent on electricity generated and supplied by the state-owned utility, Eskom, in order to operate. In recent years, Eskom has been unable to generate and supply the amount of electricity required by South Africans, and the entire country experienced significant and often unpredictable electricity supply disruptions. Eskom has implemented a number of short- and long-term mitigation plans to correct these issues and the number of supply disruptions has decreased since calendar 2016, but there was a brief reoccurrence in early calendar 2019. Eskom requires significant funding from the South African government in order to continue to operate.

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

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

The economy of South Africa is exposed to high inflation, interest rates and rates of corporate tax, which could increase our operating costs and thereby reduce our profitability. Furthermore, the South African government requires additional income to fund future government expenditures and may be required, among other things, to increase existing income taxes rates, including the corporate income tax rate, amend existing tax legislation or introduce additional taxes.

The economy of South Africa in the past has been, and in the future may continue to be, characterized by rates of inflation and interest rates that are substantially higher than those prevailing in the United States and other highly developed economies. High rates of inflation could increase our South African-based costs and decrease our operating margins. Higher interest rates increase the cost of our debt financing, though conversely they also increase the amount of income we earn on any cash balances. The South corporate income tax rate, of 28%, is higher than the Federal income tax rate, of 21%, as a result of changes to U.S. tax legislation following the enactment of the Tax Cuts and Jobs Act in December 2017.

The South African government has announced a number of new programs and initiatives that may require funding from a variety of sources, including from an increase existing income taxes rates, including the corporate income tax rate; amendments to existing South African tax legislation; or through the introduction of additional taxes. An increase in the effective South African corporate income tax rate will adversely impact our profitability and cash flow generation.

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

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

Although Net1 is a U.S. corporation and is not itself subject to South African exchange control regulations, these regulations do restrict the ability of our South African subsidiaries to raise and deploy capital outside the Common Monetary Area, to borrow money in currencies other than the South African rand and to hold foreign currency. Exchange control restrictions may also affect the ability of these subsidiaries to pay dividends to Net1 unless the affected subsidiary can show that any payment of such dividend will not place it in an over-borrowed position. As of June 30, 2019, approximately 29% of our cash and cash equivalents (excluding restricted cash) were held by our South African subsidiaries. Exchange control regulations could make it difficult for our South African subsidiaries to: (i) export capital from South Africa; (ii) hold foreign currency or incur indebtedness denominated in foreign currencies without the approval of SARB; (iii) acquire an interest in a foreign venture without the approval of SARB and first having complied with the investment criteria of SARB; or (iv) repatriate to South Africa profits of foreign operations. These regulations could also limit our ability to utilize profits of one foreign business to finance operations of a different foreign business.

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

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

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

Some of these risks include:

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

Many of these countries and regions are in various stages of developing institutions and political, legal and regulatory systems that are characteristic of democracies. However, institutions in these countries and regions may not yet be as firmly established as they are in democracies in the developed world. Many of these countries and regions are also in the process of transitioning to a market economy and, as a result, are experiencing changes in their economies and their government policies that can affect our investments in these countries and regions.

Moreover, the procedural safeguards of the new legal and regulatory regimes in these countries and regions are still being developed and, therefore, existing laws and regulations may be applied inconsistently. In some circumstances, it may not be possible to obtain the legal remedies provided under those laws and regulations in a timely manner. As the political, economic and legal environments remain subject to continuous development, investors in these countries and regions face uncertainty as to the security of their investments. Any unexpected changes in the political or economic conditions in these or neighboring countries or others in the region may have a material adverse effect on the international investments that we have made or may make in the future, which may in turn have a material adverse effect on our business, operating results, cash flows and financial condition.

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

Our KSNET operations contributed $138.4 million and $9.7 million of our revenue and operating income, respectively, for our 2019 fiscal year. In the last few years, tension in the Korean peninsula has increased because of concern about potential acts of military aggression or cyber-attacks. KSNET is a transaction processor and 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 as well as our business, operating results, cash flows and financial condition.

Risks Relating to Government Regulation

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

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

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

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

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

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

Violations of trade control laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts and revocations or restrictions of licenses, as well as criminal fines and imprisonment. We have developed policies and procedures as part of a company-wide compliance program that is designed to assist our compliance with applicable U.S. and international trade control laws and regulations, including trade controls and sanctions programs administered by OFAC, and provide regular training to our employees to comply with these laws and regulations.

However, there can be no assurance that all of our employees, consultants, partners, agents or other associated persons will not take actions in violation of our policies and these laws and regulations, or that our policies and procedures will effectively prevent us from violating these regulations in every transaction in which we may engage, or provide a defense to any alleged violation. In particular, we may be held liable for the actions that our local, strategic or joint venture partners take inside or outside of the United States, even though our partners may not be subject to these laws. Such a violation, even if our policies prohibit it, could materially and adversely affect our reputation, business, results of operations and financial condition. Our continued international expansion, including in developing countries, and our development of new partnerships and joint venture relationships worldwide, could increase the risk of OFAC violations in the future.

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

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

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

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

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

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

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

We do not have a South African banking license and, therefore, we provide our EPE 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 EPE 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 EPE business activities requires us to be registered as a bank in South Africa or to have access to an existing banking license.

We are not currently so registered, but we have an agreement with Grindrod Bank that enables us to implement our EPE solution in compliance with the relevant laws and regulations. If the agreement were to be terminated, we would not be able to operate these services unless we were able to obtain access to a banking license through alternate means. We are also dependent on Grindrod Bank to defend us against attacks from the other South African banks who may regard the rapid market acceptance of our UEPS/EMV product with biometric verification as disruptive to their funds transfer or other businesses and may seek governmental or other regulatory intervention. Furthermore, we have to comply with the strict anti-money laundering and customer identification regulations of the SARB when we open new bank accounts for our customers and when they transact. Failure to effectively implement and monitor these regulations may result in significant fines or prosecution of Grindrod Bank and ourselves.

We have recently commenced issuing consumer banking products through our relationship with Finbond, in the form of our Kanako and Infinity products, with Finbond taking the place of Grindrod in respect of these products. However, it would not be readily achievable to transfer our EPE solution from Grindrod to Finbond.

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

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

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

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

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

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

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

Amendments to the NCA were signed into law in South Africa in August 2019. There is general consensus in the financial services community in South Africa that the debt-relief bill will restrict the ability of financial services providers to provide lending products to certain low-income earners and will increase the cost of credit to these consumers. Compliance with these amendments may adversely impact our micro-lending operations in South Africa.

In August 2019, the National Credit Amendment Bill, or debt-relief bill, was signed into law in South Africa. The effective date of the debt-relief bill has not yet been announced. There is general consensus in the financial services community in South Africa that the debt-relief bill will restrict the ability of financial services providers to provide lending products to certain low-income earners and will increase the cost of credit to these consumers. Compliance with the debt-relief bill may adversely impact our micro-lending operations in South Africa.

The debt-relief bill is a debt-relief intervention that forms part of an amendment to the NCA and is intended to assist over-indebted individuals who earn less than a prescribed monthly minimum, currently ZAR 7,500, and have unsecured debt of no more than ZAR 50,000. Individuals that have not commenced a debt counseling process, have not been sequestrated and are not subject to an administration order may seek debt relief under the debt-relief bill. Applications for debt relief are expected to be processed by the NCR and will then be submitted to the National Consumer Tribunal, or NCT.

The NCR will first assess whether an applicant can meet its debt obligations by paying a lower installment over an extended period of no more than five years, a so called debt re-arrangement. This process is similar to the debt counseling provisions in existing legislation, except the applicant would not pay for the debt counselor and therefore does not enjoy the services of the counselor. If the applicant has no income, the NCR will recommend that the applicant’s debts be suspended for 24 months in the hopes that the applicant’s circumstances improve in order to service the debt over time. During this period, interest and fees under the debt arrangement will cease and the applicant is required to attend a financial literacy program provided by the NCR. If the applicant’s circumstances improve during this period, and the applicant is able to meet its debt obligations, the NCR will recommend a debt re-arrangement to the NCT. If the applicant’s circumstances do not improve after 24 months, the NCR will apply to the NCT for the debt to be written off.

A credit provider may not enforce any rights under a credit agreement if the associated debt is written off. All or part of a credit agreement will be deemed reckless under the NCA if a credit provider enters into a credit agreement (other than a consolidated loan) with an applicant while under debt relief. An applicant furnishing false information when applying for debt relief may be fined or imprisoned for not longer than two years, or both, and is permanently prohibited from applying for debt relief.

We expect that it will take us, and other financial services providers, some time to fully understand, interpret and implement this new legislation in our lending processes and practices. Non-compliance with the provision of this new legislation may result in financial loss and penalties, reputational loss or other administrative punishment.

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 2019 fiscal year, our stock price ranged from a low of $2.78 to a high of $9.66. We expect that the trading price of our common stock may continue to be volatile as a result of a number of factors, including, but not limited to the following:

- any adverse developments in litigation or regulatory actions in which we are involved;
- fluctuations in currency exchange rates, particularly the U.S. dollar/ZAR exchange rate;
- announcement of additional BEE transactions, especially one involving the issuance or potential issuance of equity securities or dilution or sale of our existing business in South Africa;
- quarterly variations in our operating results, especially if our operating results fall below the expectations of securities analysts and investors;
- significant fair value adjustments in respect of investments;
- announcements of acquisitions, disposals or impairments of intangible assets;
- the timing of or delays in the commencement, implementation or completion of investments or major projects;
- large purchases or sales of our common stock;

- general conditions in the markets in which we operate; and
- economic and financial conditions.

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

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

Approximately 39% of our outstanding common stock is owned by three shareholders. The interests of these shareholders may conflict with those of our other shareholders.

There is a concentration of ownership of our outstanding common stock because approximately 38% of our outstanding common stock is owned by three shareholders. Based on their most recent SEC filings disclosing ownership of our shares, IFC Investors, International Value Advisers, LLC, or IVA, and Prescott Group Management, LLC, beneficially owned approximately 18%, 14% and 8% of our outstanding common stock, respectively.

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

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

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

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

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

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

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

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

We have identified a material weakness in our internal control over financial reporting that, if not remediated, could result in additional material misstatements in our financial statements.

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 control 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.

We identified a material weakness in our internal control over financial reporting where the control over the review of the accounting for non-routine complex transactions did not operate effectively. As a result, the control did not operate effectively in determining the correct classification in the statement of operations of the $34.0 million accrual for the implementation costs to be refunded to SASSA following the September 30, 2019 Supreme Court ruling. Accordingly, the material weakness remains unremediated as of June 30, 2019.

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on this evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were not effective as of June 30, 2019, due to the material weakness in internal control over financial reporting as described above.

We cannot assure you that the measures we have taken to date, and actions we may take in the future, will be sufficient to remediate the control deficiencies that led to our material weakness in our internal control over financial reporting or that they will prevent potential future material weaknesses. While we continue to dedicate resources and management time to ensuring that we have effective internal control over financial reporting, failure to achieve and maintain an effective internal control environment could have a material adverse effect on the market’s perception of our business and our stock price.

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

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

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

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

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

It has been the policy of South African courts to award compensation for the loss or damage actually sustained by the person to whom the compensation is awarded. South African courts have awarded compensation to shareholders who have suffered damages as a result of a diminution in the value of their shares based on various actions by the corporation and its management. Although the award of punitive damages is generally unknown to the South African legal system, that does not mean that such awards are necessarily contrary to public policy.

Whether a judgment was contrary to public policy depends on the facts of each case. Exorbitant, unconscionable, or excessive awards will generally be contrary to public policy. South African courts cannot enter into the merits of a foreign judgment and cannot act as a court of appeal or review over the foreign court. Further, if a foreign judgment is enforced by a South African court, it will be payable in South African currency. Also, under South Africa’s exchange control laws, the approval of SARB is required before a defendant resident in South Africa may pay money to a non-resident plaintiff in satisfaction of a foreign judgment enforced by a court in South Africa.

It is doubtful whether an original action based on United States federal securities laws may be brought before South African courts. A plaintiff who is not resident in South Africa may be required to provide security for costs in the event of proceedings being initiated in South Africa. Furthermore, the Rules of the High Court of South Africa require that documents executed outside South Africa must be authenticated for the purpose of use in South African courts. In reaching the foregoing conclusions in respect of South Africa, we consulted with our South African legal counsel, Cliffe Dekker Hofmeyr Inc.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease our corporate headquarters facility which consists of approximately 93,000 square feet in Johannesburg, South Africa. We also lease properties throughout South Africa, including a 12,088 square foot manufacturing facility in Lazer Park, Johannesburg, 224 financial services branches, 98 financial service express stores and 40 depot facilities. We also lease additional office space in Johannesburg, Cape Town and Durban, South Africa; London, United Kingdom; Seoul, South Korea; Hong Kong; Mumbai, India; Pietà Malta and Black River, Mauritius. These leases expire at various dates through 2022. We own land and buildings in Ahnsung, Kyung-gi, South Korea, that is used for the storage of business documents. We believe that we have adequate facilities for our current business operations.

ITEM 3. LEGAL PROCEEDINGS

Legal proceedings against SASSA in respect of transfer of grant payments from EPE to SAPO accounts

On November 13, 2018, a number of grant beneficiaries and Moneyline Financial Service Proprietary Limited, or Moneyline, one of our subsidiaries, filed an urgent application with the Gauteng Division of the High Court of South Africa seeking among other things, an order (1) declaring that biometric consent for the transfer of grant payments to EPE accounts conforms with the requirements of the Social Assistance Regulations, (2) prohibiting SASSA from stopping the payment of social grants into EPE accounts that were opened with biometric consent prior to January 1, 2018, when SASSA issued a new directive that completion by recipients of a SASSA-prescribed “Annexure C” form would be required in order for those recipients to have their grant payments deposited into their private bank accounts (as opposed to SAPO bank accounts), (3) directing SASSA to process all Annexure C forms within two weeks of submission and (4) directing SASSA to make all grant payments in accordance with duly completed and submitted Annexure C forms.

On November 28, 2018, the High Court issued an interim order directing SASSA to pay the social grants of those EPE clients who had previously provided biometric consent and elected to receive their social grants into their EPE accounts, pending the issuance of a final judgment. SASSA was also ordered to process any Annexure C forms within two weeks of the submission of such forms.

On January 29, 2019, the High Court handed down its final judgment, reversing the portion of its November 28, 2018, interim order that directed SASSA to pay grants into the EPE accounts of recipients who made those biometric elections without submitting the Annexure C forms. The effect of the final judgment is that while SASSA is required to promptly pay social grants into EPE accounts of those recipients who have signed the Annexure C forms electing to have their grants paid that way, SASSA is not required to pay grants into the EPE accounts of those recipients who have not submitted the Annexure C forms, despite having provided their previous biometric consent and may continue to auto-migrate those grants to SAPO accounts. The court did not award costs.

On February 13, 2019, we applied for leave to appeal the order granted on January 29, 2019 and were granted leave on March 12, 2019. We filed the record on July 10, 2019 and the Supreme Court directed the parties to file their respective heads of argument. Once the directive has been complied with, the Supreme Court will allocate a hearing date for the appeal. We cannot predict how the Supreme Court will rule on the matter.

On February 8, 2019, Moneyline launched an application to interdict SASSA from taking any steps of its own volition to direct payment of the social grants of the grants recipients, who received payment of their grants into their EPE accounts in January, 2019, into any accounts other than their EPE accounts into which SASSA had made payments in January 2019. The application was heard on February 28, 2019 and the High Court handed down an order directing Moneyline to provide SASSA with a list of the 696,246 individuals who opened EPE accounts in 2018 and who were not paid by SASSA into those accounts in January 2019. SASSA was ordered to verify the information provided by Moneyline within 14 days and to file an affidavit within a further 15 days, with the outcome of the verification process and detailing procedures followed by it, including a description of how SASSA administered the migration of beneficiaries to SAPO. The High Court furthermore ordered that any party is entitled to approach it for appropriate relief thereafter. SASSA filed its supplementary affidavit on April 23, 2019. On May 16, 2019, Moneyline filed a replying affidavit to SASSA’s supplementary affidavit. SASSA’s attorneys have indicated that SASSA undertook to file a further supplementary affidavit, but to date we have not received same. Moneyline will, after consultation with its legal counsel, decide whether to seek any further relief from the High Court.

Constitutional Court order regarding extension of contract with SASSA for six months for cash payments

March 2017 Constitutional Court order

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

The March 2017 order also included public accountability provisions that directly impacted CPS. These provisions are similar to those included in the Constitutional Court's April 2014 order, and require CPS to provide the Constitutional Court with an audited statement of expenses incurred, income received and net profit earned under the 12-month extension contract ending March 31, 2018. CPS duly complied with the order in that it filed the previously mentioned statements for the period ended March 31, 2017 on May 30, 2017. SASSA was also required to obtain an independent audit of the audited information provided by CPS. Furthermore, the Constitutional Court has instructed SASSA to send this audited information to National Treasury for its approval prior to submission to the Constitutional Court.

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

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

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

March 2018 Constitutional Court order

Further to the March 2017 order, SASSA and certain other parties, including the independent panel of experts appointed by the Constitutional Court, have made various submissions to the Constitution Court. Argument was heard on March 6, 2018 and on March 23, 2018, the Constitutional Court issued an order reiterating that SASSA and CPS have a constitutional obligation to pay social welfare grants and that the contract between SASSA and CPS, for the payment of social grants to beneficiaries who are paid in cash (i.e. those grant recipients who receive their grants at pay points), be extended for a further six months to September 30, 2018, or March 2018 order. The Constitutional Court's order provides for the payment of these grants under the extended contract's terms and conditions. The Constitutional Court permitted CPS to request National Treasury to evaluate and recommend the price to be charged by CPS for the payment of grants in cash under the extended contract. National Treasury submitted its recommendations to the Constitutional Court on April 30, 2018, proposing fee levels that were materially lower than CPS had requested, but significantly higher than the current fee levels. We submitted a responding affidavit to the Constitutional Court on May 11, 2018, in which we requested the Constitutional Court to direct that the matter be referred back to Treasury to recommend a minimum monthly fee. In December 2018, we received correspondence from the Constitutional Court informing the parties that it believes that "nothing prevents the parties from coming to an agreement on increased payments without court sanction, and if they do not, normal legal processes in other courts must be filed to determine the effects." We decided not to enter into further negotiations with SASSA and invoiced it in accordance with Treasury's recommendations. SASSA only paid us a portion of the amount invoiced and refuses to pay the balance. On June 6, 2019, we instituted legal action against SASSA for the outstanding fees of ZAR 358.2 million.

The Constitutional Court included public accountability provisions in its March 2018 order that directly impact CPS. These provisions are similar to those included in the Constitutional Court's April 2014 and March 2017 orders and require CPS to provide SASSA with an independently audited statement of expenses incurred, income received and profit earned under the contract. We have filed the required independently audited information with the Constitutional Court as ordered for the period ended September 30, 2018, on November 8, 2018, and the auditors expressed an unqualified opinion with an emphasis of matter regarding the basis of preparation and restriction as to use. The Constitutional Court also ordered SASSA to audit the audited information filed with the Constitutional Court and SASSA appointed an independent firm to audit our submission. The independent audit is currently underway and the independent firm is due to file its report by October 10, 2019. Furthermore, the Constitutional Court directed SASSA to send this audited information to National Treasury for its approval prior to submission to the Constitutional Court.

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

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

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

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

Dispute with SASSA regarding payment of fees for the last six months of the contract

Following the March 23, 2018 Constitutional Court order for a six-month extension of our contract with SASSA for payment of grants in cash at pay points only, we were allowed to charge our monthly fee based on the previously contracted rate of ZAR 16.44 (including VAT) per cash pay point recipient. Given that we only serviced the highest-cost beneficiaries, the Constitutional Court allowed us to approach the National Treasury in order for them to make a fair determination of the price we should be paid for services rendered. National Treasury recommended a rate of ZAR 51.00 (including VAT) per cash pay point recipient per month to the Constitutional Court. Contrary to SASSA's stance, the Constitutional Court on December 5, 2018, ruled that they are not required to ratify the Treasury recommended rate, and that CPS and SASSA must agree on the pricing. To date we have not reached an agreement with SASSA on the pricing and have issued summons to commence legal proceedings to record an amount in accordance with National Treasury recommendation. We cannot predict whether we will be successful in these legal proceedings, if the matter will be heard or how the Court will rule on the matter if it is heard.

Litigation Regarding Legality of Debit Orders under Social Assistance Act Regulations

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

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

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

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

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

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

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

On July 19, 2017, SASSA and the Black Sash served applications petitioning the Supreme Court to grant them leave to appeal to either the Supreme Court or to a full bench of the Pretoria High Court. On September 29, 2017, the Supreme Court referred the petitions to oral argument. The oral argument in respect of the petitions was heard on August 16 and 17, 2018. The matter was heard on August 16, 2018, by the Supreme Court. The Supreme Court granted the Black Sash the right to intervene but dismissed the application for leave to appeal with costs.

Challenge to Payment by SASSA of Additional Implementation Costs

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

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

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

On May 23, 2018, CPS delivered its petition seeking leave to appeal the whole order and judgment of the Pretoria High Court with the Supreme Court. On June 21, 2018, Corruption Watch delivered a responding affidavit and, on July 4, 2018, CPS delivered its replying affidavit. In September 2018, CPS received notification from the Supreme Court that its petition seeking leave to appeal had been granted. The matter was heard on September 10, 2019. On September 30, 2019, the Supreme Court dismissed the appeal and ordered us to pay Corruption Watch's costs, including that of two counsel. We are discussing further legal steps with our counsel.

On July 9, 2019, the Supreme Court issued correspondence demanding an explanation from SASSA as to why it decided to abandon its defense in the matter and instructed SASSA to be legally represented at the hearing on September 10, 2019. SASSA filed its explanatory affidavit on August 2, 2019.

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

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

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

Regarding the NCR's application to cancel the registration of Moneyline, we raised a number of procedural points in defense and argument on these points was heard on November 27, 2015, before three tribunal members. Two ruled against us and one upheld our points. We are appealing the majority ruling to the High Court. This matter was heard on December 4, 2018, by a full bench of the Pretoria High Court. We still await judgment. If we are successful, it will dispose of the application. If we do not prevail, then the NCR's application will be set down before the Consumer Tribunal for argument on the main issues raised by the NCR, as dealt with above. We cannot predict the outcome of this litigation.

Initiation of legal proceedings against a PG Purchasing customer regarding non-payment of working capital finance loans receivable

In January 2019, we filed a Petition with the District Court of Dallas County, Texas ("Texas district court lawsuit"), naming Permian Crude Transport, LP, f/k/a Permian Crude Transport, LLC, d/b/a Permian Transport & Trading ("PCT"), and Centurion Marketing, LLC d/b/a Jupiter Marketing & Trading, LLC ("Centurion" and collectively with PCT, "PCT/Centurion") as defendants regarding the recovery of working capital finance loans receivable made to PCT/Centurion by our wholly owned subsidiary, PG Purchasing. This lawsuit was in its initial stages. Trial was set for December 2, 2019. However, the Texas district court lawsuit was administratively closed following PCT's filing for bankruptcy in June 2019 and Centurion's filing for bankruptcy in July 2019 ("PCT/Centurion bankruptcy matters"). The Texas district court lawsuit may be re-opened if the PCT/Centurion bankruptcy matters are lifted.

We cannot predict if the Texas district court lawsuit will be re-opened, and if it is re-opened, the outcome of the matter. Also, we cannot predict the outcome of the PCT/Centurion bankruptcy matters.

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.

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 September 12, 2019, there were 12 shareholders of record of our common stock. A substantially greater number of holders of our common stock are beneficial holders whose shareholders of record are banks, brokers, and other financial institutions (i.e. "street name"). 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

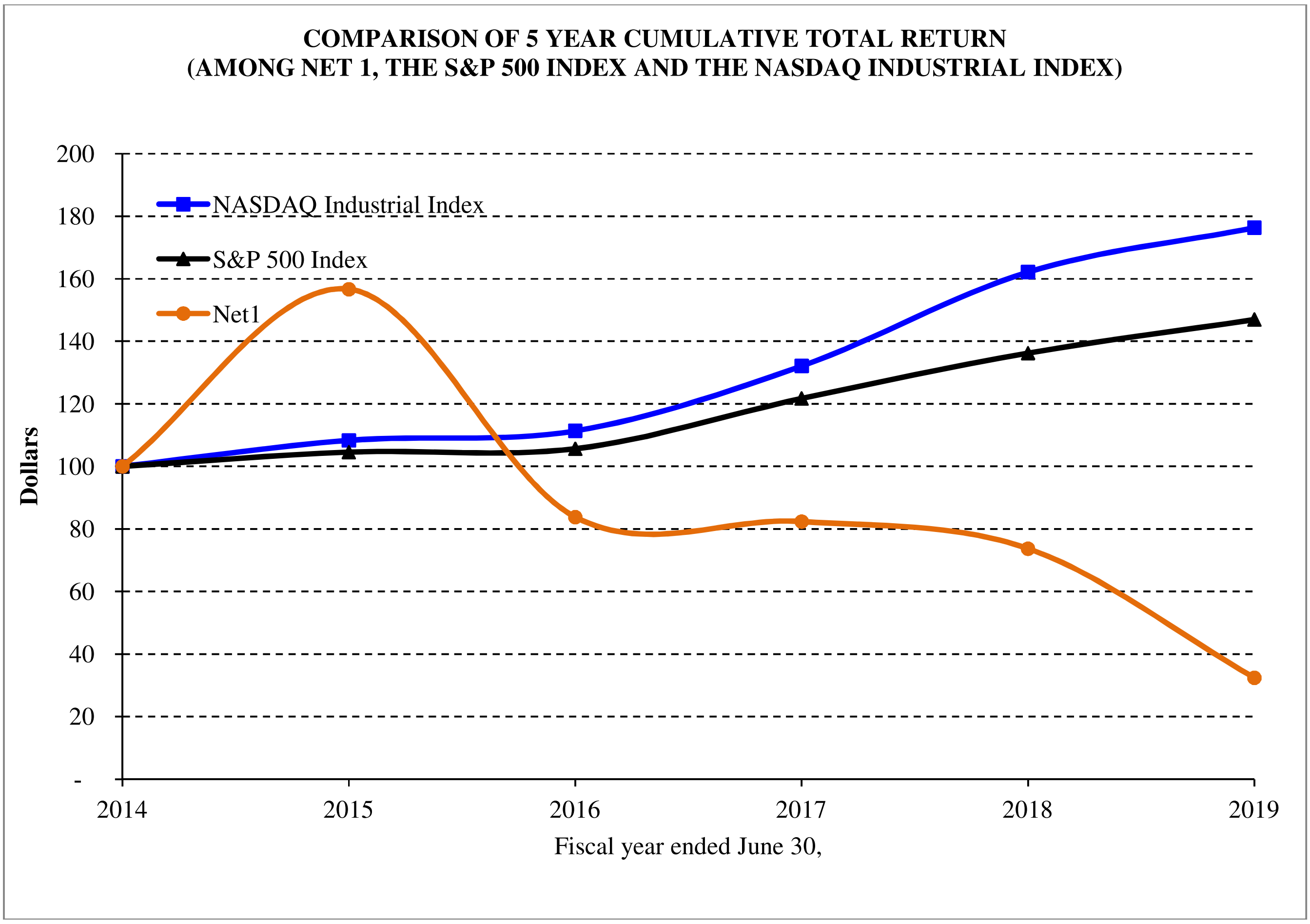
We have not paid any dividends on our shares of common stock during our last two fiscal years and presently intend to retain future earnings finance the expansion of the business. We do not anticipate paying any cash dividends in the foreseeable future. The future dividend policy will depend on our earnings,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

Issuer purchases of equity securities

On February 3, 2016, our board of directors approved the replenishment of our existing share repurchase authorization to repurchase up to an aggregate of $100 million of common stock and, as of June 30, 2019, we had utilized approximately $47.5 million of this authorization and approximately $52.5 million remains available. The authorization has no expiration date. We did not repurchase any shares of our common stock during fiscal 2019.

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, 2014, in each of our common stock, the companies in the S&P 500 Index, and the companies in the NASDAQ Industrial Index.



ITEM 6. SELECTED FINANCIAL DATA

The following selected historical consolidated financial data should be read together with Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8—"Financial Statements and Supplementary Data." The following selected historical financial data as of June 30, 2019 and 2018, and for the three years ended June 30, 2019, have been derived from our audited 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, 2017, 2016 and 2015 and for the years ended June 30, 2016 and 2015, have been derived from our consolidated financial statements, which are not included herein, and have been restated as noted below, which is unaudited. The selected historical financial data as of each date and for each period presented have been prepared in accordance with U.S. GAAP. These historical results are not necessarily indicative of results to be expected in any future period.

As discussed in the Note 1 to our audited consolidated financial statements included in Item 8—"Financial Statements and Supplementary Data.", our historic consolidated financial statements have been corrected to give effect to the restatement. Accordingly, certain of the selected consolidated financial data presented in the table below has been corrected to give effect to the restatement as indicated.

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

	Year Ended June 30(R)				
	2019(1)	2018 (as restated)	2017 (as restated)	2016 (as restated)	2015
Revenue(2)	$360,990	$612,889	$610,066	$590,749	$625,979
Cost of goods sold, IT processing, servicing and support	215,348	304,536	292,383	290,101	297,856
Selling, general and administrative(3)	202,056	193,003	179,262	145,886	158,919
Depreciation and amortization	37,349	35,484	41,378	40,394	40,685
Impairment loss	19,745	20,917	-	-	-
Operating (loss) income	(113,508)	58,949	97,043	114,368	128,519
Change in fair value of equity securities	(167,459)	32,473	-	-	-
Interest income	7,229	17,885	20,897	15,292	16,355
Interest expense	10,724	8,941	3,484	3,423	4,456
Impairment of Cedar Cellular note	12,793				
(Loss) Income before income taxes	(303,026)	100,366	114,456	126,237	140,418
Income tax expense	3,725	48,597	42,506	42,009	44,136
Net (loss) income attributable to Net1	(307,618)	64,246	73,070	82,137	94,735
(Loss) Income from continuing operations per share:					
Basic	$(5.42)	$1.13	$1.34	$1.72	$2.03
Diluted	$(5.42)	$1.13	$1.33	$1.71	$2.02

(R) Income tax expense, net income attributable to Net1 and Income from continuing operations per share: Basic and Diluted for the years ended June 30, 2018 and 2017, restated to correct the misstatement discussed in Note 1 to the audited consolidated financial statements. Year ended June 30, 2016, restated as follows: Income tax expense (decreased by 0.1 million), net income attributable to Net1 (decreased by 0.2 million) and Income from continuing operations per share: Basic (unchanged) and Diluted (unchanged).

(1) Impacted by expiration of SASSA contract in September 2018. Also impacted by inclusion of DNI for the first nine months of fiscal 2019 – refer to Note 3 to the audited consolidated financial statements, which also includes discontinued operation disclosures related to DNI.

(2) Revenue for the year ended June 30, 2019, includes revenue that has been reversed of $19.7 million (ZAR 277.6 million) as a result of the Supreme Court ruling discussed in Note 13 to our audited consolidated financial statements, and selling, general and administrative includes $14.3 million (ZAR 201.8 million) related to the Supreme Court ruling.

(3) Includes an allowance for doubtful financial loans receivable of $28.8 million in 2019 and separation payment of $8.0 million paid to our former chief executive officer in 2017.

Additional Operating Data:
(in thousands, except percentages)

	Year ended June 30,				
	2019[(1)]	2018[(1)]	2017[(1)]	2016[(1)]	2015[(1)]
Cash flows (used in) provided by operating activities	$(4,460)	$132,305	$97,161	$116,552	$135,258
Cash flows provided by (used in) investing activities	$64,476	$180,748	$(114,071)	$5,756	$80,783
Cash flows (used in) provided by financing activities	$(24,714)	$(473,479)	$40,469	$13,645	$16,784
Operating (loss) income margin[(2)]	(31.4%)	14.6%	15.9%	19.4%	20.5%

(1) Cash flows provided by (used in) investing activities include movements in settlement assets and cash flows (used in) provided by financing activities include movement in settlement liabilities.
(2) Fiscal 2019 operating loss margin was (14%) before retrenchment costs, the impact of the SASSA implementation costs accrual (refer to Note 13 of our audited consolidated financial statements), and impairment losses (refer to Note 10 of our audited consolidated financial statements for a full description of the impairment losses). Fiscal 2018 operating income margin was 13% before the impairment loss (Refer to Note 10 of our audited consolidated financial statements for a full description of the impairment loss). Fiscal 2017 operating income margin was 18% before the separation payment of $8.0 million paid to our former chief executive officer.

Consolidated Balance Sheet Data:
(in thousands)

	As of June 30,				
	2019	2018 (as restated)	2017 (as restated)	2016 (as restated)	2015 (as restated)
Cash, cash equivalents and restricted cash	$121,511	$87,075	$258,457	$223,644	$117,583
Total current assets before settlement assets	232,171	277,794	465,735	386,998	301,874
Goodwill	149,387	169,079	188,833	179,478	166,437
Intangible assets	11,889	27,129	38,764	48,556	47,124
Total assets[(R)]	672,936	1,217,314	1,448,829	1,261,649	1,315,108
Total current liabilities before settlement obligations	174,667	133,486	80,859	65,486	82,198
Total long-term debt	-	5,469	7,501	43,134	50,762
Total equity[(R)]	$319,429	$640,986	$598,802	$601,784	$477,351

[(R)] Total assets and total equity as of June 30, 2018, restated to correct the misstatement discussed in Note 1 to the audited consolidated financial statements. As of June 30, 2017, 2016 and 2015, restated as follows: total assets (2017 and 2016: decreased by 1.9 million; 2015: decreased by 1.8 million) and total equity (2017: decreased by 1.5 million; 2016 and 2015: decreased by 1.4 million).

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 financial technology, or fintech, products and services to the unbanked and underbanked in a number of emerging and developed economies. In emerging economies these customers are typically individuals, while in developed countries, they are primarily small businesses. We have developed and own most of our payment technologies, and where possible, utilize this technology to provide financial and value-added services to our customers.

Sources of Revenue

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

We have structured our business and our business development efforts around four related but separate approaches to deploying our technology. In our most basic approach, we act as a supplier, selling our equipment, software, and related technology to a customer. The revenue and costs associated with this approach are reflected in our Financial inclusion and applied technologies segment. We have found that we have greater revenue and profit opportunities, however, by acting as a service provider instead of a supplier. In this approach we own and operate the UEPS ourselves, charging one-time and on-going fees for the use of the system either on a fixed or ad valorem basis. This is the case in South Africa, where we provide bank accounts on a monthly fee basis, and charge fees on an ad valorem basis for goods and services purchased using our smart card. The revenue and costs associated with this approach are reflected in our South African transaction processing and Financial inclusion and applied technologies segments.

Because our smart cards are designed to enable the delivery of more advanced services and products, we are also willing to supply those services and products directly where the business case is compelling. For instance, we provide short-term loans to our smart card holders. Here we can act as the principal in operating a business that can be better delivered through our UEPS. The revenue and costs are reflected in our Financial inclusion and applied technologies segment.

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

Through KSNET, we earn most of our revenue from payment processing services we provide to approximately 223,000 merchants and to card issuers in South Korea through our value-added-network. Through IPG we generate fee revenue through the provision of payment service provider and card issuing and acquiring services in primarily Europe, China and the U.S. The revenue and costs at of all of these businesses are reflected in our International transaction processing segment.

Finally, we have investments, business partnerships or joint ventures to provide us with an opportunity to introduce our financial technology solutions to markets such as Bank Frick in Europe, Finbond in South Africa and North America, OneFi in Nigeria, V2 in sub-Sahara Africa, and MobiKwik in India. In these situations, we take an equity position in the business while also acting as a supplier of technology. In evaluating these types of opportunities, we seek to maintain a highly disciplined approach, carefully selecting partners, participating closely in the development of the business plan and remaining actively engaged in the management of the new business. In most instances, the joint venture or partnership has a license to use our proprietary technologies in the specific territory, including the back-end system.

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

Developments during Fiscal 2019

Restructuring of South African operations and strategy for financial inclusion initiatives in South Africa

Following the auto-migration of a substantial portion of our EPE customers in fiscal 2019, we faced a significant reduction in the number of accounts, transactions, fees, and consumption of financial and value-added services. In addition, customers who had loans or insurance policies and had been migrated, unwittingly defaulted on their regular payments. Our rural-South African distribution business has a high-fixed cost structure with physical locations, assets and employees. The decline in revenue coupled with the high-fixed costs resulted in significant operating losses for the company over the past year. Beginning in late January, we commenced an aggressive restructuring initiative to reduce our physical infrastructure and headcount in order to right size the business given the current level of business activity. We have made meaningful progress in this regard and achieved our target of reaching a breakeven EBITDA on a monthly basis for the month of July 2019, one month later than originally expected.

Restructuring of South African operations – In late January 2019, we commenced with an extensive cost reduction exercise, which included a reduction of over 2,500 employees (being close to 50% of our original staff complement), a reduction in the availability of our mobile ATM infrastructure, and the termination of certain leases. During the second half of 2019, we incurred retrenchment costs of $6.3 million related to the reduction of personnel both in the field and at the head office level.

Increasing collaboration with Finbond - We have actively worked with the Finbond teams to identify synergies between our organizations in order to address the market opportunity for the millions of unbanked and under-banked South Africans. Finbond has been certified to become an issuer of UEPS/EMV cards, and in early Q4 2019, we initiated a pilot using our biometrically-enabled UEPS/EMV cards. We expect to commercially launch this initiative during Q2 2020, at which point we believe we can once again start growing our customer base.

Stabilization of financial services - Our lending and insurance businesses have stabilized in the second half of fiscal 2019 due to a steadier base of active EPE accounts. This stability now provides us with the opportunity to re-direct our efforts to growing these business lines, although this will be done cautiously to manage the risk of any potential future auto-migration of customers. We have begun discussions with other financial services providers, including Finbond, to use our EPE base as a distribution channel for their own lending products.

Our loan book increased slightly in the fourth quarter of fiscal 2019 and, following the write off of the loans that were provided against in Q2 2019, we have seen the level of non-performing loans return broadly to historical levels. For insurance, the number of policies paid up has also stabilized and the lapses related to the increased non-payment returned to more normal levels in the fourth quarter of fiscal 2019.

SASSA Contract Expiration

Although we have not been involved operationally with SASSA since September 30, 2018, we have been actively trying to resolve all legal and legacy outstanding items that would allow us to focus on our core business.

Settlement of payment of fees due for the last six months of the SASSA contract – Following the March 23, 2018 Constitutional Court order for a six-month extension of our contract with SASSA for payment of grants in cash at pay points only, we were allowed to charge our monthly fee based on the previously contracted rate of ZAR 16.44 (including VAT) per cash pay point recipient. Given that we only serviced the highest-cost beneficiaries, the Constitutional Court allowed us to approach the National Treasury in order for them to make a fair determination of the price we should be paid for services rendered. National Treasury recommended a rate of ZAR 51.00 (including VAT) per cash pay point recipient per month to the Constitutional Court. Contrary to SASSA's stance, the Constitutional Court on December 5, 2018, ruled that they are not required to ratify the Treasury recommended rate, and that CPS and SASSA must agree on the pricing. To date we have not reached an agreement with SASSA on the pricing and have commenced legal proceedings to receive an amount in accordance with National Treasury recommendation.

Auto-migration of EPE customers to SAPO – As part of SASSA's migration to SAPO, a number of EPE customers were auto-migrated by SASSA between August and October 2018, where post office accounts were unilaterally opened for beneficiaries by SASSA, often without the customer's consent. We initiated a legal process to halt this migration and to try and recover some of our EPE customers who had been migrated despite completing the mandatory documentation for electing to be paid in a private bank account. On January 29, 2019, we received an adverse order in that the court declined to reverse the auto-migration process. Following this order, we followed a multi-faceted approach to try and address the auto-migration issue. First, we were granted leave to appeal the order, which we are pursuing. Second, the court granted an order requiring SASSA to account for the process to auto-migrate approximately 700,000 of the EPE accounts who had submitted Annexure C forms to SAPO. Third, we are considering taking the decision of the minister for administrative review.

While the first and third actions are longer processes, we are currently reviewing SASSA's response to the second action and will determine if there is any further action that can be taken as a result. The risk of our remaining EPE customers being auto-migrated still exists, but there has been no further auto-migration since November 2018.

We are relieved that we have finally concluded our contract with SASSA on September 30, 2018. We are extremely proud of our achievements of uninterrupted grant delivery to 11.0 million social grant recipients since the inception of our contract in April 2012, and the annual saving of more than ZAR 2.0 billion that our biometric payment technology realized for government due to the elimination of fraudulent grants.

Progress on various corporate activities

As part of the extensive strategic review of all of our businesses and investments, we have made progress on multiple fronts:

<u>Disposal of DNI</u> – We have concluded two transactions to reduce our investment in DNI. First, in March 2019, we reduced our holding in DNI from 55% to 38% through the sale of 17% in DNI for ZAR 400 million. We utilized the proceeds from this sale to settle the contingent purchase consideration of ZAR 400 million, which related to the achievement of certain performance targets by DNI. Second, in May 2019, we sold an additional 8% of DNI to RMB, and used the proceeds to early-settle the majority of our outstanding long-term borrowings. Third, also in May 2019, we granted DNI a call option to acquire our remaining 30% interest in DNI at a strike price of ZAR 859 million, or $61.0 million translated at exchange rates applicable as of June 30, 2019, in order to monetize our remaining investment in DNI. We expect the call option to be exercised prior to the expiry on December 31, 2019.

<u>Early repayment of long-term debt</u> – We utilized ZAR 15.0 million of our cash reserves and the proceeds from the sale of an 8% interest in DNI to early-settle our ZAR 230.0 million long-term borrowings in full. This has strengthened our balance sheet and improved our liquidity profile in South Africa as we reposition the business.

<u>Progress in Korea</u> – Our advisors assisting with improving the growth and profitability in Korea completed the first phase of their project during our third quarter of 2019, which consisted of the identification of actionable items. In phase two, which commenced at the end of our fourth quarter of 2019, they are working with management to implement the near-term action items identified in the first phase. We expect the overall exercise to take another 6-12 months before we see meaningful improvements in operating performance. In parallel, our board is reviewing the strategic alternatives for this business and we appointed a financial advisor, FT Partners, to assist us in evaluating such alternatives.

<u>Cell C</u> – Cell C has had a difficult six months and has come under increasing pressure on its liquidity due to its high level of debt and the associated servicing costs. During the third quarter of fiscal 2019, Cell C signed a term sheet with the Buffet consortium, but the implementation of this capitalization has been delayed. As a result, Cell C requested shareholder support and in September 2019, we agreed to provide up to ZAR 300 million of support to the company through the purchase of prepaid airtime. This, along with support from Blue Label Telecoms and Cell C's debt providers, should provide a liquidity platform to Cell C to enable it to conclude revised commercial arrangements with MTN, as well as a recapitalization of the business. Our investments in Cell C and Cedar Cellular notes were carried at $0 as of June 30, 2019, refer to Notes 7 and 9 to our audited consolidated financial statements for additional information regarding these investments.

International Activities

<u>IPG</u> – The restructuring and re-organization of IPG is now complete with Malta having become the centralized operation of our international activities. IPG's new card issuing and merchant acquiring platforms have been certified. As part of Visa's merger with Visa Europe, Bank Frick is required to undergo recertification with Visa, which is currently underway and expected to be completed during calendar 2019. Once completed, IPG is expected to begin the deployment of its new products to the European SME market. During fiscal 2019, IPG also secured approval from the Mauritian regulators to become a principal member of China UnionPay for international issuing and acquiring. This approval has been shared with UnionPay, and we are awaiting their acceptance of the same. Our beta prototype crypto-asset storage product is now ready, and we believe we will begin commercially rolling out this market-leading product with Bank Frick in the first half of fiscal 2020.

<u>Bank Frick</u> – Bank Frick continues to develop its capacity and expertise in relation to cryptocurrency and blockchain technology. It has expanded its headcount; however, its performance was slightly lower than anticipated, which was largely due to investments in expanding headcount and improving systems. Bank Frick continues to work closely with IPG regarding our acquiring, processing and cryptocurrency storage solution initiatives.

On October 2, 2019, we exercised an option to acquire an additional 35% interest in Bank Frick from the Kuno Frick Family Foundation. We will pay an amount, the Option Price Consideration, for the additional 35% interest in Bank Frick, which represents the higher of CHF 46.4 million ($46.5 million at exchange rates on October 2, 2019) or 35% of 15 times the average annual normalized net income of the Bank over the two years ended December 31, 2018.

The shares will only transfer on payment of the Option Price Consideration, which shall occur on the later of (i) 180 days after the date of exercise of the option; (ii) in the event of any regulatory approvals being required, 10 days after receipt of approval (either unconditionally or on terms acceptable to both parties); and (iii) 10 days after the date on which the Option Price Consideration is agreed or finally determined.

ZappGroup – Our new Africa-focused investment, ZappGroup, made significant strides in its first year of existence. During Q2 2019, ZappGroup signed up the largest bank in Ghana and went live with a beta product. During the third quarter of fiscal 2019, ZappGroup progressed its live testing and also signed up two of the three largest mobile operators in Ghana. ZappGroup has also integrated with the largest merchant network (allowing it to reach many more merchants) and is expecting to achieve commercial launch in the second quarter of fiscal 2020. ZappGroup also commenced activities to sign customer contracts in Nigeria and is working closely with us and OneFi.

OneFi – Given the success of it digital lending product, Pay-Later, in fiscal 2019, OneFi has rebranded as Carbon, expanding its offering as a full-fledged digital financial services platform that offers bill payments, fund transfers and savings, in addition to loans. OneFi is currently disbursing approximately 50,000 new loans per month.

India – We have deployed our virtual card technology with MobiKwik to its users. In fiscal 2019, MobiKwik applied for direct membership with Visa and became an associate member in Q4 2019. Given this is the first time a non-bank has been approved as a Visa member in India, the Visa/MobiKwik application has been submitted to the central bank for approval. Once approved, it is expected to allow MobiKwik to expand issuing virtual cards to its millions of customers. MobiKwik itself has performed ahead of expectations, primarily due to its successful transition to being a digital financial services provider. In June 2019, MobiKwik recorded unaudited annualized revenue of $55 million, up from $17 million in June 2018. It has been contribution margin positive since October 2018 and was close to EBITDA breakeven at the end of June 2019. Digital financial services now account for approximately 25% of MobiKwik's total monthly revenue, compared to zero during the previous fiscal year and it is currently disbursing in excess of 70,000 new loans per month.

Critical Accounting Policies

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

Valuation of investment in Cell C

We have elected to measure our investment in Cell C, an unlisted equity security, at fair value using the fair value option. Changes in the fair value of this equity security are recognized in the caption change in fair value of equity securities in our audited consolidated statements of operations. The tax impact related to the change in fair value of equity securities is included in income tax expense in our audited consolidated statements of operation. The determination of the fair value of this equity security requires us to make significant judgments and estimates. We base our estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Refer to Note 7 of our audited consolidated financial statements regarding the valuation inputs and sensitivity related to our investment in Cell C.

We used a discounted cash flow model to determine the fair value of our investment in Cell C as of June 30, 2019, and valued Cell C at $0.0 (zero) at June 30, 2019. We have changed our valuation methodology from an EV/ EBITDA model to a discounted cash flow approach due to anticipated changes in Cell C's business model and the current challenges faced by the business, which would not have been captured by the previous valuation approach. We utilized the latest business plan provided by Cell C management for the period ending December 31, 2024, and the following key valuation inputs were used:

Weighted Average Cost of Capital:	Between 15% and 20% over the period of the forecast
Long term growth rate:	4.5%
Marketability discount:	10.0%
Minority discount:	15.0%
Net adjusted external debt(1):	ZAR 13.9 billion ($648.9 million), includes R6.4 billion of leases liabilities
Deferred tax (incl. assessed tax losses(1)):	ZAR 2.9 billion ($20.6 million)

(1) translated from ZAR to U.S. dollars at exchange rates applicable as of June 30, 2019.

We believe the Cell C business plan is reasonable based on the current performance and the expected changes in the business model.

We used an adjusted EV/ EBITDA model to determine the fair value of our investment in Cell C for the first, second and third quarter of fiscal 2019 and for fiscal 2018, and we considered Cell C's adjusted earnings before interest, taxation, depreciation and amortization, or EBITDA, and its historical net debt position. We were also required to select an appropriate EBITDA multiple based on Cell C's peer group, which comprises various African and emerging market mobile telecommunications operators and the appropriate marketability discount related to the investment in order to determine its fair value.

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 2019 indicated that the fair value of our reporting units exceeded their carrying values, with the exception of the $14.4 million of goodwill impaired during fiscal 2019, as discussed in Note 10 to our audited consolidated financial statements.

Intangible Assets Acquired Through Acquisitions

The fair values of the identifiable intangible assets acquired through acquisitions were determined by management using the purchase method of accounting. We completed acquisitions during fiscal 2018 and 2017 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, in fiscal 2019, we recorded an impairment loss of $5.3 million related to intangible assets acquired (customer relationships) in the DNI acquisition as a result of Cell C entering into a roaming arrangement with another South African mobile telecommunications network provider which extended Cell C's network coverage. This arrangement impacted the identified customer relationship recognized.

Deferred Taxation

We estimate our tax liability through the calculations done for the determination of our current tax liability, together with assessing temporary differences resulting from the different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities which are disclosed on our balance sheet.

Management then has to assess the likelihood that deferred tax assets are more likely than not to be realized in the foreseeable future. A valuation allowance is created if it is determined that a deferred tax asset will not be realized in the foreseeable future. Any change to the valuation allowance would be charged or credited to income in the period such determination is made. In assessing the need for a valuation allowance, historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and practicable tax planning strategies are considered. During fiscal 2019, fiscal 2018 and 2017, respectively, we recorded a net increase of $68.6 million, $9.6 million and $0.1 million to our valuation allowance. As of June 30, 2019 and 2018, the valuation allowance related to deferred tax assets was $116.4 million and $48.7 million, respectively.

Stock-based Compensation

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

We utilize the Cox Ross Rubinstein binomial model to measure the fair value of stock options granted to employees and directors. We have also utilized a bespoke adjusted Monte Carlo simulation discounted cash flow model to measure the fair value of restricted stock with market conditions granted to employees and directors. The stock-based compensation cost related to these valuations has been recognized on a straight line basis. These valuation models require estimates of a number of key valuation inputs including expected volatility, expected dividend yield, expected term and risk-free interest rate. Our management has estimated forfeitures based on historic employee behavior under similar compensation plans. The fair value of stock options is affected by the assumptions selected. Net stock-based compensation expense from continuing operations was $0.4 million, $2.6 million and $2.0 million for fiscal 2019, 2018 and 2017, respectively.

Accounts Receivable and Allowance for Doubtful Accounts Receivable

We maintain an allowance for doubtful accounts receivable related to our Financial inclusion and applied technologies and International transaction-based activities segments with respect to sales or rental of hardware, support and maintenance services provided; or sale of licenses to customers; or the provision of transaction processing services to our customers; or our working capital financing provided.

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

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

Microlending

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

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

Accounting for transactions following September 2019 Supreme Court ruling

As discussed under Item 3—"Legal Proceedings— Challenge to Payment by SASSA of Additional Implementation Costs" the Supreme Court denied our appeal and we have recorded a liability of $34.0 million as of June 30, 2019, comprising a revenue refund of $19.7 million (ZAR 277.6 million), and other expenses totaling $14.3 million (ZAR 201.8 million).

Other payables - accrual of implementation costs to be refunded to SASSA

On September 30, 2019, the Supreme Court delivered its ruling in the matter, declining CPS' appeal and awarding costs against CPS. CPS is liable to repay SASSA ZAR 317.0 million, plus interest from June 2014 to date of payment. As a result, we have recorded the liability at June 30, 2019, of $34.0 million (ZAR 479.4 million, translated at exchange rates applicable as of June 30, 2019, comprising a revenue refund of $19.7 million (ZAR 277.6 million), accrued interest of $11.4 million (ZAR 161.0 million), unclaimed indirect taxes of $2.8 million (ZAR 39.4 million) and estimated costs of $0.1 million (ZAR 1.4 million)).

We are discussing further legal steps with our counsel. Management does not agree with the findings of the Supreme Court and may appeal the matter with the Constitutional Court. While management believes that its arguments in defense of the matter have merit, it has had to apply its judgment, including the fact that both the High Court and the Supreme Court have ruled against CPS, to determine whether to record a liability as of June 30, 2019. If management determines to further appeal the matter, it is unable to predict (a) whether the Constitutional Court will hear the matter, or (b) if they do hear the matter, the outcome of those additional proceedings.

While management does not agree with the Supreme Court ruling, we respect the rule of law in South Africa, and will discharge our legal obligations as mandated under South African law as they fall due once all available legal process available to us have been exhausted. We considered the High Court and Supreme Court rulings and the uncertainty regarding the further appeal process in our assessment that it is probable that an amount will need to be refunded to SASSA, although this is not an admission that our legal arguments do not have merit. This, taken together with the rulings that specify a quantifiable amount payable to SASSA, formed the basis for the accrual of the liability of $34.0 million as of June 30, 2019.

Revenue – variation in transaction price following September 2019 Supreme Court ruling

Management considers a component of the $34.0 million to be refunded to SASSA, specifically the ZAR 277.6 million ($19.7 million) of revenue recorded in fiscal 2014 related to a June 2012 agreement, to be a variation in the price charged to SASSA under our February 2012 SASSA contract. Even though it is an involuntary refund to be paid to SASSA, the Supreme Court ruled that we were not entitled to charge SASSA for the additional enrolments performed because, in the courts view, the February 2012 contract contained all the performance obligations and pricing parameters related to the enrolment of all beneficiaries, and not just cardholder recipients, and we should not have sought a recovery of implementation costs in fiscal 2014 from SASSA for the additional enrolment services provided under the June 2012 agreement. As noted above, management does not agree with the findings of the courts and has had to exercise its judgment in determining whether the reversal of revenue represents a price variation (accounted for as a reduction in revenue in fiscal 2019) or a nonreciprocal transfer.

Recent Accounting Pronouncements

Recent accounting pronouncements adopted

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

Recent accounting pronouncements not yet adopted as of June 30, 2019

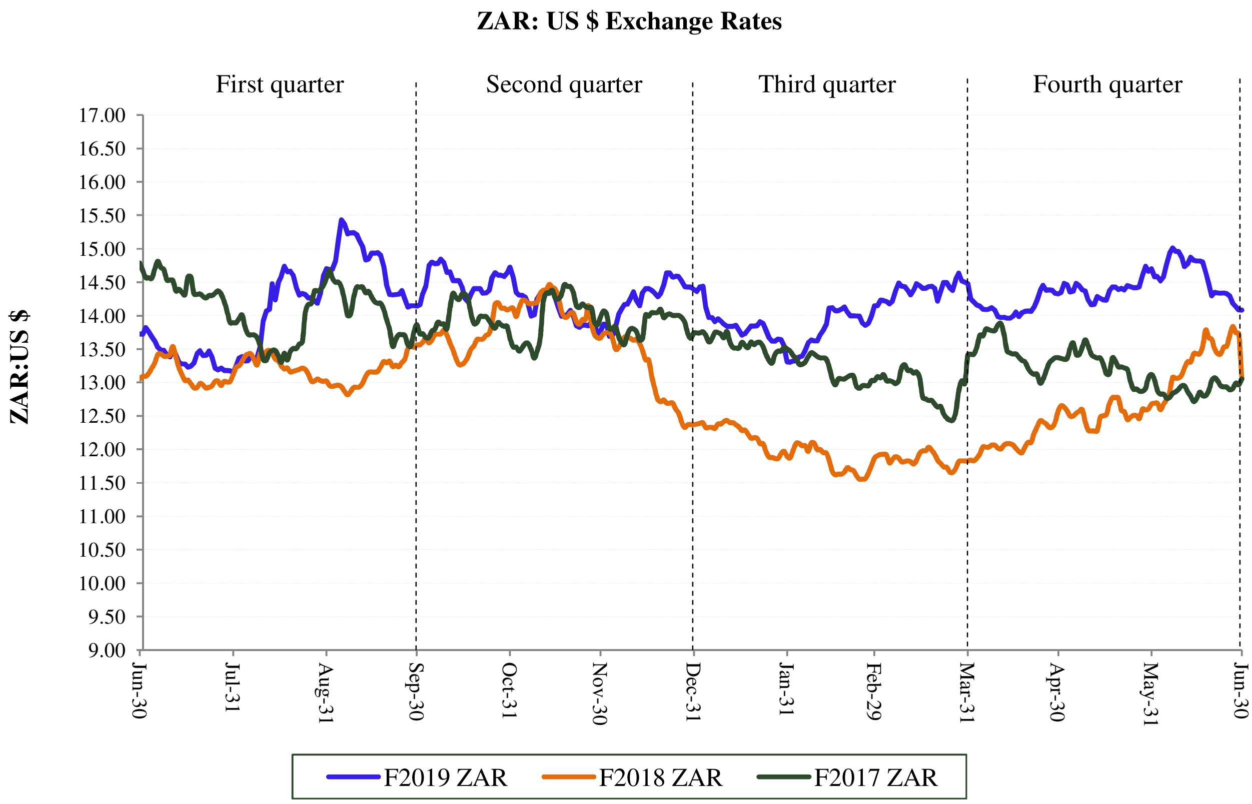
Refer to Note 2 of our audited consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of June 30, 2019, including the expected dates of adoption and effects on financial condition, results of operations and cash flows.

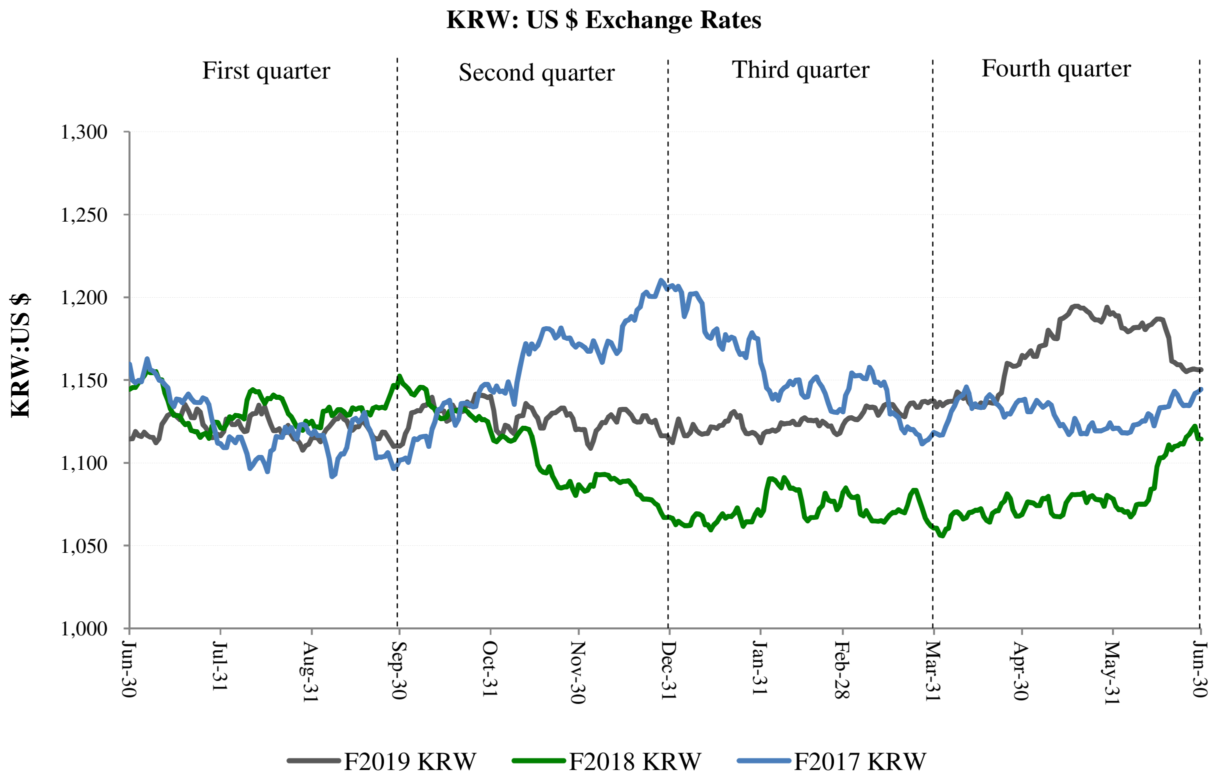
Currency Exchange Rate Information

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,**		
	2019	**2018**	**2017**
ZAR : $ average exchange rate	14.1926	12.8557	13.6147
Highest ZAR : $ rate during period......	15.4335	14.4645	14.8114
Lowest ZAR : $ rate during period	13.1528	11.5526	12.4379
Rate at end of period	14.0840	13.7255	13.0535
KRW : $ average exchange rate...........	1,135	1,098	1,141
Highest KRW : $ rate during period	1,195	1,156	1,210
Lowest KRW : $ rate during period.....	1,108	1,056	1,092
Rate at end of period	1,156	1,114	1,144


ZAR: US $ Exchange Rates
First quarter
Second quarter
Third quarter
Fourth quarter
ZAR:US $
17.00
16.50
16.00
15.50
15.00
14.50
14.00
13.50
13.00
12.50
12.00
11.50
11.00
10.50
10.00
9.50
9.00
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
F2019 ZAR
F2018 ZAR
F2017 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
F2019 KRW
F2018 KRW
F2017 KRW

Translation Exchange Rates

We are required to translate our results of operations from ZAR to U.S. dollars on a monthly basis. Thus, the average rates used to translate this data for the years ended June 30, 2019, 2018 and 2017, 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,**		
	2019	**2018**	**2017**
Income and expense items: $1 = ZAR	14.2688	12.6951	13.6182
Income and expense items: $1 = KRW	1,136	1,095	1,146
Balance sheet items: $1 = ZAR.....................	14.0840	13.7255	13.0535
Balance sheet items: $1 = KRW	1,156	1,114	1,144

Results of Operations

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

Our operating segment revenue presented in "—Results of operations by operating segment" represents total revenue per operating segment before intercompany eliminations. A reconciliation between total operating segment revenue and revenue presented in our audited consolidated financial statements is included in Note 21 to those statements.

We consolidated DNI for the first nine months of fiscal 2019 and accounted for it using the equity method from April 1, 2019. DNI is accounted for as an equity-accounted investment for 11 months of fiscal 2018. Fiscal 2017 includes Masterpayment Financial Services Limited, or Ceevo FS, from November 1, 2016 and Pros Software from October 1, 2016. Refer also to Note 3 to the audited consolidated financial statements.

Fiscal 2019 Compared to Fiscal 2018

The following factors had an influence on our results of operations during fiscal 2019 as compared with the same period in the prior year:

- ***Decline in revenue:*** Our revenues declined 30% in ZAR primarily due to the expiration of our SASSA contract, a significant decline in EPE account numbers driven by SASSA's auto-migration of accounts to SAPO, a reduction in EPE-related financial and value-added services and transaction fees due to a smaller customer base, and lower contribution from KSNET, but partially offset by the inclusion of DNI for three quarters;
- ***Significant operating losses:*** Lower revenue, coupled with a high-fixed cost infrastructure and write-downs due to limited recoverability of dues from customers, resulted in a significant operating loss. During February 2019, we accelerated a restructuring of our South African operations to bring our cost structure in-line with our current customer base and were successful in reaching EBITDA breakeven in the month of July 2019. We incurred $6.3 million in retrenchment costs during fiscal 2019;
- ***Interest expense:*** Net interest expense increased due to lower average cash balances and higher short-term borrowing to fund ATMs, partially offset by the early settlement of long-term debt in May 2019;
- ***Non-cash losses, impairments and fair-value adjustments:*** We incurred a $5.8 million non-cash loss on our partial disposal of DNI, impairment losses of $19.7 million, a fair value adjustment loss of $167.5 million for Cell C and a $12.8 million impairment of our Cedar Cellular note;
- ***Implementation costs to be refunded to SASSA of $34.0 million:*** We recorded an accrual of $34.0 million related to the September 2019 Supreme Court ruling comprising a revenue refund of $19.7 million (ZAR 277.6 million), accrued interest of $11.4 million (ZAR 161.0 million), unclaimed indirect taxes of $2.8 million (ZAR 39.4 million) and estimated costs of $0.1 million (ZAR 1.4 million)); and
- ***Adverse foreign exchange movements:*** The U.S. dollar appreciated 12% against the ZAR and 4% against the KRW during fiscal 2019, which adversely impacted our reported results.

Consolidated overall results of operations

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

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

Table 3

	In U.S. Dollars (U.S. GAAP)		
	Year ended June 30,		
	2019(A)	2018(A)(B) (As restated)	
	$ '000	$ '000	$ % change
Revenue	360,990	612,889	(41%)
Cost of goods sold, IT processing, servicing and support	215,348	304,536	(29%)
Selling, general and administration	202,056	193,003	5%
Depreciation and amortization	37,349	35,484	5%
Impairment loss	19,745	20,917	(6%)
Operating (loss) income	(113,508)	58,949	nm
Change in fair value of equity securities	(167,459)	32,473	nm
Loss on disposal of DNI	5,771	-	nm
Interest income	7,229	17,885	(60%)
Interest expense	10,724	8,941	20%
Impairment of Cedar Cellular note	12,793	-	nm
(Loss) income before income tax expense	(303,026)	100,366	nm
Income tax expense	3,725	48,597	(92%)
Net (loss) income before earnings from equity-accounted investments	(306,751)	51,769	nm
Earnings from equity-accounted investments	1,482	11,597	nm
Net (loss) income	(305,269)	63,366	nm
Continuing	(307,959)	60,975	nm
Discontinued	2,690	2,391	13%
Less (Add) net income (loss) attributable to non-controlling interest	2,349	(880)	nm
Continuing	(1,352)	(880)	nm
Discontinued	3,701	-	nm
Net (loss) income attributable to us	(307,618)	64,246	nm
Continuing	(306,607)	61,752	nm
Discontinued	(1,011)	2,391	nm

(A) Refer to Note 3 to the audited consolidated financial statements for discontinued operations disclosures.
(B) Refer to Note 1 to the audited consolidated financial statements for additional information regarding the restatement.

Table 4	In South African Rand (U.S. GAAP)		
	Year ended June 30,		
	2019(A)	2018(A)(B) (As restated)	$ % change
	ZAR '000	ZAR '000	
Revenue	5,151,147	7,780,687	(34%)
Cost of goods sold, IT processing, servicing and support	3,072,908	3,866,114	(21%)
Selling, general and administration	2,883,239	2,450,193	18%
Depreciation and amortization	532,951	450,473	18%
Impairment loss	281,751	265,544	6%
Operating (loss) income	(1,619,702)	748,363	nm
Change in fair value of equity securities	(2,389,556)	412,248	nm
Loss on disposal of DNI	82,349	-	nm
Interest income	103,154	227,052	(55%)
Interest expense	153,026	113,507	35%
Impairment of Cedar Cellular note	182,549	-	nm
(Loss) income before income tax expense	(4,324,028)	1,274,156	nm
Income tax expense	53,154	616,943	(91%)
Net (loss) income before earnings from equity-accounted investments	(4,377,182)	657,213	nm
Earnings from equity-accounted investments	21,147	147,225	nm
Net (loss) income	(4,356,035)	804,438	nm
Continuing	(4,394,420)	774,084	nm
Discontinued	38,385	30,354	26%
Less (Add) net income (loss) attributable to non-controlling interest	33,519	(11,172)	nm
Continuing	(19,292)	(11,172)	nm
Discontinued	52,811	-	nm
Net (loss) income attributable to us	(4,389,554)	815,610	nm
Continuing	(4,375,128)	785,256	nm
Discontinued	(14,426)	30,354	nm

(A) Refer to Note 3 to the audited consolidated financial statements for discontinued operations disclosures.
(B) Refer to Note 1 to the audited consolidated financial statements for additional information regarding the restatement.

The decrease in revenue was primarily due to lower contributions received from our South African operations as a result of the end of our CPS contract with SASSA, which also resulted in fewer SASSA Grindrod-account grant recipients using the South African National Payment System to access their grants; the reversal of revenue of $19.7 million (ZAR 277.6 million) following the September 2019 Supreme Court ruling; the loss of our EPE account holders resulting in lower transaction fees; fewer prepaid airtime and value-added services sales; decreases in our insurance and lending activities and lower revenue contributions from South Korea and IPG; which was partially offset by the inclusion of DNI and higher fee and transaction income from our ATM offerings.

The decrease in cost of goods sold, IT processing, servicing and support was primarily due to fewer SASSA Grindrod-account grant recipients utilizing the South African National Payment System which resulted in lower transaction costs incurred by us and fewer prepaid airtime sales, which was partially offset by the inclusion of DNI and expenses to support and expand our EPE and ATM offerings. Our fiscal 2019 expense also included certain committed fixed and variable costs (including security, vehicle-related expenditures, banking fees and other transaction costs) that relate to the maintenance and expansion of our financial inclusion initiatives. SASSA's actions to convert grant recipients to the new SAPO account, often unilaterally and without the recipient's consent, resulted in us incurring certain expenses without any associated significant revenue generated from these activities. For instance, for a period during the year we deployed our mobile payment infrastructure into areas in which we believed that EPE accountholders would utilize our infrastructure, however these individuals did not use the infrastructure because they were auto-migrated to new SAPO accounts.

In ZAR, the increase in selling, general and administration expense was primarily due to an increase in our allowance for doubtful finance loans receivable of approximately $28.8 million (ZAR 411.0 million), additional costs recorded related to the September 2019 Supreme Court ruling of $14.3 million (ZAR 201.8 million), the inclusion of DNI, payment of $6.3 million (ZAR 88.5 million) of retrenchment packages, an increase in costs at IPG as part of its restructuring and re-establishment initiatives. Fiscal 2019 expenses also included committed fixed and variable costs (including premises and staff costs) that related to the maintenance and expansion of our financial inclusion initiatives. Fiscal 2018 included the impact of an allowance for doubtful Mastertrading working capital finance receivables of $7.8 million and a $4.6 million non-cash loss on re-measurement of the previously held equity interest in DNI upon acquisition.

Depreciation and amortization increased primarily due to the amortization of acquired intangible assets related to the DNI acquisition, partially offset by an increase in the number of tangible assets that became fully depreciated.

During fiscal 2019, we recognized an impairment loss of approximately $19.7 million, which included $7.0 million related to entire amount of IPG goodwill, $6.2 million primarily related to the impairment of goodwill recognized pursuant to the 2004 Aplitec transaction and $5.3 million related to DNI customer relationships. We reviewed and impaired goodwill allocated to T24 given the lower than expected revenues, profits and cash flows generated by T24 following the consolidation and restructuring of IPG over the period through December 2018, which resulted in several business lines being terminated or meaningfully reduced. We also reviewed certain customer relationships identified as part of our acquisition of DNI for impairment because Cell C recently entered into a roaming arrangement with another South African mobile telecommunications network provider which will extend Cell C's network coverage and this arrangement impacted the identified customer relationship recognized. As a consequence, we recorded an impairment loss of $5.3 million related to a portion of the customer relationship. Refer to Notes 3 and 10 of our audited consolidated financial statements for additional information regarding the impairment losses.

During fiscal 2018, we reviewed for impairment the goodwill identified and recognized pursuant to the Masterpayment and Masterpayment Financial Services acquisitions in April 2016 and November 2017, respectively, due to uncertainty surrounding the timing and amount of future net cash inflows following changes in the business strategy. As a consequence of this review, our 2018 impairment loss of $20.9 million included an impairment loss of approximately $19.9 million related to the entire carrying value of this goodwill acquired.

Our operating (loss) income margin for fiscal 2019 and 2018 was (31.4%) and 9.6% respectively. We discuss the components of operating income margin under "—Results of operations by operating segment." Our fiscal 2019 operating loss margin resulted from lower revenue, the impact of the September 2019 Supreme Court ruling, an increase in our allowance for doubtful finance loans receivable, impairment losses and losses incurred running our financial inclusion infrastructure. Our fiscal 2019 operating loss margin was (14.0%) excluding the impact of the September 2019 Supreme Court ruling, the $19.7 million impairment losses and the $6.3 million in retrenchment costs incurred. Our fiscal 2018 operating margin was 14.6% excluding the $20.9 million impairment loss, the $7.8 million allowance for doubtful finance loans receivable, the $4.6 million DNI re-measurement and the $2.5 million South Korean indirect tax refund.

The change in fair value of equity securities represents a non-cash fair value adjustment (loss) gain related to Cell C of $(167.5 million) and $32.5 million during fiscal 2019 and 2018, respectively. The fiscal 2019 adjustment was caused by current challenges faced by Cell C's business. Refer to Note 7 of our audited consolidated financial statements for the methodology and inputs used in the fair value calculation.

We recognized a non-cash loss of $5.8 million in fiscal 2019 related to the reduction in our equity holding in DNI from 55% to 30% during that year.

Interest on surplus cash decreased to $7.3 million (ZAR 103.1 million) from $17.9 million (ZAR 227.1 million), due primarily to the lower average daily ZAR cash balances resulting from our significant investments over the last two years as well as cash utilized to fund operating losses in the South African operations during fiscal 2019.

Interest expense increased to $10.7 million (ZAR 153.0 million) from $8.9 million (ZAR 113.5 million), due to increased borrowings which we obtained to partially fund our strategic investments and fund our ATMs, which was partially offset by a reduction in our long-term South African debt. Interest expense for fiscal 2018 included interest on our South Korean debt, which was fully repaid in October 2017.

We recorded an impairment loss of $12.8 million related to our Cedar Cellular note as discussed in Note 9 of our audited consolidated financial statements.

Fiscal 2019 tax expense was $3.7 million (ZAR 53.2 million) compared to $48.6 million (ZAR 616.9 million) in fiscal 2018. Our effective tax rate was adversely impacted by the valuation allowances created related to the deferred tax assets recognized in respect of net operating losses incurred by our South African businesses, the non-deductible impairment losses, the DNI disposal losses, and other non-deductible expenses, including transaction-related expenditure and non-deductible interest on our South African long-term debt facility. The deferred tax impact of the change in the fair value of our investment in Cell C also impacted the effective rate for fiscal 2019, as this amount is recorded at a lower rate (at a capital gains rate) than the South African statutory rate. During fiscal 2019, we reversed the entire deferred tax liability of approximately $6.1 million recorded as of June 30, 2018, as a result of decrease in the carrying value of Cell C to below the initial cost.

In addition, the June 30, 2019, carrying value of our investment in Cell C is less than its initial cost which results in a capital gains tax benefit for tax purposes. However, we do not expect to realize any significant capital gains in the foreseeable future and have provided a valuation allowance of $31.7 million related to this capital gains tax benefit deferred tax asset. Our effective tax rate for fiscal 2018 was 48.4% and higher than the South African statutory rate as a result of an impairment loss, a valuation allowance related to an allowance for doubtful working capital finance receivables created, the DNI re-measurement loss on acquisition, non-deductible expenses (including transaction-related expenditure and non-deductible interest on our South African long-term facility) and the impact of the changes in U.S. federal statutory tax law.

DNI was consolidated during the first three quarters of fiscal 2019, which adversely impacted our (loss) earnings from equity-accounted investments during fiscal 2019 because the contribution from DNI was excluded from such line item during the majority of fiscal 2019. Finbond is listed on the Johannesburg Stock Exchange and reports its six-month results during our first quarter and its annual results during our fourth quarter.

Table 5

	Year ended June 30,		
	2019	2018[A] (as restated)	$ %
	$ '000	$ '000	change
Bank Frick	(1,542)	(606)	154%
Share of net income	1,109	201	452%
Amortization of intangible assets, net of deferred tax	(567)	(403)	41%
Other	(2,084)	(404)	416%
DNI	865	7,005	nm
Share of net income	1,380	9,510	nm
Amortization of intangible assets, net of deferred tax	(515)	(2,505)	nm
Finbond	2,828	5,194	(46%)
Other	(669)	4	nm
Earnings from equity accounted investments	1,482	11,597	nm

(A) Refer to Note 1 to the audited consolidated financial statements for additional information regarding the restatement.

Results of operations by operating segment

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

Table 6

	In U.S. Dollars (U.S. GAAP)				
	Year ended June 30,				
Operating Segment	**2019 $ '000**	**% of total**	**2018 $ '000**	**% of total**	**% change**
Revenue:					
South African transaction processing	96,038	27%	268,047	44%	(64%)
International transaction processing	148,268	41%	180,027	29%	(18%)
Financial inclusion and applied technologies	146,184	40%	221,906	36%	(34%)
Continuing	89,847	24%	221,906	36%	(60%)
Discontinued	56,337	16%	-	-	nm
Subtotal: Operating segments	390,490	108%	669,980	109%	(42%)
Corporate/Eliminations and intersegment eliminations	(29,500)	(8%)	(57,091)	(9%)	(48%)
Consolidated revenue	**360,990**	**100%**	**612,889**	**100%**	**(41%)**
Continuing	304,653	84%	612,889	100%	(50%)
Discontinued	56,337	16%	-	-	nm
Operating (loss) income:					
South African transaction processing	(30,771)	27%	42,796	73%	nm
International transaction processing	2,837	(2%)	(12,478)	(21%)	nm
Financial inclusion and applied technologies	(14,758)	13%	55,372	94%	nm
Continuing	(39,158)	34%	55,372	94%	nm
Discontinued	24,400	(21%)	-	-	nm
Subtotal: Operating segments	(42,692)	38%	85,690	146%	nm
Corporate/Eliminations	(70,816)	62%	(26,741)	(46%)	165%
Continuing	(58,097)	51%	(22,127)	(38%)	163%
Discontinued	(12,719)	11%	(4,614)	(8%)	nm
Consolidated operating (loss) income	**(113,508)**	**100%**	**58,949**	**100%**	**nm**
Continuing	(125,189)	110%	63,563	108%	nm
Discontinued	11,681	(10%)	(4,614)	(8%)	nm

Table 7	In South African Rand (U.S. GAAP)				
	Year ended June 30,				
Operating Segment	**2019 ZAR '000**	**% of total**	**2018 ZAR '000**	**% of total**	**% change**
Revenue:					
South African transaction processing	1,370,414	27%	3,402,883	44%	(60%)
International transaction processing	2,115,710	41%	2,285,461	29%	(7%)
Financial inclusion and applied technologies	2,085,973	40%	2,817,119	36%	(26%)
Continuing	1,282,072	24%	2,817,119	36%	(54%)
Discontinued	803,901	16%	-	-	nm
Subtotal: Operating segments	5,572,097	108%	8,505,463	109%	(34%)
Corporate/Eliminations and intersegment eliminations	(420,950)	(8%)	(724,776)	(9%)	(42%)
Consolidated revenue	**5,151,147**	**100%**	**7,780,687**	**100%**	**(34%)**
Continuing	4,347,246	84%	7,780,687	100%	(44%)
Discontinued	803,901	16%	-	-	nm
Operating (loss) income:					
South African transaction processing	(439,087)	27%	543,299	73%	nm
International transaction processing	40,483	(2%)	(158,409)	(21%)	nm
Financial inclusion and applied technologies	(210,589)	13%	702,953	94%	nm
Continuing	(558,765)	34%	702,953	94%	nm
Discontinued	348,176	(21%)	-	-	nm
Subtotal: Operating segments	(609,193)	38%	1,087,843	146%	nm
Corporate/Eliminations	(1,010,509)	62%	(339,480)	(46%)	198%
Continuing	(829,015)	51%	(280,905)	(38%)	195%
Discontinued	(181,494)	11%	(58,575)	(8%)	nm
Consolidated operating (loss) income	**(1,619,702)**	**100%**	**748,363**	**100%**	**nm**
Continuing	(1,786,384)	110%	806,938	108%	nm
Discontinued	166,682	(10%)	(58,575)	(8%)	nm

South African transaction processing

The decrease in segment revenue and operating income was primarily due to the substantial decrease in the number of SASSA grant recipients paid under our SASSA contract as the contract expired at the end of the first quarter of fiscal 2019. Our revenue and operating income was also adversely impacted by the significant reduction in the number of SASSA grant recipients with SASSA-branded cards linked to Grindrod bank accounts as well as a lower number of EPE accounts. These decreases in revenue and operating income were partially offset by higher transaction revenue as a result of increased usage of our ATMs and EasyPay. Operating income for this operating segment for fiscal 2019 included a $1.1 million impairment loss and retrenchment costs of $4.7 million (ZAR 65.9 million).

Our operating (loss) income margin for fiscal 2019 and 2018 was (32.0%) and 16.0%, respectively. Excluding the impairment loss of $1.1 million and restructuring costs of $4.7 million, the segment operating loss and operating loss margin for fiscal 2019 were $24.9 million and (26.0%), respectively.

International transaction-based activities

Segment revenue was lower during fiscal 2019, primarily due to a contraction in IPG transactions processed, specifically meaningfully lower crypto-exchange and China processing activity, and lower KSNET revenue as a result of lower transaction values processed. Operating income during fiscal 2019 was adversely impacted by a $7.0 million impairment loss in respect of IPG. Operating income during fiscal 2018 was adversely impacted by a $19.9 million impairment loss, a Mastertrading allowance for doubtful working capital finance receivable of $7.8 million, and was positively impacted by an ad hoc refund of indirect taxes of $2.5 million in Korea. Excluding the combined impact of the impairment losses, the allowance for doubtful finance loans receivable and the ad hoc tax refund, operating income during fiscal 2019 was lower compared to fiscal 2018 due to a decrease in IPG revenues and ongoing losses at Masterpayment during fiscal 2019, but such decrease was partially offset by an improved contribution from KSNET primarily as a result of lower depreciation expense.

IPG continues to work in close collaboration with Bank Frick and our other specialist departments to develop bespoke blockchain-based solutions, including a highly secure but easily accessible crypto-asset storage solution for crypto-asset investors and exchanges and incurred research and development expenses of approximately $1.4 million in fiscal 2019 related to this project.

Operating (loss) income margin for fiscal 2019 and 2018 was 1.9% and (6.9%), respectively. Excluding the goodwill impairment, segment operating income and margin for fiscal 2019 were $9.8 million and 6.6%, respectively. Excluding the impairment loss, the Mastertrading allowance for doubtful working capital finance receivables and the ad hoc tax refund, segment operating income and margin for fiscal 2018 were $12.6 million and 7.0%, respectively.

Financial inclusion and applied technologies

Segment revenue decreased primarily due to fewer prepaid airtime and value-added services sales, lower lending and insurance revenues, and a decrease in inter-segment revenues, partially offset by the consolidation and inclusion of DNI for the nine months to March 31, 2019. We reported an operating loss in fiscal 2019 compared with fiscal 2018, primarily due to the allowance for doubtful finance loans receivable of $23.4 million recognized in the second quarter, a $6.3 million impairment loss and expenses incurred to maintain and expand our financial service infrastructure, partially offset by the contribution from DNI. Operating loss for this operating segment for fiscal 2019 included retrenchment costs of $1.6 million (ZAR 22.6 million).

Operating (loss) income margin for the Financial inclusion and applied technologies segment was (10.1%) and 25.0% during fiscal 2019 and 2018, respectively. Excluding the impairment loss of $6.3 million and restructuring costs of $1.6 million, the segment operating loss and operating loss margin for fiscal 2019 were ($6.9) million and (4.7%), respectively.

Corporate/ Eliminations

Our corporate expenses generally include acquisition-related intangible asset amortization; expenses incurred related to acquisitions and investments pursued; expenditure related to compliance with the Sarbanes-Oxley Act of 2002; non-employee directors' fees; executive bonuses; stock-based compensation; legal fees; audit fees; directors and officer's insurance premiums; and elimination entries.

Our corporate expenses increased primarily due to the accrual of $14.3 million related to the September 2019 Supreme Court ruling, a $5.3 million impairment loss as well as higher acquired intangible asset amortization, non-employee director expenses, transaction-related expenditures and external service provider fees, and were partially offset by the reversal of stock-based compensation charges of $1.9 million related to forfeiture of awards. Corporate/ Eliminations for fiscal 2019, also includes the impact of the reversal of revenue related to the September 2019 Supreme Court ruling. Our corporate expenses for fiscal 2018 include a $0.5 million profit related to the sale of XeoHealth and a $4.6 million non-cash loss on re-measurement of the previously held equity interest in DNI.

Fiscal 2018 Compared to Fiscal 2017

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

- ***Decline in revenue:*** Our revenues declined 6% in ZAR primarily due to the payment of 82% fewer grant recipients during the fourth quarter of fiscal 2018, being only those recipients paid at cash pay points as per the Constitutional Court order of March 23, 2018, but partially offset by EPE revenue and operating income growth driven primarily by the expansion of our customer base and increased utilization of our ATM infrastructure and volume growth in our lending and insurance activities during fiscal 2018 coupled with operating efficiencies, which resulted in an improved contribution to our financial inclusion revenue and operating income;
- ***Decrease in operating income:*** Lower revenue, coupled with an increase in our allowance for doubtful working capital finance receivables, a non-cash loss on re-measurement of the previously held equity interest in DNI upon acquisition, the impact of October 2017 annual salary increases for our South African employees, an increase in our allowance for doubtful microlending finance loans receivable, and an increase in goods and services purchased from third parties, resulted in lower operating income compared with in fiscal 2017;
- ***Non-cash losses, impairments and fair-value adjustments:*** During fiscal 2018 we incurred impairment losses of $20.9 million related to the impairment of goodwill, an allowance for credit losses related to doubtful working capital finance receivables of $7.8 million, a $4.6 million non-cash loss on re-measurement of the previously held equity interest in DNI, and a fair value adjustment gain of $32.5 million for Cell C; and
- ***Adverse foreign exchange movements:*** The U.S. dollar depreciated by 7% against the ZAR and 4% against the KRW during fiscal 2018 compared with fiscal 2017, which positively impacted our reported results.

Consolidated overall results of operations

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

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

Table 8

	In U.S. Dollars (U.S. GAAP)		
	Year ended June 30,		
	2018(A)(B)	2017(A)(B) (As restated)	
	$ '000	$ '000	$ % change
Revenue	612,889	610,066	0%
Cost of goods sold, IT processing, servicing and support	304,536	292,383	4%
Selling, general and administration	193,003	179,262	8%
Depreciation and amortization	35,484	41,378	(14%)
Impairment loss	20,917	-	nm
Operating income	58,949	97,043	(39%)
Change in fair value of equity securities	32,473	-	nm
Interest income	17,885	20,897	(14%)
Interest expense	8,941	3,484	157%
Income before income tax expense	100,366	114,456	(12%)
Income tax expense	48,597	42,506	14%
Net income before earnings from equity-accounted investments	51,769	71,950	(28%)
Earnings from equity-accounted investments	11,597	2,814	312%
Net income	63,366	74,764	(15%)
Continuing	60,975	74,648	(18%)
Discontinued	2,391	-	nm
(Add) Less net (loss) income attributable to non-controlling interest	(880)	1,694	(152%)
Continuing	(880)	1,694	(152%)
Discontinued	-	-	nm
Net income attributable to us	64,246	73,070	(12%)
Continuing	61,752	73,070	(15%)
Discontinued	2,391	-	nm

(A) Refer to Note 3 to the audited consolidated financial statements for discontinued operations disclosures.
(B) Refer to Note 1 to the audited consolidated financial statements for additional information regarding the restatement.

Table 9	In South African Rand (U.S. GAAP)		
	Year ended June 30,		
	2018(A)(B)	2017(A)(B) (As restated)	
	ZAR ’000	ZAR ’000	$ % change
Revenue	7,780,687	8,308,001	(6%)
Cost of goods sold, IT processing, servicing and support	3,866,114	3,981,730	(3%)
Selling, general and administration	2,450,193	2,441,226	0%
Depreciation and amortization	450,473	563,493	(20%)
Impairment loss	265,544	-	nm
Operating income	748,363	1,321,552	(43%)
Change in fair value of equity securities	412,248	-	nm
Interest income	227,052	284,580	(20%)
Interest expense	113,507	47,446	139%
Income before income tax expense	1,274,156	1,558,686	(18%)
Income tax expense	616,943	578,855	7%
Net income before earnings from equity-accounted investments	657,213	979,831	(33%)
Earnings from equity-accounted investments	147,225	38,322	284%
Net income	804,438	1,018,153	(21%)
Continuing	774,084	1,018,153	(24%)
Discontinued	30,354	-	nm
(Add) Less net (loss) income attributable to non-controlling interest	(11,172)	23,069	(148%)
Continuing	(11,172)	23,069	(148%)
Discontinued	-	-	nm
Net income attributable to us	815,610	995,084	(18%)
Continuing	785,256	995,084	(21%)
Discontinued	30,354	-	nm

(A) Refer to Note 3 to the audited consolidated financial statements for discontinued operations disclosures.
(B) Refer to Note 1 to the audited consolidated financial statements for additional information regarding the restatement.

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

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

Our selling, general and administration expense increased primarily due to an increase in our allowance for doubtful working capital finance receivables of $7.8 million, a $4.6 million non-cash loss on re-measurement of the previously held equity interest in DNI upon acquisition, the impact of October 2017 annual salary increases for our South African employees, an increase in our allowance for doubtful microlending finance loans receivable, and an increase in goods and services purchased from third parties. These increases were partially offset by lower agent incentive costs paid in Korea due to weaker trading conditions in fiscal 2018, lower executive remuneration and fewer transaction related expenses in fiscal 2018. In fiscal 2017, our selling, general and administration expense included an $8.0 million separation payment to our former chief executive officer, a $3.8 million allowance for credit losses related to a specific customer, and a $1.8 million reversal of stock-based compensation charges related to awards of restricted stock with performance conditions.

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

Depreciation and amortization decreased primarily due to lower overall amortization of intangible assets that are fully amortized and tangible assets that are fully depreciated.

The change in fair value of equity securities represents the change in fair value of Cell C recorded during the year ended June 30, 2018.

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

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

Fiscal 2018 tax expense was $48.6 million (ZAR 616.9 million) compared to $42.5 million (ZAR 578.9 million) in fiscal 2017. Our effective tax rate for fiscal 2018 was 48.4% and higher than the South African statutory rate as a result of an impairment loss, a valuation allowance related to an allowance for doubtful working capital finance receivables created, the DNI re-measurement loss on acquisition, non-deductible expenses (including transaction-related expenditure and non-deductible interest on our South African long-term facility) and the impact of the changes in U.S. federal statutory tax law. Our effective tax rate for the fiscal 2017 was 37.1% and higher than the South African statutory rate as a result of non-deductible expenses (including consulting and legal fees) and the tax attributable to distributions from our South African subsidiary.

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

Table 10	**Year ended June 30,**		
	2018[A] (as restated) $ '000	**2017[A] (as restated) $ '000**	**$ % change**
DNI	7,005	-	nm
Share of net income	9,510	-	nm
Amortization of intangible assets, net of deferred tax	(2,505)	-	nm
Bank Frick	(606)	-	nm
Share of net income	201	-	nm
Amortization of intangible assets, net of deferred tax	(403)	-	nm
Other	(404)	-	nm
Finbond	5,194	2,653	96%
Other	4	161	nm
Earnings from equity accounted investments	11,597	2,814	nm

(A) Refer to Note 1 to the audited consolidated financial statements for additional information regarding the restatement.

Results of operations by operating segment

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

Table 11

Operating Segment	**2018 $ '000**	***% of* total**	**2017 $ '000**	***% of* total**	***%* change**
	In U.S. Dollars (U.S. GAAP)				
	Year ended June 30,				
Revenue:					
South African transaction processing	268,047	44%	249,144	41%	8%
International transaction processing	180,027	29%	176,729	29%	2%
Financial inclusion and applied technologies	221,906	36%	235,901	39%	(6%)
Continuing	221,906	36%	235,901	39%	(6%)
Discontinued	-	-	-	-	-
Subtotal: Operating segments	669,980	109%	661,774	109%	1%
Intersegment eliminations	(57,091)	(9%)	(51,708)	(9%)	10%
Consolidated revenue	**612,889**	**100%**	**610,066**	**100%**	**-**
Continuing	612,889	100%	610,066	100%	-
Discontinued	-	-	-	-	-
Operating income (loss):					
South African transaction processing	42,796	73%	59,309	61%	(28%)
International transaction processing	(12,478)	(21%)	13,705	14%	nm
Financial inclusion and applied technologies	55,372	94%	57,785	60%	(4%)
Continuing	55,372	94%	57,785	60%	(4%)
Discontinued		-		-	-
Subtotal: Operating segments	85,690	146%	130,799	135%	(34%)
Corporate/Eliminations	(26,741)	(46%)	(33,756)	(35%)	(21%)
Continuing	(22,127)	(38%)	(33,756)	(35%)	(34%)
Discontinued	(4,614)	(8%)	-	-	nm
Consolidated operating income (loss)	**58,949**	**100%**	**97,043**	**100%**	**(39%)**
Continuing	63,563	108%	97,043	100%	(35%)
Discontinued	(4,614)	(8%)	-	-	nm

Table 12	In South African Rand (U.S. GAAP)				
	Year ended June 30,				
Operating Segment	**2018 ZAR ’000**	**% of total**	**2017 ZAR ’000**	**% of total**	**% change**
Revenue:					
South African transaction processing	3,402,883	44%	3,392,893	41%	-
International transaction processing	2,285,461	29%	2,406,731	29%	(5%)
Financial inclusion and applied technologies	2,817,119	36%	3,212,547	39%	(12%)
Continuing	2,817,119	36%	3,212,547	39%	(12%)
Discontinued	-	-	-	-	-
Subtotal: Operating segments	8,505,463	109%	9,012,171	109%	(6%)
Intersegment eliminations	(724,776)	(9%)	(704,170)	(9%)	3%
Consolidated revenue	**7,780,687**	**100%**	**8,308,001**	**100%**	**(6%)**
Continuing	7,780,687	100%	8,308,001	100%	(6%)
Discontinued	-	-	-	-	-
Operating income (loss):					
South African transaction processing	543,299	73%	807,682	61%	(33%)
International transaction processing	(158,409)	(21%)	186,637	14%	nm
Financial inclusion and applied technologies	702,953	94%	786,928	60%	(11%)
Continuing	702,953	94%	786,928	60%	(11%)
Discontinued	-	-	-	-	-
Subtotal: Operating segments	1,087,843	146%	1,781,247	135%	(39%)
Corporate/Eliminations	(339,480)	(46%)	(459,696)	(35%)	(26%)
Continuing	(280,905)	(38%)	(459,696)	(35%)	(39%)
Discontinued	(58,575)	(8%)	-	-	nm
Consolidated operating income (loss)	**748,363**	**100%**	**1,321,551**	**100%**	**(43%)**
Continuing	806,938	108%	1,321,551	100%	(39%)
Discontinued	(58,575)	(8%)	-	-	nm

South African transaction processing

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

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

International transaction-based activities

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

Operating income margin for fiscal 2018 and 2017 was (6.9%) and 7.8%, respectively. Excluding the Mastertrading allowance for doubtful working capital finance receivables, the impairment loss and the indirect taxes refund received, segment operating income and margin for fiscal 2018 were $12.6 million and 7.0%, respectively. Excluding the Mastertrading allowance for doubtful working capital finance receivables and the refund received, segment operating income and margin for fiscal 2017 were $16.7 million and 9.4% respectively.

Financial inclusion and applied technologies

Segment revenue decreased primarily due to fewer prepaid airtime and other value added service sales and lower lending fees, partially offset by the introduction of monthly account fees to our card holders, increased volume from our insurance business and an increase in inter-segment revenues. Operating income was also impacted by an increase in the allowance for doubtful finance loans receivable due to the increase in our lending book and higher risks associated with the transition to the new social grant payment arrangements.

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

Corporate/ Eliminations

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

Liquidity and Capital Resources

At June 30, 2019, our cash and cash equivalents were $46.1 million and comprised of KRW-denominated balances of KRW 30.1 billion ($26.1 million), ZAR-denominated balances of ZAR 184.3 million ($13.1 million), U.S. dollar-denominated balances of $2.4 million, and other currency deposits, primarily Botswana pula, of $4.5 million, all amounts translated at exchange rates applicable as of June 30, 2019. The decrease in our unrestricted cash balances from June 30, 2018, was primarily due to significantly weaker trading activities, scheduled debt repayments, dividend payments to non-controlling interests and capital expenditures, which was partially offset by cash dividends received from DNI and a decrease in our South African lending book.

We generally invest any surplus cash held by our South African operations in overnight call accounts that we maintain at South African banking institutions, and any surplus cash held by our non-South African companies in U.S. dollar denominated money market accounts. We have invested surplus cash in Korea in KRW-denominated short-term investment accounts at Korean banking institutions.

Historically, we have financed most of our operations, research and development, working capital, and capital expenditures, as well as acquisitions and strategic investments, through internally generated cash and our financing facilities. When considering whether to borrow under our financing facilities, we consider the cost of capital, cost of financing, opportunity cost of utilizing surplus cash and availability of tax efficient structures to moderate financing costs. Recently, we have been required to utilize our short-term financing facilities to fund our daily cash requirements as we adapt to the expiration of the SASSA contract in September 2018 and the transition of our business model. The board is actively managing our liquidity in the light of the significant changes underway in our business.

Consideration of going concern

Accounting guidance requires our management to assess whether there are conditions or events, considered in the aggregate, that raise substantial doubt about our ability to continue as a going concern within one year after our audited consolidated financial statements are issued. Our management has identified certain conditions or events, which, considered in the aggregate, could raise substantial doubt about our ability to continue as a going concern including the risk that we will be unable to:

- deliver all or a substantial part of the financial results forecast in our fiscal 2020 budget;
- retain our existing borrowings and facilities, as described below and in Note 12 of our audited consolidated financial statements, or obtain additional borrowings and facilities on commercially reasonable terms;

- arrive at a commercial settlement with SASSA, given the September 30, 2019, Supreme Court ruling regarding the repayment of the additional implementation costs received back to SASSA (refer Note 13 of our audited consolidated financial statements) and the ongoing dispute we have with SASSA over fees due for the six-month contract extension period in accordance with National Treasury's recommendation (refer Note 2—Revenue recognition—Significant judgments and estimates of our audited consolidated financial statements);
- dispose of all or a portion of our remaining 30% interest in DNI. DNI's operations are also significantly dependent on Cell C because it is the largest distributor of Cell C starter packs in South Africa. Therefore, the inability of Cell C to continue to operate through the next 12 months could also have an adverse impact on DNI's operations; or
- dispose of investments in order to realize sufficient cash flows.

Our management has implemented a number of plans to alleviate the substantial doubt about our ability to continue as a going concern. These plans include disposing of certain non-core assets (refer to Note 3 of our audited consolidated financial statements for additional information regarding a call option granted to DNI), engaging FT Partners to advise on the KSNET business, and extending our existing borrowings used to fund our ATMs through September 2020. In addition, our management believes there are a number of mitigating actions it can pursue, including (i) limiting the expansion of our microlending finance loans receivable book in South Africa; (ii) implementing further cost cutting measures; (iii) commencing additional asset realizations; (iv) managing our capital expenditures; and (v) accessing alternative sources of capital (including through the issuance of additional shares of our common stock), in order to generate additional liquidity. Our management believes that these actions alleviate the substantial doubt referred to above and, therefore, has concluded that we remain a going concern.

Available short-term borrowings

We have a short-term South African credit facility with Nedbank of up to ZAR 450.0 million ($32.0 million), which is comprised of an overdraft facility of (i) up to ZAR 300 million ($21.3 million), which is further split into (a) a ZAR 250.0 million ($17.8 million) overdraft facility which may only be used to fund ATMs used at pay points and (b) a ZAR 50 million ($3.6 million) general banking facility and (ii) indirect and derivative facilities of up to ZAR 150 million ($10.7 million), which include letters of guarantee, letters of credit and forward exchange contracts. The ZAR 250.0 million component of the primary amount may only be used to fund ATMs and therefore this component of the primary amount utilized and converted to cash to fund our ATMs is considered restricted cash. As of June 30, 2019, the interest rate on the overdraft facility was 9.10%, and was reduced to 8.85% on July 19, 2019, following a reduction in the South African repo rate. As of June 30, 2019, we had utilized approximately ZAR 82.9 million ($5.9 million) of our ZAR 250 million overdraft facility to fund ATMs and utilized none of our ZAR 50 million general banking facility. As of June 30, 2019, we had utilized approximately ZAR 93.6 million ($6.6 million) of the indirect and derivative facilities to support guarantees issued by Nedbank to various third parties on our behalf.

We also have a short-term South African credit facility with RMB of ZAR 1.2 billion ($85.2 million) which may only be used to fund our ATMs in South Africa. As of June 30, 2019, the interest rate on the facility was 10.25% (South African prime) and was reduced to 10.00% on July 19, 2019, following a reduction in the South African repo rate. As of June 30, 2019, we had utilized approximately ZAR 1.0 billion ($69.6 million) of this facility.

We have a short-term U.S. dollar-denominated overdraft facility with Bank Frick of $20.0 million. As of June 30, 2019, we had utilized approximately $9.5 million of this facility. The interest rate on the facility is 4.50% plus 3-month US dollar LIBOR and interest is payable on a quarterly basis. The 3-month US dollar LIBOR rate was 2.31988% on June 30, 2019. The facility has no fixed term, however, it may be terminated by either party with six weeks written notice.

We also have a one-year KRW 10 billion ($8.6 million) short-term overdraft facility from Hana Bank, a South Korean bank. The interest rate on the facilities is 1.984% plus 3-month CD rate. The CD rate as of June 30, 2019 was 1.780%. The facility expires in January 2020, however can be renewed. The facility is unsecured with no fixed repayment terms. As of June 30, 2019, we had not utilized this facility.

Available long-term borrowings

We have no available or outstanding long-term borrowings as of June 30, 2019.

Restricted cash

We have credit facilities with RMB and Nedbank in order to access cash to fund our ATMs in South Africa. Our cash, cash equivalents and restricted cash presented in our audited statement of cash flows as of June 30, 2019, includes restricted cash of approximately $75.4 million related to cash withdrawn from our various debt facilities to fund ATMs. This cash may only be used to fund ATMs and is considered restricted as to use and therefore is classified as restricted cash on our audited consolidated balance sheet.

Settlement assets and settlement liabilities

As a transaction processor we receive cash from:

- customers on whose behalf we process off-payroll payments that we will disburse to customer employees, payroll-related payees and other payees designated by the customer; and
- credit card companies (as well as other types of payment services) which have business relationships with merchants selling goods and services via the internet in South Korea and through Transact24 that are our customers and on whose behalf we process the transactions between various parties and settle the funds from the credit card companies to our merchant customers.

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

Cash flows from operating activities

Net cash used in operating activities during fiscal 2019 was $4.5 million (ZAR 63.6 million) compared to net cash provided by operating activities of $132.3 million (ZAR 1.7 billion) for fiscal 2018. The decrease in cash provided is primarily due to significantly weaker trading activity during fiscal 2019 compared to 2018. During fiscal 2019 and 2018, we paid interest of $2.9 million related to our South African long-term borrowings.

Cash flows from operating activities for fiscal 2018 increased to $132.3 million (ZAR 1.7 billion) from $97.2 million (ZAR 1.3 billion) for fiscal 2017. Excluding the impact of interest received, interest paid on our Korean and South Africa debt and taxes presented in the table below, the increase relates primarily to the receipt of certain working capital loans outstanding, offset partially by the expansion of our South African lending book and weaker trading activity during fiscal 2018 compared to 2017. During fiscal 2018, we paid interest of $7.2 million and $0.4 million, respectively, under our South African and South Korean debt facilities.

During fiscal 2019, we made a first provisional tax payment of $6.4 million (ZAR 92.0 million) and a second provisional tax payment of $0.8 million (ZAR 11.0 million) related to our 2019 tax year in South Africa. We also paid taxes totaling $4.7 million in other tax jurisdictions, primarily South Korea.

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

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

Taxes paid during fiscal 2019, 2018 and 2017 were as follows:

Table 13	**Year ended June 30,**					
	2019 $ '000	**2018 $ '000**	**2017 $ '000**	**2019 ZAR '000**	**2018 ZAR '000**	**2017 ZAR '000**
First provisional payments	6,453	17,739	18,192	91,994	231,200	251,968
Second provisional payments	752	17,008	17,197	10,952	225,887	221,734
Taxation paid related to prior years	1,426	1,859	1,624	20,880	24,432	22,365
Taxation refunds received	(254)	(430)	(1,414)	(3,864)	(5,480)	(19,481)
Dividend withholding taxation		-	1,471		-	21,300
Total South African	8,377	36,176	37,070	119,962	476,039	497,886
Foreign, primarily South Korea	4,733	4,889	8,095	66,519	63,261	109,800
Total tax paid	13,110	41,065	45,165	186,481	539,300	607,686

We expect to pay additional provisional payments in South Africa of approximately $0.8 million (ZAR 11.6 million translated at exchange rates applicable as of June 30, 2019) related to our 2019 tax year in the first quarter of fiscal 2020.

Cash flows from investing activities

During fiscal 2019, we paid approximately $9.4 million (ZAR 134.5 million), related to capital expenditures, primarily related to the acquisition of ATMs in South Africa and the expansion of our branch network. We also paid $2.5 million for a 50% interest in V2 Limited, acquired customer bases in DNI for $1.4 million, made a further equity contribution of $1.1 million to MobiKwik and received $1.0 million from Finbond related to the settlement of a ZAR 15.0 million loan outstanding.

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

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

Cash flows from financing activities

During fiscal 2019, we utilized approximately $822.8 million from our overdraft facilities, primarily to fund our ATMs, and repaid $741.0 million of these facilities. We also utilized approximately $14.6 million of DNI's revolving credit facility to lend funds to Cell C to finance the acquisition and/or requisition of telecommunication towers and other specific uses pre-approved by the lender. We also made scheduled South African debt facility payments of $31.8 million, repaid $4.9 million under DNI's revolving credit facility and paid non-refundable origination fees of approximately $0.4 million related to the credit facilities. We also paid dividends of approximately $4.1 million to certain of our non-controlling interests, principally in DNI.

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

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

Contractual Obligations

The following table sets forth our contractual obligations as of June 30, 2019:

Table 14	Payments due by Period, as of June 30, 2019 (in $ ’000s)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term borrowings	84,990	84,990	-	-	-
Operating lease obligations	10,304	6,010	3,776	518	-
Purchase obligations	3,479	3,479	-	-	-
Capital commitments	1,953	1,953	-	-	-
Other long-term obligations reflected on our balance sheet (A)(B)	3,007	-	-	-	3,007
Total	103,733	96,432	3,776	518	3,007

(A) – Includes policyholder liabilities of $2.5 million related to our insurance business. All amounts are translated at exchange rates applicable as of June 30, 2019.

(B) – We have excluded cross-guarantees in the aggregate amount of $6.6 million issued as of June 30, 2019, to Nedbank to secure guarantees it has issued to third parties on our behalf as the amounts that will be settled in cash are not known and the timing of any payments is uncertain. We have also excluded contractual commitments to invest approximately $7.5 million in V2 Limited, subject to the achievement of certain contractual conditions, and any obligations we may have under the DNI ZAR 200 million revolving credit facility.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Capital Expenditures

Capital expenditures for the years ended June 30, 2019, 2018 and 2017 were as follows:

Table 15	Year ended June 30,					
Operating Segment	2019 $ ’000	2018 $ ’000	2017 $ ’000	2019 ZAR ’000	2018 ZAR ’000	2017 ZAR ’000
South African transaction processing	3,590	3,988	2,473	51,269	51,269	33,669
International transaction processing	3,607	4,397	7,745	51,512	56,527	105,446
Financial inclusion and applied technologies	2,219	1,264	977	31,690	16,250	13,302
Consolidated total	9,416	9,649	11,195	134,471	124,046	152,417

Our capital expenditures for fiscal 2019, 2018 and 2017, 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, 2019, of $2.0 million related mainly to ATMs required to maintain and expand our operations. We expect to fund these expenditures through internally-generated funds. In addition to these capital expenditures, we expect that capital spending for fiscal 2020 will also primarily relate to expanding our operations in South Africa.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Currency Exchange Risk

We are subject to currency exchange risk because we purchase inventories that we are required to settle in other currencies, primarily the euro and U.S. dollar. We have used forward contracts to limit our exposure in these transactions to fluctuations in exchange rates between the ZAR, on the one hand, and the U.S. dollar and the euro, on the other hand. We had no outstanding foreign exchange contracts as of June 30, 2019 and 2018, respectively.

Translation Risk

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

Interest Rate Risk

As a result of our normal borrowing and lending activities, our operating results are exposed to fluctuations in interest rates, which we manage primarily through our regular financing activities. We generally maintain limited investments in cash equivalents and have occasionally invested in marketable securities. The interest earned on our bank balances and short-term cash investments is dependent on the prevailing interest rates in the jurisdictions where our cash reserves are invested. During the year ended June 30, 2019, we repaid our long-term borrowings in full.

We have short-term borrowings which attract interest at rates that fluctuate based on changes in benchmark interest rates such as the South Africa prime interest rate and LIBOR. The following table illustrates the effect on our annual expected interest charge, translated at exchange rates applicable as of June 30, 2019, as a result of changes in the South African prime interest rate, assuming hypothetical short-term borrowings of ZAR 1.0 billion as of June 30, 2019. The effect of a hypothetical 1% (i.e. 100 basis points) increase and a 1% decrease in the South African prime interest rate as of June 30, 2019, are shown. The selected 1% hypothetical change does not reflect what could be considered the best or worst case scenarios.

Table 16	As of June 30, 2019		
	Annual expected interest charge ($ '000)	**Hypothetical change in South African interest rate**	**Estimated annual expected interest charge after hypothetical change in South African interest rate ($ '000)**
Interest on South Africa short-term debt (South African prime interest rate)	7,278	1%	7,988
		(1%)	6,568

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 "B" (or its equivalent) or better, as determined by credit rating agencies such as Standard & Poor's, Moody's and Fitch Ratings.

Microlending credit risk

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

Equity Price Risk

Equity price risk relates to the risk of loss that we would incur as a result of the volatility in the exchange-traded price of equity securities that we hold and the risk that we may not be able to liquidate these securities. As of June 30, 2019, we did not have any equity securities that were exchange-traded and held as available for sale. Historically, exchange-traded equity securities held as available for sale were expected to be held for an extended period of time and we were not concerned with short-term equity price volatility with respect to these securities provided that the underlying business, economic and management characteristics of the company remain sound.

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

Equity Liquidity Risk

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

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

We have invested in approximately 29.0% of the issued share capital of Finbond which are exchange-traded equity securities, however, from April 1, 2016, we have accounted for them using the equity method. The fair value of these securities of $76.0 million as of June 30, 2019, represented approximately 11% of our total assets, including these securities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our audited consolidated financial statements, together with the report of our independent registered public accounting firm, appear on pages F-1 through F-84 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, as amended (the "Exchange Act"). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of June 30, 2019, due to the material weakness in internal control over financial reporting as described below.

Internal Control over Financial Reporting

Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, and effected by our board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of our officers and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our audited 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 criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation and as described below, management concluded that our internal control over financial reporting was not effective as of June 30, 2019.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that a reasonable possibility exists that a material misstatement of our annual or interim financial statements would not be prevented or detected on a timely basis

We identified a material weakness in our internal control over financial reporting where the control over the review of the accounting for non-routine complex transactions did not operate effectively. As a result, the control did not operate effectively in determining the correct classification in the statement of operations of the $34.0 million accrual for the implementation costs to be refunded to SASSA following the September 30, 2019 Supreme Court ruling. Accordingly, the material weakness remains unremediated as of June 30, 2019.

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, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Remediation Plan and Status

As previously disclosed, we have appointed a technical resource to review the accounting for non-routine complex transactions, and established an in-house accounting technical committee, to assist in the review of the accounting for all non-routine transactions, including assessing the appropriateness of the accounting treatment adopted. This technical committee also assesses the need to consult external experts on the accounting of non-routine transactions.

We will test the ongoing operating effectiveness of the controls in future periods. The material weakness cannot be considered completely remediated until the applicable controls have operated for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

While we believe the steps taken to date and those planned for implementation have improved the effectiveness of our internal control over financial reporting, we have not completed all remediation efforts identified herein. Accordingly, as we continue to monitor the effectiveness of our internal control over financial reporting in the areas affected by the material weakness described above, we have and will continue to perform additional procedures, including the use of manual mitigating control procedures and employing any additional tools and resources deemed necessary, to ensure that our consolidated financial statements are fairly stated in all material respects.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Net 1 UEPS Technologies, Inc. and subsidiaries (the "Company") as of June 30, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effect of the material weakness identified below on the achievement of the control criteria, the Company has not maintained effective internal control over financial reporting as of June 30, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended June 30, 2019, of the Company and our report dated October 25, 2019, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding a going concern uncertainty.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

Material Weakness

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment:

A material weakness in internal control over financial reporting results from the control over the accounting for non-routine complex transactions that did not operate effectively.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended June 30, 2019, of the Company, and this report does not affect our report on such financial statements.

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

October 25, 2019

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

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

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information about our executive officers is set out in Part I, Item 1 under the caption "Information about our Executive Officers." The other information required by this Item is incorporated by reference to the sections of our definitive proxy statement for our 2019 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 2019 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 2019 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 2019 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 2019 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-84.

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
4.7	Description of registrant's securities	X			
10.1*	Form of Restricted Stock Agreement		10-K	10.13	August 23, 2012
10.2*	Form of Stock Option Agreement		10-K	10.14	August 23, 2012
10.3*	Form of Restricted Stock Agreement (non-employee directors)		10-K	10.15	August 23, 2012
10.4*	Form of Indemnification Agreement		10-K	10.32	August 25, 2016
10.5*	Form of non-employee director agreement		10-K	10.5	August 24, 2017
10.6*	Amended and Restated 2015 Stock Incentive Plan of Net 1 UEPS Technologies, Inc.		14A	A	October 2, 2015
10.7*	Service Agreement between KSNET, Inc. and Phil-Hyun Oh dated October 27, 2017		8-K	10.79	November 1, 2017
10.8*	Service Agreement between Net1 Applied Technologies Korea and Phil-Hyun Oh dated October 27, 2017		8-K	10.80	November 1, 2017
10.9*	Contract of Employment, effective March 1, 2018, between Net1 Applied Technologies South Africa Proprietary Limited and Alexander Michael Ramsay Smith		8-K	10.80	March 1, 2018
10.10*	Restrictive Covenants Agreement, effective March 1, 2018, between Net1 Applied Technologies South Africa Proprietary Limited and Alexander Michael Ramsay Smith		8-K	10.81	March 1, 2018

10.11*	Employment Agreement, effective March 1, 2018, between Net 1 UEPS Technologies, Inc. and Alexander Michael Ramsay Smith	8-K	10.82	March 1, 2018
10.12*	Restrictive Covenants Agreement, effective March 1, 2018, between Net 1 UEPS Technologies, Inc. and Alexander Michael Ramsay Smith	8-K	10.83	March 1, 2018
10.13	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
10.14	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
10.15	Technology License Agreement between Net 1 Investment Holdings (Proprietary) Limited and Visa International Service Association	S-1	10.12	May 26, 2005
10.16	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
10.17	Non Exclusive UEPS License Agreement between Net 1 Investment Holdings (Proprietary) Limited and SIA Netcards	S-4/A	10.10	April 21, 2004
10.18	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
10.19	Agreement between Nedcor Bank Limited and Net 1 Products (Proprietary) Limited	S-1/A	10.16	July 19, 2005
10.20	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
10.21	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
10.22	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
10.23	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
10.24	Addendum to the Lease Agreement made and entered into by and between Buzz Trading 199 (Pty) Ltd and Net 1 Applied Technologies South Africa (Pty) Ltd dated November 18, 2016	10-Q	10-60	May 4, 2017
10.25	Proposed Agreement of Lease between Buzz Trading 199 (Pty) Ltd and Net 1 Applied Technologies South Africa Limited dated October 12, 2017	10-Q	10.79	February 8, 2018
10.26	Relationship Agreement dated December 10, 2013 between Net 1 UEPS Technologies, Inc., Net 1 Applied Technologies South Africa (Proprietary) Limited, Business Venture Investments No 1567 (Proprietary) Limited (RF) and Mosomo Investment Holdings (Proprietary) Limited.	8-K	10.25	December 10, 2013

10.27	Facility Letter between Nedbank Limited and Net1 Applied Technologies South Africa Limited and certain of its subsidiaries dated as of December 13, 2013 and First Addendum thereto dated as of December 18, 2013	8-K	10.27	December 19, 2013
10.28	Letter from Nedbank Limited to Net1 Applied Technologies South Africa Proprietary Limited and certain of its subsidiaries, dated December 7, 2016	8-K	10.50	December 9, 2016
10.29	Addendum dated January 31, 2014, to the Relationship Agreement between Net 1 UEPS Technologies, Inc., Net 1 Applied Technologies South Africa (Proprietary) Limited, Business Venture Investments No 1567 (Proprietary) Limited (RF) and Mosomo Investment Holdings (Proprietary) Limited.	10-Q	10.28	February 6, 2014
10.30	Second Addendum dated March 14, 2014, to the Relationship Agreement between Net 1 UEPS Technologies, Inc., Net 1 Applied Technologies South Africa (Proprietary) Limited, Business Venture Investments No 1567 (Proprietary) Limited (RF) and Mosomo Investment Holdings (Proprietary) Limited.	8-K	10.30	March 18, 2014
10.31	Subscription and Sale of Shares Agreement dated August 27, 2014, between Net 1 UEPS Technologies, Inc., Net 1 Applied Technologies South Africa (Proprietary) Limited, Business Venture Investments No 1567 (Proprietary) Limited (RF), Mosomo Investment Holdings (Proprietary) Limited and Cash Paymaster Services (Proprietary) Ltd	10-Q	10.29	November 6, 2014
10.33	Subscription Agreement, dated April 11, 2016, among the Company and the IFC Investors	8-K	10.31	April 12, 2016
10.34	Policy Agreement, dated April 11, 2016, among the Company and the IFC Investors	8-K	10.32	April 12, 2016
10.35	Stock Purchase Agreement, dated October 6, 2016, between Net 1 UEPS Technologies, Inc. and N2 Partners Ltd.	8-K	10.34	October 6, 2016
10.36	Amendment No. 1 to Stock Purchase Agreement, dated November 3, 2016, between Net 1 UEPS Technologies, Inc. and N2 Partners Ltd.	8-K	10.43	November 4, 2016
10.37	Amendment No. 2 to Stock Purchase Agreement, dated November 16, 2016, between Net 1 UEPS Technologies, Inc. and N2 Partners Ltd.	8-K	10.48	November 18, 2016
10.38	Equity Implementation Agreement, dated as of June 19, 2017, by and among 3C Telecommunications Proprietary Limited, The Prepaid Company Proprietary Limited, Net1 Applied Technologies South Africa Proprietary Limited, the parties identified on Schedule 1.1.52 thereto, Albanta Trading 109 Proprietary Limited, Cedar Cellular Investment 1 (RF) Proprietary Limited, Magnolia Cellular Investment 2 (RF) Proprietary Limited, Yellowwood Cellular Investment 3 (RF) Proprietary Limited, and Cell C Proprietary Limited.	8-K	10.67	June 26, 2017

10.39	Subscription Agreement, dated as of June 19, 2017, by and between Net1 Applied Technologies South Africa Proprietary Limited and Cell C Proprietary Limited.	8-K	10.68	June 26, 2017
10.40	Cell C Shareholders Agreement, dated as of June 19, 2017, by and between Albanta Trading 109 Proprietary Limited, the parties identified on Schedule 1.1.55 thereto, The Prepaid Company Proprietary Limited, Net1 Applied Technologies South Africa Proprietary Limited, Cedar Cellular Investment 1 (RF) Proprietary Limited, Magnolia Cellular Investment 2 (RF) Proprietary Limited, Yellowwood Cellular Investment 3 (RF) Proprietary Limited, and Cell C Proprietary Limited	8-K	10.69	June 26, 2017
10.41	Additional Subscription Agreement dated June 23, 2017, among Net1 Applied Technologies South Africa Proprietary Limited and AJD Holdings and Richmark Holdings Proprietary Limited, in relation to and including as a party DNI – 4PL Contracts Proprietary Limited	10-K	10.66	August 24, 2017
10.42	Framework Agreement dated June 23, 2017, among Net1 Applied Technologies South Africa Proprietary Limited, Peter Kennedy Gain, AJD Holdings, Richmark Holdings Proprietary Limited and DNI – 4PL Contracts Proprietary Limited	10-K	10.67	August 24, 2017
10.43	Shareholders' Agreement dated June 23, 2017 among Net1 Applied Technologies South Africa Proprietary Limited, AJD Holdings and Richmark Holdings Proprietary Limited, in relation to and including as a party DNI – 4PL Contracts Proprietary Limited	10-K	10.68	August 24, 2017
10.44	Subscription Agreement dated June 23, 2017 among Net1 Applied Technologies South Africa Proprietary Limited, AJD Holdings and Richmark Holdings Proprietary Limited, in relation to and including as a party DNI – 4PL Contracts Proprietary Limited	10-K	10.69	August 24, 2017
10.45	Memorandum of Incorporation DNI – 4PL Contracts Proprietary Limited	10-K	10.70	August 24, 2017
10.46	Sale of shares agreement dated as of May 3, 2019, between FirstRand Bank Limited (acting through its Rand Merchant Bank Division) and Net1 Applied Technologies South Africa Proprietary Limited and DNI-4PL Contracts Proprietary Limited	8-K	10.99	May 8, 2019
10.47	Call option agreement dated as of May 3, 2019, between Net1 Applied Technologies South Africa Proprietary Limited and DNI-4PL Contracts Proprietary Limited	8-K	10.100	May 8, 2019

10.48	Put and call option agreement dated as of May 3, 2019, between FirstRand Bank Limited (acting through its Rand Merchant Bank Division), DNI-4PL Contracts Proprietary Limited , DNI Retail Proprietary Limited, The Starterpack Company Proprietary Limited, Net1 Applied Technologies South Africa Proprietary Limited, JAA Holdings Proprietary Limited, Sabvest Finance and Guarantee Corporation Proprietary Limited, Sabvest Investments Proprietary Limited and PK Gain Investment Holdings Proprietary Limited	8-K	10.101	May 8, 2019
10.49	Share Sale and Subscription Agreement dated February 28, 2019, among JAA Holdings Proprietary Limited and PK Gain Investment Holdings Proprietary Limited and Net1 Applied Technologies South Africa Proprietary Limited and, in relation to and including as a party DNI – 4PL Contracts Proprietary Limited	10-Q	10.102	May 9, 2019
10.50	Tranche I Subscription Agreement, dated March 8, 2018, among Net1 Applied Technologies South Africa Proprietary Limited and DNI–4PL Contracts Proprietary Limited.	8-K	10.86	March 9, 2018
10.51	Tranche II Subscription Agreement, dated March 8, 2018, among Net1 Applied Technologies South Africa Proprietary Limited and DNI–4PL Contracts Proprietary Limited.	8-K	10.87	March 9, 2018
10.52	Subordination Agreement, dated July 21, 2017, among Net1 Applied Technologies South Africa Proprietary Limited, Net 1 UEPS Technologies, Inc., the parties listed in Schedule 1 thereto, as subordinated creditors, the parties listed in Schedule 2 thereto, as intergroup debtors, the parties listed in Schedule 3 thereto, as senior creditors, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent.	8-K	10.74	July 26, 2017
10.53	Security Cession & Pledge, dated July 21, 2017, by Net1 Applied Technologies South Africa Proprietary Limited in favor of FirstRand Bank Limited (acting through its Rand Merchant Bank division), as a secured creditor, Nedbank Limited (acting through its Corporate and Investment Banking division), as a secured creditor, and each of the other Secured Creditors (as defined therein).	8-K	10.75	July 26, 2017
10.54	Letter, dated July 26, 2017, to Net1 Applied Technologies South Africa Proprietary Limited from FirstRand Bank Limited (acting through its Rand Merchant Bank division), in its capacity as arranger, original senior lender and facility agent, and Nedbank Limited (acting through its Corporate and Investment Banking division), in its capacity as arranger and original senior lender.	8-K	10.76	July 29, 2017
10.55	Master Implementation and Funds Flow Agreement, dated July 25, 2017, among Net1 Applied Technologies South Africa Proprietary Limited and the other parties listed in Schedule 1 thereto.	8-K	10.77	July 31, 2017

10.56	Second Amendment and Restatement Agreement, dated September 26, 2018, among Net1 Applied Technologies South Africa Proprietary Limited, Net 1 UEPS Technologies, Inc., the parties listed in Part I of Schedule 1 thereto, as the original guarantors, FirstRand Bank Limited (acting through its Rand Merchant Bank division), as an arranger, Nedbank Limited (acting through its Corporate and Investment Banking division), as an arranger, the parties listed in Part II of Schedule 1 thereto, as the original lenders, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent.	8-K	10.95	October 2, 2018
10.57	Security Cession, dated September 26, 2018, by Net1 Applied Technologies South Africa Proprietary Limited in favor of FirstRand Bank Limited (acting through its Rand Merchant Bank division), as a secured creditor, and each of the other Secured Creditors (as defined therein).	8-K	10.97	October 2, 2018
10.58	Pledge, dated September 26, 2018, by Net1 Applied Technologies South Africa Proprietary Limited in favor of FirstRand Bank Limited (acting through its Rand Merchant Bank division), as a secured creditor, and each of the other Secured Creditors (as defined therein).	8-K	10.98	October 2, 2018
10.59	Senior Facility E Agreement, dated September 26, 2018, among Net1 Applied Technologies South Africa Proprietary Limited, FirstRand Bank Limited (acting through its Rand Merchant Bank division), as lender, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent.	8-K	10.96	October 2, 2018
10.60	Revolving Credit Facility Agreement, dated June 28, 2018, among DNI-4PL Contracts Proprietary Limited, as borrower, FirstRand Bank Limited (acting through its Rand Merchant Bank division), as lender and agent, and K2018318388 (South Africa) (RF) Proprietary Limited, as debt guarantor.	8-K	10.89	July 5, 2018
10.61	Subordination Agreement, dated June 28, 2018, among the parties listed in Annexure A, FirstRand Bank Limited (acting through its Rand Merchant Bank division), as lender and agent, and K2018318388 (South Africa) (RF) Proprietary Limited, as debt guarantor.	8-K	10.90	July 5, 2018
10.62	Shareholder Guarantee, Cession and Pledge Agreement, dated June 28, 2018, among AJD Holdings Proprietary Limited, Richmark Holdings Proprietary Limited, DNI-4PL Contracts Proprietary Limited, as borrower, K2018318388 (South Africa) (RF) Proprietary Limited, as debt guarantor, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent.	8-K	10.91	July 5, 2018

10.63	Guarantee, Cession and Pledge Agreement, dated June 28, 2018, among the parties listed in Annexure A, as original cedents, K2018318388 (South Africa) (RF) Proprietary Limited, as debt guarantor, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent.		8-K	10.92	July 5, 2018
10.64	Debt Guarantor Management Agreement, dated June 28, 2018, among K2018318388 (South Africa) (RF) Proprietary Limited, as debt guarantor, FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent, DNI-4PL Contracts Proprietary Limited, as borrower, and TMF Corporate Services (South Africa) Proprietary Limited, as administrator.		8-K	10.93	July 5, 2018
10.65	Counter-indemnity Agreement, dated June 28, 2018, between DNI-4PL Contracts Proprietary Limited, as borrower, and K2018318388 (South Africa) (RF) Proprietary Limited, as debt guarantor.		8-K	10.94	July 5, 2018
14	Amended and Restated Code of Ethics	X			
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			

* Indicates a management contract or compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

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

NET 1 UEPS TECHNOLOGIES, INC.

By: /s/ Herman G. Kotzé

Herman G. Kotzé
Chief Executive Officer and Director

Date: October 25, 2019

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

NAME	TITLE	DATE
/s/ Christopher S. Seabrooke Christopher S. Seabrooke	Chairman of the Board and Director	October 25, 2019
/s/ Herman G. Kotzé Herman G. Kotzé	Chief Executive Officer and Director (Principal Executive Officer)	October 25, 2019
/s/ Alex M.R. Smith Alex M.R. Smith	Chief Financial Officer, Treasurer, Secretary and Director (Principal Financial and Accounting Officer)	October 25, 2019
/s/ Paul Edwards Paul Edwards	Director	October 25, 2019
/s/ Alfred T. Mockett Alfred T. Mockett	Director	October 25, 2019
/s/ Alasdair J. K. Pein Alasdair J. K. Pein	Director	October 25, 2019
/s/ Ekta Singh-Bushell Ekta Singh-Bushell	Director	October 25, 2019

NET 1 UEPS TECHNOLOGIES, INC.

LIST OF CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Net 1 UEPS Technologies, Inc. and subsidiaries (the “Company”) as of June 30, 2019 and 2018, the related consolidated statements of operations, comprehensive (loss) income, changes in equity, and cash flows, for each of the three years in the period ended June 30, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 30, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated October 25, 2019, expressed an adverse opinion on the Company's internal control over financial reporting because of a material weakness.

Going concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company is experiencing difficulty in generating sufficient cash flow to meet its obligations and sustain its operations, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

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

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

October 25, 2019

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

NET 1 UEPS TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS
as of June 30, 2019 and 2018

	2019	2018 (As restated)[A]
	(In thousands, except share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 46,065	$ 87,075
Restricted cash related to ATM funding (Note 12)	75,446	-
Pre-funded social welfare grants receivable (Note 4)	-	2,965
Accounts receivable, net and other receivables (Note 5)	72,494	93,448
Finance loans receivable, net (Note 5)	30,631	61,463
Inventory (Note 6)	7,535	10,361
Current assets of discontinued operation (Note 3)	-	22,482
Total current assets before settlement assets	232,171	277,794
Settlement assets (Note 2)	63,479	149,047
Total current assets	295,650	426,841
PROPERTY, PLANT AND EQUIPMENT, net (Note 8)	18,554	25,737
EQUITY-ACCOUNTED INVESTMENTS (Note 9)	151,116	86,016
GOODWILL (Note 10)	149,387	169,079
INTANGIBLE ASSETS, net (Note 10)	11,889	27,129
DEFERRED INCOME TAXES (Note 2 and Note 18)	2,151	4,776
OTHER LONG-TERM ASSETS (Note 9 and Note 11)	44,189	235,032
LONG-TERM ASSETS OF DISCONTINUED OPERATION (Note 3 and Note 9)	-	242,704
TOTAL ASSETS	672,936	1,217,314
LIABILITIES		
CURRENT LIABILITIES		
Short-term credit facilities for ATM funding (Note 12)	75,446	-
Short-term facilities (Note 12)	9,544	-
Accounts payable	17,005	21,106
Other payables (Note 13)	66,449	41,645
Current portion of long-term borrowings (Note 12)	-	44,079
Income taxes payable	6,223	5,742
Current liabilities of discontinued operation (Note 3)	-	20,914
Total current liabilities before settlement obligations	174,667	133,486
Settlement obligations (Note 2)	63,479	149,047
Total current liabilities	238,146	282,533
DEFERRED INCOME TAXES (Note 2 and Note 18)	4,682	16,067
LONG-TERM BORROWINGS (Note 14)	-	5,469
OTHER LONG-TERM LIABILITIES (Note 3 and Note 11)	3,007	30,289
LONG-TERM LIABILITIES OF DISCONTINUED OPERATION (Note 3)	-	38,387
TOTAL LIABILITIES	245,835	372,745
COMMITMENTS AND CONTINGENCIES (Note 22)		
REDEEMABLE COMMON STOCK (Note 1 and Note 14)	107,672	107,672
EQUITY		
COMMON STOCK (Note 14)		
Authorized: 200,000,000 with $0.001 par value;		
Issued and outstanding shares, net of treasury - 2019: 56,568,425; 2018: 56,685,925	80	80
PREFERRED STOCK		
Authorized shares: 50,000,000 with $0.001 par value;		
Issued and outstanding shares, net of treasury: 2019: -; 2018: -	-	-
ADDITIONAL PAID-IN CAPITAL	276,997	276,201
TREASURY SHARES, AT COST: 2019: 24,891,292; 2018: 24,891,292 (Note 15)	(286,951)	(286,951)
ACCUMULATED OTHER COMPREHENSIVE LOSS (Note 15)	(199,273)	(184,538)
RETAINED EARNINGS	528,576	836,194
TOTAL NET1 EQUITY	319,429	640,986
NON-CONTROLLING INTEREST	-	95,911
TOTAL EQUITY	319,429	736,897
TOTAL LIABILITIES, REDEEMABLE COMMON STOCK AND SHAREHOLDERS' EQUITY	$ 672,936	$ 1,217,314

(A) Certain amounts have been restated to correct the misstatement discussed in Note 1.

See accompanying notes to consolidated financial statements.

NET 1 UEPS TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended June 30, 2019, 2018 and 2017

	2019	2018 (As restated)[A]	2017 (As restated)[A]
	(In thousands, except per share data)		
REVENUE (Note 16)	$ 360,990	$ 612,889	$ 610,066
Services rendered	330,496	538,429	533,279
Loan-based fees received	29,872	54,949	53,894
Sale of goods	20,331	19,511	22,893
Variation of price related to SASSA revenue (Note 13)	(19,709)	-	-
EXPENSE			
Cost of goods sold, IT processing, servicing and support	215,348	304,536	292,383
Selling, general and administration	202,056	193,003	179,262
Depreciation and amortization	37,349	35,484	41,378
Impairment Loss (Note 10)	19,745	20,917	-
OPERATING (LOSS) INCOME	(113,508)	58,949	97,043
CHANGE IN FAIR VALUE OF EQUITY SECURITIES (Note 7)	(167,459)	32,473	-
LOSS ON DISPOSAL OF DNI	5,771	-	-
INTEREST INCOME	7,229	17,885	20,897
INTEREST EXPENSE	10,724	8,941	3,484
IMPAIRMENT OF CEDAR CELLULAR NOTE (Note 9)	12,793	-	-
(LOSS) INCOME BEFORE INCOME TAXES	(303,026)	100,366	114,456
INCOME TAX EXPENSE (Note 18)	3,725	48,597	42,506
NET (LOSS) INCOME BEFORE EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	(306,751)	51,769	71,950
EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	1,482	11,597	2,814
NET (LOSS) INCOME	(305,269)	63,366	74,764
Continuing	(307,959)	60,975	74,764
Discontinued	2,690	2,391	-
LESS (ADD): NET INCOME (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTEREST	2,349	(880)	1,694
Continuing	(1,352)	(880)	1,694
Discontinued	3,701	-	-
NET (LOSS) INCOME ATTRIBUTABLE TO NET1	(307,618)	64,246	73,070
Continuing	(306,607)	61,855	73,070
Discontinued	$ (1,011)	$ 2,391	$ -
Net (loss) income per share, in United States dollars: (Note 19)			
Basic (loss) earnings attributable to Net1 shareholders	(5.42)	1.13	1.34
Continuing	(5.40)	1.09	1.34
Discontinued	(0.02)	0.04	-
Diluted (loss) earnings attributable to Net1 shareholders	(5.42)	1.13	1.33
Continuing	(5.40)	1.09	1.33
Discontinued	(0.02)	0.04	-

(A) Certain amounts have been restated to correct the misstatement discussed in Note 1.

See accompanying notes to consolidated financial statements.

NET 1 UEPS TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
for the years ended June 30, 2019, 2018 and 2017

	2019	2018 (As restated)[A]	2017 (As restated)[A]
		(in thousands)	
NET (LOSS) INCOME	$ (305,269)	$ 63,366	$ 74,764
OTHER COMPREHENSIVE (LOSS) INCOME:			
Movement in foreign currency translation reserve	(26,194)	(19,474)	30,291
Release of foreign currency translation reserve related to disposal of DNI (Note 3 and Note 15)	2,452	-	-
Movement in foreign currency translation reserve related to equity-accounted investments	4,251	(2,426)	(2,697)
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(19,491)	(21,900)	27,594
COMPREHENSIVE (LOSS) INCOME	(324,760)	41,466	102,358
Add (Less) comprehensive income attributable to non-controlling interest	2,407	978	(2,332)
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO NET1	$ (322,353)	$ 42,444	$ 100,026

(A) Certain amounts have been restated to correct the misstatement discussed in Note 1.

See accompanying notes to consolidated financial statements.

NET 1 UEPS TECHNOLOGIES, INC.
Consolidated Statement of Changes in Equity for the year ended June 30, 2017 (dollar amounts in thousands)

	Net 1 UEPS Technologies, Inc. Shareholders											
	Number of Shares	Amount	Number of Treasury Shares	Treasury Shares	Number of shares, net of treasury	Additional Paid-In Capital	Retained Earnings (as restated[A])	Accumulated other comprehensive (loss) income (as restated[A])	Total Net1 Equity (as restated[A])	Non-controlling Interest	Total (as restated[A])	Redeemable common stock
Balance – July 1, 2016 as reported	75,755,886	$74	(20,483,932)	$(241,627)	55,271,954	$223,978	$700,322	$(189,700)	$493,047	$2,501	$495,548	$107,672
Correction of Finbond error (Note 1)							(1,444)	8	(1,436)		(1,436)	
Balance – July 1, 2016 as restated	75,755,886	74	(20,483,932)	(241,627)	55,271,954	223,978	698,878	(189,692)	491,611	2,501	494,112	107,672
Sale of common stock (Note 14)	5,000,000	5			5,000,000	44,995			45,000		45,000	
Repurchase of common stock (Note 14)			(4,407,360)	(45,324)	(4,407,360)				(45,324)		(45,324)	
Restricted stock granted (Note 17)	389,587				389,587				-		-	
Exercise of stock option (Note 17)	321,026	1			321,026	2,878			2,879		2,879	
Stock-based compensation charge (Note 17)						3,905			3,905		3,905	
Reversal of stock compensation charge (Note 17)	(205,470)				(205,470)	(1,923)			(1,923)		(1,923)	
Utilization of APIC pool related to vested restricted stock						(189)			(189)		(189)	
Dividends paid to non-controlling interest									-	(2,067)	(2,067)	
Stock based-compensation charge related to equity-accounted investment (Note 9)						89			89		89	
Net income							73,070		73,070	1,694	74,764	
Other comprehensive income (Note 15)								26,956	26,956	638	27,594	
Balance – June 30, 2017	81,261,029	$80	(24,891,292)	$(286,951)	56,369,737	$273,733	$771,948	$(162,736)	$596,074	$2,766	$598,840	$107,672

(A) Certain amounts have been restated to correct the misstatement discussed in Note 1.

NET 1 UEPS TECHNOLOGIES, INC.
Consolidated Statement of Changes in Equity for the year ended June 30, 2018 (dollar amounts in thousands)

	Net 1 UEPS Technologies, Inc. Shareholders											
	Number of Shares	Amount	Number of Treasury Shares	Treasury Shares	Number of shares, net of treasury	Additional Paid-In Capital	Retained Earnings (as restated[A])	Accumulated other comprehensive (loss) income (as restated[A])	Total Net1 Equity (as restated[A])	Non-controlling Interest	Total (as restated[A])	Redeemable common stock
Balance – July 1, 2017 (note 1)	81,261,029	$80	(24,891,292)	$(286,951)	56,369,737	$273,733	$771,948	$(162,736)	$596,074	$2,766	$598,840	$107,672
Restricted stock granted (Note 17)	618,411				618,411				-		-	
Stock-based compensation charge (Note 17)						2,656			2,656		2,656	
Reversal of stock compensation charge (Note 17)	(302,223)				(302,223)	(49)			(49)		(49)	
Reversal of stock based-compensation charge related to equity-accounted investment (Note 9)						(139)			(139)		(139)	
Acquisition of DNI (Note 3)									-	94,123	94,123	
Net income							64,246		64,246	(880)	63,366	
Other comprehensive loss (Note 15)								(21,802)	(21,802)	(98)	(21,900)	
Balance – June 30, 2018	81,577,217	$80	(24,891,292)	$(286,951)	56,685,925	$276,201	$836,194	$(184,538)	$640,986	$95,911	$736,897	$107,672

(A) Certain amounts have been restated to correct the misstatement discussed in Note 1.

NET 1 UEPS TECHNOLOGIES, INC.
Consolidated Statement of Changes in Equity for the year ended June 30, 2019 (dollar amounts in thousands)

	Net 1 UEPS Technologies, Inc. Shareholders											
	Number of Shares	**Amount**	**Number of Treasury Shares**	**Treasury Shares**	**Number of shares, net of treasury**	**Additional Paid-In Capital**	**Retained Earnings (as restated[A])**	**Accumulated other comprehensive (loss) income (as restated[A])**	**Total Net1 Equity (as restated[A])**	**Non-controlling Interest**	**Total (as restated[A])**	**Redeemable common stock**
Balance – July 1, 2018 (Note 1)	81,577,217	$80	(24,891,292)	$(286,951)	56,685,925	$276,201	$836,194	$(184,538)	$640,986	$95,911	$736,897	$107,672
Restricted stock granted (Note 17)	148,000				148,000				-		-	
Stock-based compensation charge (Note 17)						2,319			2,319		2,319	
Reversal of stock compensation charge (Note 17)	(265,500)				(265,500)	(1,926)			(1,926)		(1,926)	
Stock based-compensation charge related to equity-accounted investment (Note 9)						117			117		117	
Acquisition of non-controlling interest						286	-		286	466	752	
Dividends paid to non-controlling interest									-	(4,104)	(4,104)	
Deconsolidation of DNI (Note 3)									-	(89,866)	(89,866)	
Net (loss) income							(307,618)		(307,618)	2,349	(305,269)	
Other comprehensive loss (Note 15)								(14,735)	(14,735)	(4,756)	(19,491)	
Balance – June 30, 2019	81,459,717	$80	(24,891,292)	$(286,951)	56,568,425	$276,997	$528,576	$(199,273)	$319,429	$0	$319,429	$107,672

(A) Certain amounts have been restated to correct the misstatement discussed in Note 1.

See accompanying notes to consolidated financial statements.

NET 1 UEPS TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2019, 2018 and 2017

	2019	2018 (as restated[A])	2017 (as restated[A])
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) income	$ (305,269)	$ 63,366	$ 74,764
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	37,349	35,484	41,378
Impairment loss (Note 10)	19,745	20,917	-
Allowance for doubtful accounts receivable charged	32,786	13,358	4,382
Earnings from equity-accounted investments (Note 9)	(1,482)	(11,597)	(2,814)
Interest on Cedar Cellular note (Note 9)	(2,397)	(1,395)	-
Impairment of Cedar Cellular note (Note 9)	12,793	-	-
Change in fair value of equity securities (Notes 7 and 9)	167,459	(32,473)	-
Implementation costs to be refunded to SASSA (Note 13)	34,039	-	-
Fair value adjustments and foreign currency re-measurements	73	414	(300)
Interest payable	237	(146)	20
Facility fee amortized	321	589	1,326
Loss (Profit) on disposal of business (Note 3)	5,771	(463)	-
Loss on fair value of DNI (Note 3)	-	4,614	-
(Profit) Loss on disposal of property, plant and equipment	(486)	40	(639)
Stock compensation charge, net of forfeitures (Note 17)	393	2,607	1,982
Dividends received from equity accounted investments	1,318	4,111	1,187
Decrease (Increase) in accounts and finance loans receivable, and pre-funded grants receivable	11,663	17,732	(20,149)
Decrease (Increase) in inventory	4,042	(2,521)	3,025
(Decrease) Increase in accounts payable and other payables	(14,538)	10,595	(6,461)
Increase (Decrease) in taxes payable	3,428	1,137	(354)
(Decrease) Increase in deferred taxes	(11,705)	5,936	(186)
Net cash (used in) provided by operating activities	(4,460)	132,305	97,161
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(9,416)	(9,649)	(11,195)
Proceeds from disposal of property, plant and equipment	1,045	658	1,592
Acquisition of intangible assets	(1,384)	-	-
Investment in equity of equity-accounted investments (Note 9)	(2,989)	(133,335)	-
Disposal of DNI (Note 3)	(2,114)	-	-
Investment in MobiKwik (Note 9)	(1,056)	-	(25,835)
Repayment of loans by equity-accounted investments (Note 9)	1,029	9,180	-
Proceeds on return of investment (Note 9)	284	-	-
Investment in Cell C (Note 9)	-	(151,003)	-
Loans to equity-accounted investments (Note 9)	-	(10,635)	(12,044)
Acquisition of held to maturity investment (Note 9)	-	(9,000)	-
Acquisitions, net of cash acquired (Note 3)	-	(6,202)	(4,651)
Other investing activities, net	-	(61)	-
Net change in settlement assets (Note 2)	79,077	490,795	(61,938)
Net cash provided by (used in) investing activities	64,476	180,748	(114,071)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank overdraft (Note 12)	822,754	44,900	16,176
Repayment of bank overdraft (Note 12)	(740,969)	(62,925)	-
Repayment of long-term borrowings (Note 12)	(37,357)	(77,062)	(37,318)
Long-term borrowings utilized (Note 12)	14,613	113,157	800
Dividends paid to non-controlling interest	(4,104)	-	(2,067)
Payment of guarantee fee (Note 12)	(394)	(754)	(1,145)
Acquisition of non-controlling interests	(180)	-	-
Proceeds from issue of common stock (Note 14 and Note 20)	-	-	47,879
Acquisition of treasury stock (Note 14)	-	-	(45,794)
Net change in settlement obligations (Note 2)	(79,077)	(490,795)	61,938
Net cash (used in) provided by financing activities	(24,714)	(473,479)	40,469
Effect of exchange rate changes on cash	(3,845)	(7,977)	11,254
Net increase (decrease) in cash, cash equivalents and restricted cash	31,457	(168,403)	34,813
Cash, cash equivalents and restricted cash – beginning of year	90,054	258,457	223,644
Cash, cash equivalents and restricted cash – end of year[(1)]	$ 121,511	$ 90,054	$ 258,457

Cash, cash equivalents and restricted cash – end of year for the year ended June 30, 2018, includes $2,979 related to DNI (refer to Note 3).

(A) Certain amounts have been restated to correct the misstatement discussed in Note 1.

See accompanying notes to consolidated financial statements.

(1) Cash, cash equivalents and restricted cash as of June 30, 2019, includes restricted cash of approximately $75.4 million related to cash withdrawn from the Company's various debt facilities to fund ATMs. This cash may only be used to fund ATMs and is considered restricted as to use and therefore is classified as restricted cash. Refer to Note 12 for additional information regarding the Company's facilities.

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 is a leading provider of financial technology, or fintech, products and services to the unbanked and underbanked in a number of emerging and developed economies. Its universal electronic payment system ("UEPS") uses biometrically secure smart cards that operate in real-time but offline, which allows users to enter into transactions at any time with other card holders in even the most remote areas. The Company also develops and provides secure transaction technology solutions and services, and offers transaction processing and financial solutions. The Company's technology is widely used in South Africa today, where it provides financial services, processes debit and credit card payment transactions on behalf of retailers through its EasyPay system, processes value-added services such as bill payments and prepaid electricity for the major bill issuers and local councils in South Africa, processes third-party and associated payroll payments for employees and provides mobile telephone top-up transactions for the major South African mobile carriers. Through KSNET, the Company offers card processing, payment gateway ("PG") and banking value-added network services ("VAN") in South Korea. The Company has card issuing and acquiring capabilities in Hong Kong and Malta and provides value added payment services to online retailers across Europe through its International Payments Group ("IPG"). The Company leverages its strategic equity investments in Finbond Group Limited ("Finbond") and Bank Frick & Co. AG ("Bank Frick") (both regulated banks), and Cell C Proprietary Limited ("Cell C") to introduce products to new customers and geographies.

Basis of presentation

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

Consideration of going concern

Accounting guidance requires the Company's management to assess whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after its audited consolidated financial statements are issued. The Company's management has identified certain conditions or events, which, considered in the aggregate, could raise substantial doubt about the Company's ability to continue as a going concern including the risk that the Company will be unable to:

- deliver all or a substantial part of the financial results forecast in its fiscal 2020 budget;
- retain its existing borrowings and facilities, as described in Note 12, or obtain additional borrowings and facilities on commercially reasonable terms;
- arrive at a commercial settlement with SASSA, given the September 30, 2019, Supreme Court of Appeal ruling regarding the repayment of the additional implementation costs received back to SASSA (refer Note 13) and the ongoing dispute the Company has with SASSA over fees due for the six-month contract extension period in accordance with National Treasury's recommendation (refer Note 2—Revenue recognition—Significant judgments and estimates);
- dispose of all or a portion of its remaining 30% interest in DNI-4PL Contracts Proprietary Limited ("DNI"). DNI's operations are also significantly dependent on Cell C because it is the largest distributor of Cell C starter packs in South Africa. Therefore, the inability of Cell C to continue to operate through the next 12 months could also have an adverse impact on DNI's operations; or
- dispose of investments in order to realize sufficient cash flows.

The Company's management has implemented a number of plans to alleviate the substantial doubt about the Company's ability to continue as a going concern. These plans include disposing of certain non-core assets (refer to Note 3 for additional information regarding a call option granted to DNI), engaging FT Partners to advise on the KSNET business, and extending its existing borrowings used to fund its ATMs through September 2020. In addition, the Company's management believes it has a number of mitigating actions it can pursue, including (i) limiting the expansion of its microlending finance loans receivable book in South Africa; (ii) implementing further cost cutting measures; (iii) commencing additional asset realizations; (iv) manage our capital expenditures; and (v) accessing alternative sources of capital (including through the issuance of additional shares of its common stock), in order to generate additional liquidity. The Company's management believes that these actions alleviate the substantial doubt referred to above and therefore have concluded that the Company remains a going concern.

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION (continued)

Restatement of financial statements resulting from Finbond error

On May 31, 2019, Finbond released its year end February 2019 summarized annual results and announced that it had identified an error in its previously issued audited financial statements and had restated those audited financial statements. The Finbond restatement impacts the Company's reported results and the Company has restated its 2018 and 2017 financial statements to correct for the Finbond restatement. The error identified by Finbond relates to the misapplication of a valuation technique to determine the fair value of a written-off portfolio of loans receivable that were designated at fair value through profit or loss.

The tables below present the impact of the restatement on each of the Company's financial statements for the years ended June 30, 2018:

Consolidated balance sheet

	As of June 30, 2018		
	As reported	Correction	As restated
		(in thousands)	
Equity-accounted investments	$87,992	$(1,976)	$86,016
Total assets	1,219,290	(1,976)	1,217,314
Deferred tax liabilities	16,510	(443)	16,067
Total liabilities	373,188	(443)	372,745
Accumulated other comprehensive loss	(184,436)	(102)	(184,538)
Retained earnings	837,625	(1,431)	836,194
Total equity	$738,430	$(1,533)	$736,897

Consolidated statement of operations

	Year ended June 30, 2018		
	As reported	Correction	As restated
	(in thousands, except per share data)		
Income tax expense	$48,627	$(30)	$48,597
Net income before earnings from equity-accounted investments	51,739	30	51,769
Earnings from equity-accounted investments	11,730	(133)	11,597
Net income	63,469	(103)	63,366
Net income attributable to Net1	$64,349	$(103)	$64,246
Net income per share, in United States dollars:			
Basic earnings attributable to Net1 shareholders	$1.13	$(0.00)	$1.13
Diluted earnings attributable to Net1 shareholders	$1.13	$(0.00)	$1.13

	Year ended June 30, 2017		
	As reported	Correction	As restated
	(in thousands, except per share data)		
Income tax expense	$42,472	$34	$42,506
Net income before earnings from equity-accounted investments	71,984	(34)	71,950
Earnings from equity-accounted investments	2,664	150	2,814
Net income	74,648	116	74,764
Net income attributable to Net1	$72,954	$116	$73,070
Net income per share, in United States dollars:			
Basic earnings attributable to Net1 shareholders	$1.34	$0.00	$1.34
Diluted earnings attributable to Net1 shareholders	$1.33	$0.00	$1.33

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION (continued)

Restatement of financial statements resulting from Finbond error (continued)

Consolidated statement of comprehensive (loss) income

	Year ended June 30, 2018		
	As reported	Correction	As restated
		(in thousands)	
Net income	$63,469	$(103)	$63,366
Movement in foreign currency translation reserve	(19,539)	65	(19,474)
Total other comprehensive (loss) income	(21,965)	65	(21,900)
Comprehensive income	41,504	(38)	41,466
Comprehensive income attributed to Net1	$42,482	$(38)	$42,444

	Year ended June 30, 2017		
	As reported	Correction	As restated
		(in thousands)	
Net income	$74,648	$116	$74,764
Movement in foreign currency translation reserve	30,466	(175)	30,291
Total other comprehensive income (loss)	27,769	(175)	27,594
Comprehensive income	102,417	(59)	102,358
Comprehensive income attributed to Net1	$100,085	$(59)	$100,026

Consolidated statement of changes in equity

	Retained earnings	Accumulated other comprehensive loss
	(in thousands)	
As reported – July 1, 2016	$700,322	$(189,700)
Correction of misstatement	(1,444)	8
As restated – July 1, 2016	$698,878	$(189,692)
As reported – June 30, 2017	$773,276	$(162,569)
Correction of misstatement	(1,328)	(167)
As restated – June 30, 2017	$771,948	$(162,736)
As reported – June 30, 2018	$837,625	$(184,436)
Correction of misstatement	(1,431)	(102)
As restated – June 30, 2018	$836,194	$(184,538)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION (continued)

Restatement of financial statements resulting from Finbond error (continued)

Consolidated statement of cash flows

	Year ended June 30, 2018		
	As reported	Correction	As restated
		(in thousands)	
Net income	$63,469	$(103)	$63,366
Earnings from equity-accounted investment	(11,730)	133	(11,597)
Increase (Decrease) in deferred taxes	5,966	(30)	5,936
Net cash provided by operating activities	$132,305	$-	$132,305

	Year ended June 30, 2017		
	As reported	Correction	As restated
		(in thousands)	
Net income	$74,648	$116	$74,764
Earnings from equity-accounted investment	(2,664)	(150)	(2,814)
Increase (Decrease) in deferred taxes	(220)	34	(186)
Net cash provided by operating activities	$97,161	$-	$97,161

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

The Company, if it is the primary beneficiary, consolidates entities which are considered to be variable interest entities (“VIE”). The primary beneficiary is considered to be the entity that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. No entities were required to be consolidated as a result of these requirements during the years ended June 30, 2019, 2018 and 2017.

Business combinations

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

Use of estimates

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

2. SIGNIFICANT ACCOUNTING POLICIES

Translation of foreign currencies

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

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

Cash, cash equivalents and restricted cash

Cash and cash equivalents include cash on hand and funds deposited in bank accounts with financial institutions that are liquid, unrestricted and readily available. Cash that is restricted as to use is classified as restricted cash and includes cash drawn under the Company's borrowings and used to fund its ATMs.

Allowance for doubtful accounts receivable

Allowance for doubtful finance loans receivable

The Company regularly reviews the ageing of outstanding amounts due from borrowers and adjusts the allowance based on management's estimate of the recoverability of the finance loans receivable. The Company writes off microlending finance loans receivable and related service fees if a borrower is in arrears with repayments for more than three months or dies. The Company writes off working capital finance receivables and related fees when it is evident that reasonable recovery procedures, including where deemed necessary, formal legal action, have failed.

Allowance for doubtful accounts receivable

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

Inventory

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

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

Property, plant and equipment

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

Computer equipment	3 to 8 years
Office equipment	2 to 10 years
Vehicles	3 to 8 years
Furniture and fittings	3 to 10 years
Buildings and structures	8 to 30 years

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

Equity-accounted investments

The Company uses the equity method to account for investments in companies when it has significant influence but not control over the operations of the company. Under the equity method, the Company initially records the investment at cost and thereafter adjusts the carrying value of the investment to recognize the proportional share of the equity-accounted company's net income or loss. In addition, when an investment qualifies for the equity method (as a result of an increase in the level of ownership interest or degree of influence), the cost of acquiring the additional interest in the investee is added to the current basis of the Company's previously held interest and the equity method would be applied subsequently from the date on which the Company obtains the ability to exercise significant influence over the investee.

Any unrealized holding gains or losses in accumulated other comprehensive income related to an available for sale security that is subsequently required to be accounted for utilizing the equity method are recognized in earnings as of the date on which the investment qualifies for the equity method. The Company does not recognize cumulative losses in excess of its investment or loans in an equity-accounted investment except if it has an obligation to provide additional financial support. Dividends received from an equity-accounted investment reduce the carrying value of the Company's investment. The Company has elected to classify distributions received from equity method investees using the nature of the distribution approach. This election requires the Company to evaluate each distribution received on the basis of the source of the payment and classify the distribution as either operating cash inflows or investing cash inflows. The Company reviews its equity-accounted investments for impairment whenever events or circumstances indicate that the carrying amount of the investment may not be recoverable.

Goodwill

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

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

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

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

Debt and equity securities

Debt securities

The Company is required to classify all applicable debt securities as either trading securities, available-for-sale or held to maturity upon investment in the security.

Trading

Debt securities acquired by the Company which it intends to sell in the short-term are classified as trading securities and are initially measured at fair value. These debt securities are subsequently measured at fair value and realized and unrealized gains and losses from these trading securities are included in the Company's consolidated statement of operations. Classification of a debt security as a trading security is not precluded simply because the Company does not intend to sell the security in the short term. The Company had no debt securities that were classified as trading securities as of June 30, 2019 and 2018, respectively.

Available for sale

Debt securities acquired by the Company that have readily determinable fair values are classified as available for sale if the Company has not classified them as trading securities or if it does not have the ability or positive intent to hold the debt security until maturity. The Company is required to make an election to account for these debt securities as available for sale. These available for sale debt securities are initially measured at fair value. These debt securities are subsequently measured at fair value with unrealized gains and losses from available for sale investments in debt securities reported as a separate component of accumulated other comprehensive income, net of deferred income taxes, in shareholders' equity. The Company had no debt securities that were classified as available for sale securities as of June 30, 2019 and 2018, respectively.

Held to maturity

Debt securities acquired by the Company which it has the ability and the positive intent to hold to maturity are classified as held to maturity debt securities. The Company is required to make an election to classify these debt securities as held to maturity and these securities are carried at amortized cost. The amortized cost of held to maturity debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Interest received from the held to maturity security together with this amortization is included in interest income in the Company's consolidated statement of operations. The Company had a held to maturity security as of June 30, 2019 and 2018, respectively, refer to Note 9.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Debt and equity securities (continued)

Impairment of debt securities

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

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

Equity securities

Equity securities are measured at fair value. Changes in the fair value of equity securities are recorded in the Company's consolidated statement of operations within the caption titled "change in fair value of equity securities". The Company may elect to measure equity securities without readily determinable fair values at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer ("cost minus changes in observable prices equity securities"). There were no changes in the fair value of our cost minus changes in observable prices equity securities during the year ended June 30, 2019. The Company performs a qualitative assessment on a quarterly basis and recognizes an impairment loss if there are sufficient indicators that the fair value of the equity security is less than its carrying value.

Policy reserves and liabilities

Reserves for policy benefits and claims payable

The Company determines its reserves for policy benefits under its life insurance products using a model which estimates claims incurred that have not been reported and total present value of disability claims-in-payment at the balance sheet date. This model allows for best estimate assumptions based on experience (where sufficient) plus prescribed margins, as required in the markets in which these products are offered, namely South Africa.

The best estimate assumptions include (i) mortality and morbidity assumptions reflecting the company's most recent experience and (ii) claim reporting delays reflecting Company specific and industry experience. Most of the disability claims-in-payment reserve is reinsured and the reported values were based on the reserve held by the relevant reinsurer. The values of matured guaranteed endowments are increased by late payment interest (net of the asset management fee and allowance for tax on investment income).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Policy reserves and liabilities (continued)

Deposits on investment contracts

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

Reinsurance contracts held

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

The expected benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within Accounts receivable, net and other receivables) as well as long-term receivables (classified within other long-term assets) that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts and in accordance with the terms of each reinsurance contract. Reinsurance assets are assessed for impairment at each balance sheet date. If there is reliable objective evidence that amounts due may not be recoverable, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in its consolidated statement of operations. Reinsurance premiums are recognized when due for payment under each reinsurance contract.

Redeemable common stock

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

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

Revenue recognition

The Company recognizes revenue upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company enters into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Nature of products and services

Customers that have a bank account managed by the Company are issued cards that can be utilized to withdraw funds at an ATM or to transact at a merchant point of sale device ("POS"). The Company earns processing fees from transactions processed for these customers. The Company's contracts specify a transaction price for each service provided (for instance, ATM withdrawal, balance enquiry, etc.). Processing revenue fluctuates based on the type and volume of transactions performed by the customer. Revenue is recognized on the completion of the processed transaction.

Account holder fees

The Company provides bank accounts to customers and this service is underwritten by a regulated banking institution because the Company is not a bank. The Company charges its customers a fixed monthly bank account administration fee for all active bank accounts regardless of whether the account holder has transacted or not. The Company recognizes account holder fees on a monthly basis on all active bank accounts. Revenue from account holder's fees fluctuates based on the number of active bank accounts.

Lending revenue

The Company provides short-term loans to customers in South Africa and charges up-front initiation fees and monthly service fees. Initiation fees are recognized using the effective interest rate method, which requires the utilization of the rate of return implicit in the loan, that is, the contractual interest rate adjusted for any net deferred loan fees or costs, premium, or discount existing at the origination or acquisition of the loan. Monthly service fee revenue is recognized under the contractual terms of the loan. The monthly service fee amount is fixed upon initiation and does not change over the term of the loan.

Technology products

The Company supplies hardware and licenses for its customers to use the Company's technology. Hardware includes the sale of POS devices, SIM cards and other consumables which can occur on an ad hoc basis. The Company recognizes revenue from hardware at the transaction price specified in the contract as the hardware is delivered to the customer. Licenses include the right to use certain technology developed by the Company and the associated revenue is recognized ratably over the license period.

Insurance revenue

The Company writes life insurance contracts, and policy holders pay the Company a monthly insurance premium at the beginning of each month. Premium revenue is recognized on a monthly basis net of policy lapses. Policy lapses are provided for on the basis of expected non-payment of policy premiums.

Welfare benefit distribution fees

The Company provided a welfare benefits distribution service in South Africa to a customer under a contract which expired on September 30, 2018. The Company was required to distribute social welfare grants to identified recipients using an internally developed payment platform at designated distribution points (pay points) which enabled the recipients to access their grants. The contract specified a fixed fee per account for one or more grants received by a recipient. The Company recognized revenue for each grant recipient paid at the fixed fee.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Nature of products and services (continued)

Telecom products and services

Through DNI, the Company entered into contracts with mobile networks in South Africa to distribute subscriber identity modules ("SIM") cards on their behalf. The Company was entitled to receive consideration based on the activation of each SIM as well as from a percentage of the value loaded onto each SIM. The Company recognizes revenue from these services once the criteria specified for activation had been met as well as when it was entitled to its consideration related to the value loaded onto the SIM. Revenue from contracts with mobile networks fluctuates based on the number of SIMs activated as well as on the value loaded onto the SIM. As described in Note 3, the Company disposed of its controlling interest in DNI on March 31, 2019.

The Company purchases airtime for resale to customers. The Company recognizes revenue as the airtime is delivered to the customer. Revenue from the resale of airtime to customers fluctuates based on the volume of airtime sold.

Significant judgments and estimates

The Company was subject to a court process regarding the determination of the price to be charged for welfare benefit distribution services provided from April 1, 2018 to September 30, 2018. In December 2018, the Constitutional Court of South Africa clarified that it was not required to ratify the price and stated that the parties should reach an agreement on the price, failing which they should approach the lower courts in South Africa. The Company has initiated discussions with SASSA, but the parties had not reached an agreement as of June 30, 2019, regarding the pricing for services provided through September 30, 2018. Management determined, under previous revenue guidance, that there was no evidence of an arrangement at a fixed and determinable price other than that noted in the court ordered extension provided in March 2018 and did not record any additional revenue related to the services provided from April 1, 2018 to June 30, 2018, and recorded revenue at the rate specified in the contract. Upon adoption of the new revenue guidance on July 1, 2018, the Company determined that it was unable to estimate the amount of revenue that it is entitled to receive because no agreement with SASSA had been reached at that date. Accordingly, the Company has not recorded any additional revenue during the year ended June 30, 2019, related to the price to be charged for welfare benefit distribution services provided through September 30, 2018. The Company recorded revenue at the rate specified in the contract. The Company expects to record any additional revenue once there is agreement between the Company and SASSA on the fee.

Accounts Receivable, Contract Assets and Contract Liabilities

The Company recognizes accounts receivable when its right to consideration under its contracts with customers becomes unconditional. The Company has no contract assets or contract liabilities.

Research and development expenditure

Research and development expenditure is charged to net income in the period in which it is incurred. During the years ended June 30, 2019, 2018 and 2017, the Company incurred research and development expenditures of $2.6 million, $1.8 million and $2.0 million, respectively.

Computer software development

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

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

The Company measured its South African income taxes and deferred income taxes for the years ended June 30, 2019, 2018 and 2017, using the enacted statutory tax rate in South Africa of 28%.

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

Reserves for uncertain tax positions are recognized in the financial statements for positions which are not considered more likely than not of being sustained based on the technical merits of the position on audit by the tax authorities. For positions that meet the more likely than not standard, the measurement of the tax benefit recognized in the financial statements is based upon the largest amount of tax benefit that, in management's judgement, is greater than 50% likely of being realized based on a cumulative probability assessment of the possible outcomes. The Company's policy is to include interest related to unrecognized tax benefits in interest expense and penalties in selling, general and administration in the consolidated statements of operations.

The Company has elected the period cost method and records U.S. inclusions in taxable income related to global intangible low taxed income ("GILTI") as a current-period expense when incurred.

Stock-based compensation

Stock-based compensation represents the cost related to stock-based awards granted. The Company measures equity-based stock-based compensation cost at the grant date, based on the estimated fair value of the award, and recognizes the cost as an expense on a straight-line basis (net of estimated forfeitures) over the requisite service period. In respect of awards with only service conditions that have a graded vesting schedule, the Company recognizes compensation cost on a straight-line basis over the requisite service period for the entire award. The forfeiture rate is estimated using historical trends of the number of awards forfeited prior to vesting. The expense is recorded in the statement of operations and classified based on the recipients' respective functions. The Company records deferred tax assets for awards that result in deductions on the Company's income tax returns, based on the amount of compensation cost recognized and the Company's statutory tax rate in the jurisdiction in which it will receive a deduction. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on the Company's income tax return are recorded in taxation expense in the statement of operations.

Equity instruments issued to third parties

Equity instruments issued to third parties represents the cost related to equity instruments granted. The Company measures this cost at the grant date, based on the estimated fair value of the award, and recognizes the cost as an expense on a straight-line basis (net of estimated forfeitures) over the requisite service period. The forfeiture rate is estimated based on the Company's expectation of the number of awards that will be forfeited prior to vesting. The Company records deferred tax assets for equity instrument awards that result in deductions on the Company's income tax returns, based on the amount of equity instrument cost recognized and the Company's statutory tax rate in the jurisdiction in which it will receive a deduction. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on the Company's income tax return are recorded in the statement of operations.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Settlement assets and settlement obligations

Settlement assets comprise (1) cash received from credit card companies (as well as other types of payment services) which have business relationships with merchants selling goods and services via the internet that are the Company's customers and on whose behalf it processes the transactions between various parties, (2) cash received from customers on whose behalf the Company processes payroll payments that the Company will disburse to customer employees, payroll-related payees and other payees designated by the customer, and (3) cash received from the South African government that the Company holds pending disbursement to recipient cardholders of social welfare grants.

Settlement obligations comprise (1) amounts that the Company is obligated to disburse to merchants selling goods and services via the internet that are the Company's customers and on whose behalf it processes the transactions between various parties and settles the funds from the credit card companies to the Company's merchant customers, (2) amounts that the Company is obligated to pay to customer employees, payroll-related payees and other payees designated by the customer, and amounts that the Company is obligated to disburse to recipient cardholders of social welfare grants.

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

Recent accounting pronouncements adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance regarding *Revenue from Contracts with Customers*. This guidance requires an entity to recognize revenue when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance was originally set to be effective for the Company beginning July 1, 2017, however in August 2015, the FASB issued guidance regarding *Revenue from Contracts with Customers, Deferral of the Effective Date*. This guidance deferred the required implementation date specified in *Revenue from Contracts with Customers* to December 2017. Public companies were permitted to adopt the standard along the original timeline.

The guidance became effective for the Company beginning July 1, 2018. The Company elected the modified retrospective transition method upon adoption of this guidance. The adoption of this guidance did not have a material impact on the Company's financial statements, except for the additional footnote disclosures provided.

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

In June 2016, the FASB issued guidance regarding *Classification of Certain Cash Receipts and Cash Payments*. The guidance is intended to reduce diversity in practice and explains how certain cash receipts and payments are presented and classified in the statement of cash flows, including beneficial interests in securitization, which would impact the presentation of the deferred purchase price from sales of receivables. This guidance became effective for the Company beginning July 1, 2018, and must be applied retrospectively. The Company has elected to classify distributions received from equity method investees using the nature of the distribution approach. This election requires the Company to evaluate each distribution received on the basis of the source of the payment and classify the distribution as either operating cash inflows or investing cash inflows. The adoption of this guidance did not have a material impact on the Company's financial statements and the Company was not required to make any retrospective adjustments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent accounting pronouncements adopted (continued)

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

In January 2017, the FASB issued guidance regarding *Simplifying the Test for Goodwill Impairment*. This guidance removes the requirement for an entity to calculate the implied fair value of goodwill (as part of step 2 of the current goodwill impairment test) in measuring a goodwill impairment loss. The guidance is effective for the Company beginning July 1, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company has elected to early adopt this guidance beginning July 1, 2018. The adoption of this guidance did not have a material impact on the Company's financial statements.

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

In June 2018, the FASB issued guidance regarding *Improvements to Non-employee Share-Based Payment Accounting*. The guidance simplifies the accounting for share-based payments granted to non-employees for goods and services and aligns the guidance for these share-based payments with guidance applicable to accounting for share-based payments granted to employees. The guidance is effective for the Company beginning July 1, 2019. Early adoption is permitted. The Company has elected to early adopt this guidance beginning July 1, 2018. The adoption of this guidance did not have a material impact on the Company's financial statements.

Recent accounting pronouncements not yet adopted as of June 30, 2019

In February 2016, the FASB issued guidance regarding *Leases*. The guidance increases transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet. The amendments to current lease guidance include the recognition of assets and liabilities by lessees for those leases currently classified as operating leases. The guidance also requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. This guidance is effective for the Company beginning July 1, 2019. Early adoption is permitted. The Company expects that this guidance may have a material impact on its financial statements and is currently evaluating the impact of this guidance on its financial statements on adoption. The Company expects to record a right-of-use asset and lease liability of $7.0 million in its consolidated balance sheet on adoption based on its lease portfolio as of June 30, 2019.

The Company does not expect a material impact on its consolidated statement of operations and expects to make an election to adopt the modified retrospective approach lease guidance on adoption and therefore prior periods will not be adjusted and the Company will recognize, if required, a cumulative-effect adjustment to opening retained earnings as of July 1, 2019. The Company also expects to apply the package of three practical expedients available, which include the following (i) an entity need not reassess expired or existing contracts are or contain leases (ii) an entity need not reassess the lease classification for any expired or existing leases, and (iii) an entity need not reassess initial direct costs for any existing leases. The Company also expects to make elections to not recognize right-of-use assets and lease liabilities for leases with a term of less than twelve months and to account for all components in a lease arrangement as a single combined lease component.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent accounting pronouncements not yet adopted as of June 30, 2019

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

In August 2018, the FASB issued guidance regarding *Disclosure Framework: Changes to the Disclosure Requirements for Fair Value Measurement.* The guidance modifies the disclosure requirements related to fair value measurement. This guidance is effective for the Company beginning July 1, 2020. Early adoption is permitted. The Company is currently assessing the impact of this guidance on its financial statements disclosure.

3. ACQUISITIONS AND DISPOSITIONS

The Company did not make any acquisitions during the year ended June 30, 2019. The cash paid, net of cash received related to the Company's various acquisitions during the years ended June 30, 2018 and 2017 is summarized in the table below:

	2018	2017
DNI(1)	$6,202	$-
Ceevo Financial Services (Malta) Limited ("Ceevo FS")	-	2,940
Pros Software Proprietary Limited ("Pros Software")	-	1,711
Total cash paid, net of cash received	$6,202	$4,651

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

2019 acquisition

None.

3. ACQUISITIONS AND DISPOSITIONS (continued)

2019 dispositions

2019 disposal of a controlling interest in DNI

On February 28, 2019, the Company through its wholly owned subsidiary, Net1 Applied Technologies South Africa Proprietary Limited ("Net1 SA"), entered into a transaction with JAA Holdings Proprietary Limited, a limited liability private company duly incorporated in the Republic of South Africa, and PK Gain Investment Holdings Proprietary Limited, a limited liability private company duly incorporated in the Republic of South Africa, in terms of which Net1 SA reduced its shareholding in DNI from 55% to 38%. The transaction closed on March 31, 2019. The parties used a cashless settlement process on closing, refer to Note 20. Net1 SA used the proceeds from the sale of the DNI shares to settle its ZAR 400 million ($27.6 million, translated at exchange rates applicable as of March 31, 2019) obligation to DNI to subscribe for an additional share as part of the contingent consideration settlement process.

The Company no longer controls DNI and deconsolidated its investment in DNI effective March 31, 2019.

2019 further DNI disposition to reduce holding to 30%

In April 2019, the Company's management approved and commenced a process to sell its retained interest in DNI.

On May 3, 2019, Net1 SA entered into a transaction with FirstRand Bank Limited, acting through its Rand Merchant Bank division ("RMB"), in terms of which Net1 SA further reduced its shareholding in DNI from 38% to 30% through the sale of 7,605,235 ordinary "A" shares in DNI for a transaction consideration of ZAR 215.0 million ($15.0 million) (the "RMB Disposal"). The parties used a cashless settlement process on closing. The transaction closed on May 3, 2019, and the Company used the proceeds from the sale of these DNI shares and ZAR 15.0 million of its existing cash reserves to settle its outstanding long-term borrowings of ZAR 230.0 million in full, refer to Note 12.

On May 3, 2019, Net1 SA entered into an agreement pursuant to which it granted a call option to DNI to acquire Net1 SA's remaining 30% interest in DNI. The option expires on December 31, 2019, but may be exercised at any time prior to expiration. The option strike price is calculated as ZAR 2.827 billion ($200.8 million, translated at exchange rates applicable as of June 30, 2019) less any special distribution made by DNI multiplied by Net1 SA's retained interest (i.e. assuming no special distribution, the strike price for the 30% retained interest is ZAR 859.3 million, or $61.0 million, translated at exchange rates applicable as of June 30, 2019). The call option may be split into smaller denominations, but Net1 SA cannot be left with less than 20% unless the whole remaining interest is disposed of. DNI may nominate another party to exercise the call option in the place of DNI, provided that the nominated party acquires call options representing at least 1.0% of DNI's voting and participation interests.

As of June 30, 2019, the Company owned 30% of the voting and economic rights of DNI. The Company accounted for its 30% investment in DNI using the equity method, refer to Note 9.

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

3. ACQUISITIONS AND DISPOSITIONS (continued)

2019 dispositions (continued)

Loss recorded on disposal of DNI

The table below presents the impact of the deconsolidation of DNI and the calculation of the net loss recognized on deconsolidation:

			Equity method as of June 30, 2019		
	Total	**17% sold**	**8% sold**	**30% retained interest**	**Attributed to non-controlling interest**
Fair value of consideration received	$27,626	$27,626	$-	$-	$-
Fair value of retained interest of 30% in DNI[1]	74,195	-	14,849	59,346	-
Carrying value of non-controlling interest	88,934	-	-	-	88,934
Subtotal	190,755	27,626	14,849	59,346	88,934
Cash and cash equivalents	2,114	354	158	633	969
Accounts receivable, net and other receivables	24,577	4,116	1,841	7,358	11,262
Finance loans receivable, net	1,030	173	77	308	472
Inventory	893	149	66	268	410
Property, plant and equipment, net	1,265	212	95	379	579
Equity-accounted investments (Note 9)	242	41	19	72	110
Goodwill (Note 10)	113,003	18,924	8,466	33,834	51,779
Intangible assets, net	80,769	13,526	6,051	24,183	37,009
Deferred income taxes	28	5	2	8	13
Other long-term assets	26,553	4,447	1,989	7,950	12,167
Accounts payable	(5,186)	(868)	(389)	(1,553)	(2,376)
Other payables[2]	(16,484)	(2,760)	(1,235)	(4,936)	(7,553)
Income taxes payable	(2,482)	(416)	(186)	(743)	(1,137)
Deferred income taxes	(22,083)	(3,698)	(1,654)	(6,612)	(10,119)
Long-term debt (Note 12)	(10,150)	(1,700)	(760)	(3,039)	(4,651)
Released from accumulated other comprehensive loss – foreign currency translation reserve (Note 15)	1,806	1,806	-	-	-
Less: March 31, 2019, carrying value of DNI	195,895	34,311	14,540	58,110	88,934
March 2019 loss recognized on disposal, before tax, comprising	(5,140)	(6,685)	309	1,236	
Related to fair value adjustment of retained interest in 38% of DNI	1,545	-	309	1,236	
Related to sale of 17% of DNI	(6,685)	(6,685)	-	-	
Taxes related to disposal[3]	-	505	(3,836)	3,331	
Loss recognized on disposal, after tax, as of March 2019 = A	$(5,140)	$(7,190)	$4,145	$(2,095)	
May 3, 2019 fair value of consideration received	$15,011	$-	$15,011	$-	
Less: equity-method interest sold (Note 9)	(14,996)	-	(14,996)	-	
Less: released from accumulated other comprehensive loss – foreign currency translation reserve (Note 15)	(646)	-	(646)	-	
May 2019 loss recognized on disposal, before tax	(631)	-	(631)	-	
Taxes related to disposal[4]	-	-	-	-	
Loss recognized on disposal, after tax, as of May 3, 2019 = B	(631)	-	(631)	-	
Loss on disposal of DNI (A + B)	$(5,771)	$(7,190)	$3,514	$(2,095)	

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

3. ACQUISITIONS AND DISPOSITIONS (continued)

2019 dispositions (continued)

Loss recorded on disposal of DNI (continued)

(1) The fair value of the retained interest in 38% of DNI as of March 31, 2019, of $74.2 million ($14.9 million plus $59.3 million) has been calculated using the implied fair value of DNI pursuant to the RMB Disposal and has been calculated as ZAR 215.0 million divided by 7.605235% multiplied by 38%, translated to dollars at the March 31, 2019, rate of exchange.
(2) Other payables include a short-term loan of ZAR 60.5 million ($4.3 million, translated at exchange rates applicable as of June 30, 2019) due to the Company. The short-term loan is included in accounts receivable, net and other receivables on the Company's consolidated balance sheet as of June 30, 2019. The loan was repaid in full on July 31, 2019. Interest on the loan was charged at the South African prime rate.
(3) Amounts presented are net of a valuation allowance provided. The disposal of DNI resulted in a capital loss for tax purposes of approximately $1.5 million and the Company has provided a valuation allowance of $1.5 million against this capital loss because it does not have any capital gains to offset against this amount. On an individual basis, the transaction to dispose of 17% of DNI resulted in a capital gain of $0.5 million and the re-measurement of the retained 38% interest has resulted in a capital loss of $2.0 million ($5.3 million (8% transaction) less $3.3 million (30% transaction)). The valuation allowance of $1.5 million has been provided against the $5.3 million, for a net amount presented in the table above of $3.8 million ($5.3 million less $1.5 million).
(4) The disposal of the 8% interest in DNI resulted in a capital loss for tax purposes of approximately $23.9 million and the Company has provided a valuation allowance of $23.9 million against this capital loss because it does not have any capital gains to offset against this amount.

Discontinued operation

The Company has determined that the disposal of its controlling interest in DNI represents a discontinued operation because it represents a strategic shift that will have a major effect on the Company's operations and financial results as a result of the sale of a significant portion of its investment in DNI. The facts and circumstances leading to the disposal of a controlling interest are described above. The loss related to the disposal of a controlling interest in DNI is presented above. DNI was allocated to the Company's financial inclusion and applied technologies operating segment and the amortization of intangible assets identified and recognized related to the DNI acquisition were allocated to corporate/eliminations. The impact of the disposal of a controlling interest on the Company's operating segments is presented in Note 21.

The Company retained a continuing involvement in DNI through its 38% interest in DNI (refer above and to Note 9) following the March 31, 2019 transaction disclosed above. The Company expects to retain an interest in DNI for less than 12 months. As disclosed above, the Company sold an 8% interest in DNI in May 2019, and has entered into an agreement under which it has provided a call option to DNI to repurchase the remaining 30% interest in DNI. The Company recorded earnings under the equity method related to its retained investment in DNI during the three months ended June 30, 2019, refer to Note 9. The table below presents revenues and expenses between the Company and DNI, after the DNI disposal transaction, during the year ended June 30, 2019 (i.e. for the three months ended June 30, 2019):

	Year ended June 30, 2019
Revenue generated from transactions with DNI	$-
Expenses incurred related to transactions with DNI	$63

Refer to note 9 for the dividends received from DNI under the equity method following the sale of DNI in March 2019.

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

3. ACQUISITIONS AND DISPOSITIONS (continued)

2019 dispositions (continued)

Discontinued operation (continued)

The table below presents the impact of the deconsolidation of DNI on certain major captions to the Company's consolidated statement of operations and consolidated statement of cash flows for the year ended June 30, 2019, 2018 and 2017, that have not been separately presented on those statements:

DNI

	Year ended June 30,		
	2019	**2018**	**2017**
Consolidated statement of operations			
Discontinued:			
Revenue	$56,337	$-	$-
Cost of goods sold, IT processing, servicing and support	27,667	-	-
Selling, general and administration	4,295	-	-
Depreciation and amortization	8,026	-	-
Impairment loss	5,305	-	-
Operating income	11,044	-	-
Interest income	707	-	-
Interest expense	812	-	-
Net income before tax (includes loss on disposal of DNI of $5,771)	5,168	-	-
Income tax expense	3,124	-	-
Net income before earnings from equity-accounted investments	2,675	-	-
DNI consolidated - Earnings from equity-accounted investments(1)	15	-	-
DNI equity method investment - Earnings from equity-accounted investments (2)	$-	$7,005	$-
Consolidated statement of cash flows			
Discontinued:			
Total net cash (used in) provided by operating activities(3)(4)	$6,635	$1,765	$-
Total net cash (used in) provided by investing activities	$(516)	$-	$-

(1) Earnings from equity-accounted investments for the year ended June 30, 2019, include earnings attributed to an equity-accounted investment owned by DNI of $0.2 million and are included in the Company's results as a result of the consolidation of DNI.

(2) Earnings from equity-accounted investments for the years ended June 30, 2018, represents DNI earnings (net of amortization of acquired intangibles and related deferred tax) attributed to the Company as a result of the Company using the equity method to account for its investment in DNI during the period (refer to Note 9).

(3) Total net cash (used in) provided by operating activities for the year ended June 30, 2019, includes dividends received of $0.9 million (refer to Note 9) from DNI while it was accounted for using the equity method during the three months ended June 30, 2019.

(4) Total net cash (used in) provided by operating activities for the year ended June 30, 2018, represents dividends received from DNI during the period.

2018 acquisition

DNI acquisition

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

3. ACQUISITIONS AND DISPOSITIONS (continued)

2018 acquisition (continued)

DNI acquisition (continued)

On July 27, 2017, the Company subscribed for 44,999,999 ordinary A shares in DNI, representing a 45% voting and economic interest in DNI, for a subscription price of ZAR 945.0 million ($72.0 million) in cash. On March 9, 2018, the Company subscribed for an additional 4,000,000 ordinary A shares in DNI for a subscription price of ZAR 89.3 million ($7.5 million), in cash, which increased its voting and economic interest in DNI to 49%, but did not give it control. On March 9, 2018, the Company also agreed to subscribe for an additional 6,000,000 ordinary A shares in DNI for an aggregate subscription price of ZAR 126.0 million ($9.2 million). The subscription was subject to certain suspensive conditions, including obtaining South African Competition Commission approval which was eventually obtained on June 21, 2018. Accordingly, on June 28, 2018, all conditions were met and the Company subscribed for 6,000,000 ordinary A shares in DNI for a subscription price of ZAR 126.0 million ($9.2 million) in cash, increasing its voting and economic interest in DNI to 55%. Under the terms of its subscription agreements with DNI, the Company agreed to pay to DNI an additional amount of up to ZAR 400.0 million ($29.1 million, translated at exchange rates applicable as of June 30, 2018), in cash, subject to the achievement of certain performance targets by DNI. The Company expected to pay the additional amount during the first quarter of the year ended June 30, 2020, and recorded an amount of ZAR 373.6 million ($27.2 million), in other long-term liabilities in its consolidated balance sheet as of June 30, 2018, which amount represented the present value of the ZAR 400 million ($29.1 million) to be paid (amounts translated at exchange rates applicable as of June 30, 2018). The present value of ZAR 373.6 million ($27.2 million) was calculated using the following assumptions (a) the maximum additional amount of ZAR 400 million will be paid on August 1, 2019 and (b) an interest rate of 6.3 % (the rate used to calculate interest earned by the Company on its surplus South African funds) has been used to discount the ZAR 400.0 million to its present value as of June 30, 2018. Utilization of different inputs, or changes to these inputs, may result in significantly higher or lower fair value measurement. The ZAR 400 million was settled in full on March 31, 2019. Refer to discussion above under "—2019 dispositions—2019 disposal of a controlling interest in DNI" and to Note 7.

As described in Note 9, on March 9, 2018, the Company obtained financing to partially fund the acquisition of the additional ordinary A DNI shares and Net1 SA pledged, among other things, its entire equity interest in DNI as security for the South African facilities described in Note 12.

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

DNI purchase price allocation

During the third quarter of fiscal 2019, the Company determined that certain customer relationships of $7.0 million should not have been separately identified and recorded as intangible assets because there were no separately identified cash flows related to these customer relationships. These customer relationships, net of deferred taxes of $2 million, should have been recorded as a component of goodwill. During the third quarter of fiscal 2019, the Company determined that DNI is a discontinued operation.

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

3. ACQUISITIONS AND DISPOSITIONS (continued)

2018 acquisition (continued)

DNI acquisition (continued)

DNI purchase price allocation (continued)

The table below presents the DNI balances included on the Company's consolidated balance sheet as of June 30, 2018, as well as the amended purchase price allocation ("PPA") of the DNI acquisition, translated at the foreign exchange rates applicable on the date of acquisition:

	DNI PPA – discontinued operation as of June 30, 2018		
	Initial	**Amendment**	**Amended**
Current assets of discontinued operation:	$22,482	$-	$22,482
Cash and cash equivalents	2,979	-	2,979
Accounts receivable (Note 5)	16,235	-	16,235
Finance loans receivable (Note 5)	742	-	742
Inventory (Note 6)	2,526	-	2,526
Long-term assets of discontinued operation:	242,704	(1,951)	240,753
Property, plant and equipment	1,317	-	1,317
Equity-accounted investment (Note 9)	339	-	339
Goodwill (Note 10)	114,161	5,017	119,178
Intangible assets (Note 10)	104,003	(6,968)	97,035
Deferred tax assets	1,536	-	1,536
Other long-term assets (Note 9)	21,348	-	21,348
Current liabilities of discontinued operation:	(20,914)	-	(20,914)
Accounts payables	(13,949)	-	(13,949)
Other payables	(6,349)	-	(6,349)
Current portion of long-term borrowings (Note 12)	(616)	-	(616)
Long-term liabilities of discontinued operation:	(38,387)	1,951	(36,436)
Other long-term liabilities[(1)]	(8,291)	-	(8,291)
Deferred tax liabilities	(30,096)	1,951	(28,145)
Fair value of assets and liabilities on acquisition	$205,885	$-	$205,885
Less: fair value attributable to controlling interests on acquisition date			(94,123)
Less: fair value of equity-accounted investment, comprising:			(100,947)
Add: loss on re-measurement of previously held interest			4,614
Less: Contingent payment recognized related to 49% interest acquired			(25,589)
Less: carrying value at the acquisition date (Note 9)			(79,972)
Less: Contingent payment recognized related to 6% interest acquired			(1,633)
Total purchase price			$9,182

(1) – DNI concluded an acquisition in November 2017 and other long-term liabilities includes a contingent purchase consideration of ZAR 113.8 million ($8.3 million) due to the sellers and other long-term assets includes an amount due from the DNI shareholders, excluding the Company. DNI is obligated under the terms of this obligation to pay 50% of the purchase consideration plus or (less) a contingent amount (refund) calculated on a multiple of excess (deficit) earnings over (less) an agreed earnings amount. The other DNI shareholders have agreed to reimburse DNI the 50% consideration plus (less) the contingent amount (refund) payable in full. Therefore, other long-term asset includes the amounts due from the DNI shareholder, excluding the Company, and other long-term liabilities includes the contingent consideration due under the November 2017 acquisition. The Company expects DNI to pay, and to be reimbursed, the additional amount during the first quarter of the year ended June 30, 2020, which amount represents the present value of the ZAR 129.0 million ($9.4 million) to be paid (amounts translated at exchange rates applicable as of June 30, 2018). The present value of ZAR 113.8 million ($8.3 million) was calculated using the following assumptions (a) the maximum additional amount of ZAR 129.0 million will be paid on August 1, 2019 and (b) an interest rate of 10.0 % (the rate used to calculate interest earned by DNI on its surplus South African funds) has been used to discount the ZAR 129.0 million to its present value as of June 30, 2018. Utilization of different inputs, or changes to these inputs, may result in significantly higher or lower fair value measurement.

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

3. ACQUISITIONS AND DISPOSITIONS (continued)

2018 acquisition (continued)

DNI acquisition (continued)

DNI purchase price allocation (continued)

The Company recorded intangible asset amortization, deferred taxes and non-controlling interest entries related to these customer relationships that should have been included in goodwill during the six months ended December 31, 2018. The Company reversed these entries during the nine months ended March 31, 2019. The table below presents the impact of the reversal of these entries on the Company's audited consolidated statement of operations for the year ended June 30, 2019 and the caption in which the impact is included:

	Year ended June 30, 2019
Reversal of intangible asset amortization - decrease depreciation and amortization	$506
Deferred tax impact related to reversal of intangible asset amortization - decrease income tax benefit	142
Increase in non-controlling interest	$164

Pro forma results related to acquisition

Pro forma results of operations have not been presented because the effect of the DNI acquisition was not material to the Company. During the year ended June 30, 2018, the Company incurred acquisition-related expenditure of $0.5 million related to this acquisition, which has been included in selling, general and administration expenses in the consolidated statement of operations. The DNI acquisition closed on the last day of the Company's fiscal year and therefore it has not contributed to revenue and net income as a subsidiary for the year ended June 30, 2018. Refer to Note 9 for DNI's contribution to net income under the equity method.

2018 Fair value of intangible assets acquired

Summarized below is the fair value of the DNI intangible assets acquired and the weighted-average amortization period:

	Fair value as of acquisition date	Weighted-average amortization period (in years)
Finite-lived intangible asset:		
Acquired during the year ended June 30, 2018		
DNI – customer relationships acquired	$97,255	5.00 – 15.00
DNI – software and unpatented technology	2,609	5.00
DNI – trademarks	$4,139	5.00

On acquisition, the Company recognized deferred tax liabilities of approximately $29.1 million related to the acquisition of intangible assets during the year ended June 30, 2018.

2019 intangible asset impairment loss

The Company identified and recognized certain customer relationships as part of its acquisition of DNI, which included relationships related to an agreement with Cell C under which DNI shared in revenues earned by Cell C from other mobile telecommunications networks renting ("tenant rentals") certain Cell C infrastructure that was constructed utilizing funding provided by DNI. Cell C expected to utilize the funding provided by DNI to construct 1,000 towers. Cell C recently entered into a roaming arrangement with another South African mobile telecommunications network provider which will extend its network coverage. Cell C utilized funding from DNI to construct approximately 22% of the towers that it had originally estimated to complete, however, the conclusion of the roaming arrangement has resulted in Cell C halting the construction of further network infrastructure.

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

3. ACQUISITIONS AND DISPOSITIONS (continued)

2018 acquisition (continued)

DNI acquisition (continued)

2019 intangible asset impairment loss (continued)

The Company expects DNI to earn fewer tenant rentals than initially planned due to the lower number of towers constructed. During the third quarter of fiscal 2019, the Company updated the discounted cash flow model used to calculate the fair value of the customer relationships acquired on acquisition of DNI to assess the impact of the lower number of towers on its projected cash flows from the tenant rentals customer relationship. The lower number of towers has significantly reduced the projected cash flows earned from tenant rentals which resulted in a lower fair value attributed to the customer relationship. The Company compared the updated fair value of the customer relationship to the carrying amount and determined that the customer relationship is impaired. The Company recorded an impairment loss of $5.3 million in the impairment loss caption on its consolidated statement of operations for the year ended June 30, 2019. The customer relationship was not allocated to an operating segment and the impairment loss is included in corporate/eliminations. The economics of the tenant rentals arrangement between DNI and Cell C was excluded from the performance targets agreed between DNI and the Company because the arrangement was outside of DNI's core business.

2017 acquisitions

Ceevo FS

In November 2016, the Company acquired a 100% interest in Ceevo FS, a licensed Malta Financial Services Authority-supervised electronic money institution, for approximately €3.6 million ($3.9 million translated at the foreign exchange rates applicable on the date of acquisition). Ceevo FS' license was passported across all member states of the European Union which allows Ceevo FS to operate in these territories.

Pros Software

In October 2016, the Company acquired a 100% interest in Pros Software, a software development and consulting services company based near Johannesburg, South Africa, for ZAR 25.0 million ($1.8 million, translated at the foreign exchange rates applicable on the date of acquisition). Pros Software performs software development and consulting services for a number of clients, including for the Company, and has a specialty practice in business intelligence.

The final purchase price allocation of the acquisitions is provided in the table below:

	Ceevo FS	Pros Software	Total
Cash and cash equivalents	$999	$110	$1,109
Accounts receivable	983	165	1,148
Property, plant and equipment	30	9	39
Intangible assets (Note 10)	1,078	2,311	3,389
Goodwill (Note 10)	2,475	-	2,475
Accounts payables and other payables	(1,570)	(58)	(1,628)
Income taxes payable	-	(69)	(69)
Deferred tax liabilities	(56)	(647)	(703)
Total purchase price	$3,939	$1,821	$5,760

Pro forma results of operations have not been presented because the effect of the Ceevo FS and Pros Software acquisitions, individually and in the aggregate, were not material to the Company. During the year ended June 30, 2017, the Company incurred acquisition-related expenditure of $0.5 million related to the Ceevo FS and Pros Software acquisitions. Since the closing of the Ceevo FS acquisition on November 1, 2016, it has contributed revenue and a net loss after acquired intangible asset amortization, net of taxation, of $0.2 million and $0.7 million, respectively, for the year ended June 30, 2017. Since the closing of the Pros Software acquisition on October 1, 2016, it has contributed revenue and a net loss after acquired intangible asset amortization, net of taxation, of $0.5 million and $1.8 million, respectively, for the year ended June 30, 2017.

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

4. PRE-FUNDED SOCIAL WELFARE GRANTS RECEIVABLE

Pre-funded social welfare grants receivable represents primarily amounts pre-funded by the Company to certain merchants participating in the merchant acquiring system. The Company's contract with the South African Social Security Agency expired on September 30, 2018, and therefore the Company no longer pre-funds social welfare grants. The July 2018 payment service commenced on July 1, 2018 but the Company pre-funded certain merchants participating in the merchant acquiring systems on the last day of June 2018.

5. ACCOUNTS RECEIVABLE, net AND OTHER RECEIVABLES and FINANCE LOANS RECEIVABLE, net

Accounts receivable, net and other receivables

	2019	2018
Accounts receivable, trade, net	$25,136	$40,268
Accounts receivable, trade, gross	26,377	41,369
Allowance for doubtful accounts receivable, end of year	1,241	1,101
Beginning of year	1,101	1,255
Reversed to statement of operations	(24)	(47)
Charged to statement of operations	3,296	642
Utilized	(3,059)	(776)
Deconsolidation	(38)	-
Foreign currency adjustment	(35)	27
Current portion of payments to agents in South Korea amortized over the contract period	15,543	21,971
Payments to agents in South Korea amortized over the contract period	25,107	39,553
Less: Payments to agents in South Korea amortized over the contract period included in other long-term assets (Note 9)	9,564	17,582
Loans provided to Finbond	-	1,107
Loan provided to OneFi (Note 9)	3,000	-
Loan provided to DNI (Note 3)	4,260	-
Other receivables	24,555	30,102
Total accounts receivable, net and other receivables	$72,494	$93,448

Accounts receivable, trade, gross includes amounts due from customers from the provision of transaction processing services, from the sale of hardware, software licenses and SIM cards and rentals from POS equipment. The Company did not record any bad debt expense during the year ended June 30, 2019, and bad debts incurred were written off against the allowance for doubtful accounts receivable. During the year ended June 30, 2018 and 2017, the Company recorded bad debt expense of $0.1 million and $0.1 million, respectively. The loan provided to Finbond was repaid in full in June 2019. The loan provided to DNI was repaid in full in July 2019. Other receivables include prepayments, deposits and other receivables.

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

5. ACCOUNTS RECEIVABLE, net and FINANCE LOANS RECEIVABLE, net (continued)

Finance loans receivable, net

The Company's finance loans receivable, net, as of June 30, 2019 and 2018, is presented in the table below:

	2019	2018
Microlending finance loans receivable, net	$20,981	$57,504
Microlending finance loans receivable, gross	24,180	61,743
Allowance for doubtful microlending finance loans receivable, end of year	3,199	4,239
Beginning of year	4,239	3,717
Charged to statement of operations	28,802	4,348
Utilized	(29,721)	(3,588)
Foreign currency adjustment	(121)	(238)
Working capital finance receivable, net	9,650	3,959
Working capital finance receivable, gross	15,742	16,123
Allowance for doubtful working capital finance receivable, end of year	6,092	12,164
Beginning of year	12,164	3,752
Charged to statement of operations	712	8,415
Utilized	(6,777)	-
Foreign currency adjustment	(7)	(3)
Total finance loans receivable, net	$30,631	$61,463

Total finance loans receivable, net, comprises microlending finance loans receivable related to the Company's microlending operations in South Africa, its working capital finance receivable related to its working capital financing offering in Korea, net of an allowance for doubtful finance receivables for certain amounts that the Company's management has identified may be unrecoverable. During the year ended June 30, 2019, the Company recorded an increase in its allowance for doubtful microlending finance loans receivable of approximately $28.8 million. This high level of allowance related to the non-funding of accounts for a portion of the EPE customer base as a result of the auto-migration of the customer base to the South Africa Post Office account offering during the three months ended December 31, 2018. During the year ended June 30, 2019, the Company utilized $29.7 million of this allowance for doubtful microlending finance loans receivable.

During the year ended June 30, 2018, the Company exited its working capital finance businesses in Europe and the United States. The Company did not expense any unrecoverable microlending finance loans receivable during the year ended June 30, 2018, 2017 or 2016, respectively, because these loans were written off directly against the allowance for doubtful microlending finance loans receivable. The Company created an allowance for doubtful working capital finance receivables related to receivables due from customers based in the United States during the year ended June 30, 2018, and utilized approximately $6.8 million of this allowance during the year ended June 30, 2019.

6. INVENTORY

The Company's inventory as of June 30, 2019 and 2018, is presented in the table below:

	2019	2018
Finished goods	$7,535	$10,361
	$7,535	$10,361

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of financial instruments

Initial recognition and measurement

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

Risk management

The Company manages its exposure to currency exchange, translation, interest rate, customer concentration, credit and equity price and liquidity risks as discussed below.

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 U.S. 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 U.S. dollar and the euro, on the other hand.

Translation risk

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

Interest rate risk

As a result of its normal borrowing and lending 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 investments in cash equivalents and held to maturity investments and has occasionally invested in marketable securities.

Credit risk

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

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

Microlending credit risk

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

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments (continued)

Risk management (continued)

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

Equity liquidity risk

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

Financial instruments

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

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

These levels are:

- Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

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

Asset measured at fair value using significant unobservable inputs – investment in Cell C

The Company's Level 3 asset represents an investment of 75,000,000 class "A" shares in Cell C, a significant mobile telecoms provider in South Africa. The Company used a discounted cash flow model developed by the Company to determine the fair value of its investment in Cell C as of June 30, 2019, and valued Cell C at $0.0 (zero) at June 30, 2019. The Company changed its valuation methodology from a Company developed adjusted EV/ EBITDA model to a discounted cash flow approach due to anticipated changes in Cell C's business model and the current challenges faced by the business, which would not have been captured by the previous valuation approach. The Company believes the Cell C business plan is reasonable based on the current performance and the expected changes in the business model.

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

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments (continued)

Asset measured at fair value using significant unobservable inputs – investment in Cell C (continued)

The Company utilized the latest business plan provided by Cell C management for the period ending December 31, 2024, and following key valuation inputs were used:

Weighted Average Cost of Capital:	Between 15% and 20% over the period of the forecast
Long term growth rate:	4.5%
Marketability discount:	10.0%
Minority discount:	15.0%
Net adjusted external debt[(1)]:	ZAR 13.9 billion ($648.9 million), includes R6.4 billion of leases liabilities
Deferred tax (incl. assessed tax losses [(1)]):	ZAR 2.9 billion ($20.6 million)

(1) translated from ZAR to U.S. dollars at exchange rates applicable as of June 30, 2019.

The primary inputs to the valuation model as of June 30, 2018, were Cell C's annualized adjusted EBITDA for the 11 months ended June 30, 2018, of ZAR 3.9 billion ($284.8 million, translated at exchange rates applicable as of June 30, 2018), an EBITDA multiple of 6.75, Cell C's net external debt of ZAR 8.8 billion ($641.1 million, translated at exchange rates applicable as of June 30, 2018) and a marketability discount of 10%. The EBITDA multiple was determined based on an analysis of Cell C's peer group, which comprises eight African and emerging market mobile telecommunications operators.

The fair value of Cell C utilizing the adjusted EV/EBITDA valuation model developed by the Company is sensitive to the following inputs: (i) the Company's determination of adjusted EBITDA; (ii) the EBITDA multiple used; and (iii) the marketability discount used. Utilization of different inputs, or changes to these inputs, may result in significantly higher or lower fair value measurement.

The fair value of Cell C as of June 30, 2019, utilizing the discounted cash flow valuation model developed by the Company is sensitive to the following inputs: (i) the ability of Cell C to achieve the forecasts in their business case; (ii) the weighted average cost of capital ("WACC") rate used; and (iii) the minority and marketability discount used. Utilization of different inputs, or changes to these inputs, may result in a significantly higher or lower fair value measurement.

The following table presents the impact on the carrying value of the Company's Cell C investment of a 1% increase and 1% decrease in the WACC rate and the EBITDA margins used in the Cell C valuation on the June 30, 2019, all amounts translated at exchange rates applicable as of June 30, 2019:

Sensitivity for fair value of Cell C investment	1% increase	1% decrease
WACC rate	$-	$9,632
EBITDA margin	$9,875	$-

The fair value of the Cell C shares as of June 30, 2019, represented approximately 0% of the Company's total assets, including these shares. The Company expects to hold these shares for an extended period of time and that there will be short-term equity price volatility with respect to these shares particularly given the current situation of Cell C's business.

Liability measured at fair value using significant unobservable inputs – DNI contingent consideration

The salient terms of the Company's investment in DNI is described in Note 3. Under the terms of its subscription agreements with DNI, the Company agreed to pay to DNI an additional amount of up to ZAR 400.0 million ($27.6 million, translated at exchange rates applicable as of June 30, 2019), in cash, subject to the achievement of certain performance targets by DNI. The Company expected to pay the additional amount during the first quarter of the year ended June 30, 2020, and recorded an amount of ZAR 373.6 million ($27.2 million), in long-term liabilities as of June 30, 2018, which amount represented the present value of the ZAR 400.0 million to be paid (amounts translated at the exchange rate applicable as of June 30, 2018, respectively). As described in Note 3 and Note 20, the Company settled the ZAR 400 million ($27.6 million) due to DNI as of March 31, 2019. The Company recorded accreted interest during year ended June 30, 2019, of $1.8 million (ZAR 26.4 million, translated at the applicable average exchange rates during the periods specified).

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

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments (continued)

Derivative transactions - Foreign exchange contracts

As part of the Company's risk management strategy, the Company enters into derivative transactions to mitigate exposures to foreign currencies using foreign exchange contracts. These foreign exchange contracts are over-the-counter derivative transactions. Substantially all of the Company's derivative exposures are with counterparties that have long-term credit ratings of "B" (or equivalent) or better. The Company uses quoted prices in active markets for similar assets and liabilities to determine fair value (Level 2). The Company has no derivatives that require fair value measurement under Level 1 or 3 of the fair value hierarchy. The Company had no outstanding foreign exchange contracts as of June 30, 2019 and 2018.

The following table presents the Company's assets measured at fair value on a recurring basis as of June 30, 2019, 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				
Investment in Cell C	$-	$-	$-	$-
Related to insurance business:				
Cash and cash equivalents (included in other long-term assets)	619	-	-	619
Fixed maturity investments (included in cash and cash equivalents)	5,201	-	-	5,201
Other	-	413	-	413
Total assets at fair value	$5,820	$413	$-	$6,233

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2018, 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				
Investment in Cell C	$-	$-	$172,948	$172,948
Related to insurance business:				
Cash and cash equivalents (included in other long-term assets)	610	-	-	610
Fixed maturity investments (included in cash and cash equivalents)	8,304	-	-	8,304
Other	-	18	-	18
Total assets at fair value	$8,914	$18	$172,948	$181,880
Liabilities				
DNI contingent consideration (Note 3)	$-	$-	$27,222	$27,222
Total liabilities at fair value	$-	$-	$27,222	$27,222

There have been no transfers into or out of Level 3 during the years ended June 30, 2019, 2018 and 2017.

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

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Summarized below is the movement in the carrying value of assets and liabilities measured at fair value on a recurring basis, and categorized within Level 3, during the year ended June 30, 2019:

	Carrying value
Assets	
Balance as at June 30, 2018	$172,948
Loss on fair value re-measurements	(167,459)
Foreign currency adjustment[(1)]	(5,489)
Balance as of June 30, 2019	$-
Liabilities	
Balance as at June 30, 2018	$27,222
Accretion of interest	1,848
Settlement of contingent consideration (Note 3 and Note 20)	(27,626)
Foreign currency adjustment[(1)]	(1,444)
Balance as of June 30, 2019	$-

(1) The foreign currency adjustment represents the effects of the fluctuations of the South African rand and the U.S. dollar on the carrying value.

Summarized below is the movement in the carrying value of assets measured at fair value on a recurring basis, and categorized within Level 3, during the year ended June 30, 2018:

	Carrying value
Assets	
Acquisition of investment in Cell C	$151,003
Change in fair value of Cell C	32,473
Foreign currency adjustment	(10,528)
Balance as of June 30, 2018	$172,948

Trade, finance loans and other receivables

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

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 equity investments without readily determinable fair values at fair value on a nonrecurring basis. The fair values of these investments are determined based on valuation techniques 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 asset 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. The Company has no liabilities that are measured at fair value on a nonrecurring basis.

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

8. PROPERTY, PLANT AND EQUIPMENT, net

Summarized below is the cost, accumulated depreciation and carrying amount of property, plant and equipment as of June 30, 2019 and 2018:

	2019	2018
Cost:		
Land	$849	$880
Building and structures	419	483
Computer equipment	109,217	124,160
Furniture and office equipment	9,788	8,886
Motor vehicles	16,147	17,354
	136,420	151,763
Accumulated depreciation:		
Land	-	-
Building and structures	158	193
Computer equipment	94,988	103,297
Furniture and office equipment	7,738	6,933
Motor vehicles	14,982	15,603
	117,866	126,026
Carrying amount:		
Land	849	880
Building and structures	261	290
Computer equipment	14,229	20,863
Furniture and office equipment	2,050	1,953
Motor vehicles	1,165	1,751
	$18,554	$25,737

9. EQUITY-ACCOUNTED INVESTMENTS AND OTHER LONG-TERM ASSETS

Equity-accounted investments

The Company's ownership percentage in its equity-accounted investments as of June 30, 2019 and 2018, was as follows:

	2019	2018
Bank Frick	35%	35%
DNI	30%	n/a
Finbond	29%	29%
OneFi Limited ("OneFi")	25%	25%
SmartSwitch Namibia (Pty) Ltd ("SmartSwitch Namibia")	50%	50%
V2 Limited ("V2")	50%	n/a
Walletdoc Proprietary Limited ("Walletdoc")	20%	20%

Bank Frick

Bank Frick provides a complete suite of banking services, with one of its key strategic pillars being the provision of payment services and funding of financial technology opportunities. Bank Frick holds acquiring licenses from both Visa and MasterCard and operates a branch in London.

On October 2, 2017, the Company acquired a 30% interest in Bank Frick, a fully licensed bank based in Balzers, Liechtenstein, from the Kuno Frick Family Foundation ("Frick Foundation") for approximately CHF 39.8 million ($40.9 million) in cash. On February 9, 2018, the Company purchased an additional 5% in Bank Frick from the Frick Foundation for CHF 10.4 million ($11.1 million) and the Frick Foundation contributed approximately CHF 3.8 million ($4.1 million) to Bank Frick to facilitate the development of Bank Frick's Fintech and blockchain businesses. The Company had an option, exercisable until October 2, 2019, to acquire an additional 35% interest in Bank Frick.

9. EQUITY-ACCOUNTED INVESTMENTS AND OTHER LONG-TERM ASSETS (continued)

Equity-accounted investments (continued)

Bank Frick (continued)

On October 2, 2019, the Company exercised the option to acquire an additional 35% interest in Bank Frick from the Frick Foundation. The Company will pay an amount, the "Option Price Consideration", for the additional 35% interest in Bank Frick, which represents the higher of CHF 46.4 million ($46.5 million at exchange rates on October 2, 2019) or 35% of 15 times the average annual normalized net income of the Bank over the two years ended December 31, 2018. The shares will only transfer on payment of the Option Price Consideration, which shall occur on the later of (i) 180 days after the date of exercise of the option; (ii) in the event of any regulatory approvals being required, 10 days after receipt of approval (either unconditionally or on terms acceptable to both parties); and (iii) 10 days after the date on which the Option Price Consideration is agreed or finally determined.

DNI

The Company's investment in DNI is described in Note 3. On July 27, 2017, the Company acquired a 45% voting and economic interest in DNI and on March 9, 2018, it increased this interest to 49%. The Company obtained control of DNI on June 30, 2018, and ceased accounting for DNI using the equity method from that date. DNI owned 50% of the issued and outstanding ordinary shares in Speckpack and it has been accounted for separately as an equity method investment from June 30, 2018.

The Company recognized a non-cash re-measurement loss of approximately $4.6 million during the year ended June 30, 2018, related to the re-measurement of its previously held interest in DNI, at 49%, upon acquisition on June 30, 2018 (refer to Note 3). The re-measurement loss is included in selling, general and administration expenses in the consolidated statement of operations for the year ended June 30, 2018.

The Company consolidated DNI up until March 31, 2019, as disclosed in Note 3. The Company retained a 38% interest in DNI following the deconsolidation and used the equity method to account for its interest in DNI because it has the ability to exert significant influence over the operations of DNI through its shareholding and board representation. The Company disposed of an 8% interest in DNI on May 3, 2019, leaving it with a 30% interest as of June 30, 2019.

Finbond

As of June 30, 2019, the Company owned 267,672,032 shares in Finbond representing approximately 29.0% of its issued and outstanding ordinary shares. Finbond is listed on the Johannesburg Stock Exchange and its closing price on June 28, 2019, the last trading day of the month, was ZAR 4.00 per share. The market value of the Company's holding in Finbond on June 28, 2019, was ZAR 1.1 billion ($76.0 million translated at exchange rates applicable as of June 30, 2019). On July 13, 2017, the Company acquired an additional 3.6 million shares in Finbond for approximately ZAR 11.2 million ($0.8 million). On July 11, 2018, the Company, pursuant to its election, received an additional 6,602,551 shares in Finbond as a capitalization share issue in lieu of a dividend. On July 17, 2017, the Company, pursuant to its election, received an additional 4,361,532 shares in Finbond as a capitalization share issue in lieu of a dividend. On August 2, 2019, the Company, pursuant to its election, received an additional 1,148,901 shares in Finbond as a capitalization share issue in lieu of a dividend.

On October 7, 2016, the Company provided a loan of ZAR 139.2 million ($10.0 million, translated at the foreign exchange rates applicable on the date of the loan) to Finbond in order to partially finance Finbond's expansion strategy in the United States. Interest on the loan was payable quarterly in arrears and was based on the London Interbank Offered Rate ("LIBOR") in effect from time to time plus a margin of 12.00%. The loan was included in accounts receivable, net, as of June 30, 2017, on the Company's consolidated balance sheet. The loan was initially set to mature at the earlier of Finbond concluding a rights offer or February 28, 2017, but the agreement was subsequently amended to extend the repayment date to on or before February 28, 2018, or such later date as may be mutually agreed by the parties in writing. The Company had the right to elect for the loan to be repaid in either Finbond ordinary shares, including through a rights offering, (in accordance with an agreed mechanism) or in cash. The Company was required to make a repayment election within 180 days after the repayment date otherwise the repayment election would automatically default to repayment in ordinary shares. Finbond undertook to perform all necessary steps reasonably required to effect the issuance of shares to settle the repayment of the loan if that option was elected by the Company.

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

9. EQUITY-ACCOUNTED INVESTMENTS AND OTHER LONG-TERM ASSETS (continued)

Equity-accounted investments (continued)

Finbond (continued)

In March 2018, the parties amended the agreement to extend the repayment date from February 28, 2018 to August 31, 2018, and to finalize certain matters related to the rights offering mechanism and determining the maximum number of shares that Finbond would issue to parties participating in a rights offering. On March 23, 2018, Finbond publicly announced that it had commenced a rights offering process and that the proceeds of the offering would be used to settle certain loans, including the loan due to the Company. The Company agreed to underwrite the Finbond rights offer up to an amount of 55,585,514 shares. The rights offering closed on April 20, 2018, and Finbond issued 55,585,514 shares to the Company.

As a result of Finbond's listing on the Johannesburg Stock Exchange it reports its six-month results during the Company's first quarter and its annual results during the Company's fourth quarter and the Company includes the impact of Finbond's results in its consolidated financial statements during those quarters.

OneFi

The Company provided a credit facility of up to $10 million in the form of convertible debt to OneFi, of which $3 million was drawn. Interest at 8% per annum is charged on the $3.0 million drawn. Repayment of the notes is due at the earlier of June 11, 2020, or the Company selling its interest in OneFi. The Company included the $3.0 million due in accounts receivable, net and other receivables as of June 30, 2019. The notes may also be converted to ordinary shares subject to the occurrence of certain contractually agreed events. The undrawn portion of the credit facility expired and the Company has no further obligations in this regard.

V2 Limited

On October 4, 2018, the Company acquired a 50% voting and economic interest in V2 Limited ("V2") for $2.5 million. The Company has committed to provide V2 with a further equity contribution of $2.5 million and a working capital facility of $5.0 million, which are both subject to the achievement of certain pre-defined objectives.

Summarized below is the movement in equity-accounted investments during the years ended June 30, 2019 and 2018, which includes the investment in equity and the investment in loans provided to equity-accounted investees:

	DNI[1]	Bank Frick	Finbond	Other[2]	Total
Investment in equity:					
Balance as of July 1, 2017 – as reported	$-	$-	$18,961	$6,742	$25,703
Correction of Finbond error (Note 1)			(1,927)		(1,927)
Balance as of July 1, 2017 – as restated	**-**	**-**	**17,034**	**6,742**	**23,776**
Acquisition of shares	79,541	51,949	13,043	-	144,533
Stock-based compensation	-	-	(139)	-	(139)
Comprehensive income (loss):	7,005	(606)	2,768	4	9,171
Other comprehensive loss	-	-	(2,426)	-	(2,426)
Equity accounted earnings (loss)	7,005	(606)	5,194	4	11,597
Share of net income (loss)	9,510	201	5,450	4	15,165
Amortization - acquired intangible assets	(3,480)	(531)	-	-	(4,011)
Deferred taxes - acquired intangible assets	975	128	-	-	1,103
Dilution resulting from corporate transactions	-	-	(256)	-	(256)
Other	-	(404)	-	-	(404)
Dividends received	(1,765)	(1,946)	(1,096)	(400)	(5,207)
Carrying value at the acquisition date (Note 3)	(79,972)	-	-	339	(79,633)
Foreign currency adjustment[3]	(4,809)	(1,268)	(2,628)	(593)	(9,298)
Balance as of June 30, 2018	**$-**	**$48,129**	**$28,982**	**$6,092**	**$83,203**

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

9. EQUITY-ACCOUNTED INVESTMENTS AND OTHER LONG-TERM ASSETS (continued)

Equity-accounted investments (continued)

	DNI[1]	Bank Frick	Finbond	Other[2]	Total
Balance as of June 30, 2018	**$-**	**$48,129**	**$28,982**	**$6,092**	**$83,203**
Re-measurement of 8% of DNI (Note 3)	14,849	-	-	-	14,849
Re-measurement of 30% of DNI (Note 3)	59,346	-	-	-	59,346
Acquisition of shares	-	-	1,920	2,989	4,909
Stock-based compensation	-	-	117	-	117
Comprehensive income (loss):	865	(1,542)	7,079	(669)	5,733
Other comprehensive income	-	-	4,251	-	4,251
Equity accounted earnings (loss)	865	(1,542)	2,828	(669)	1,482
Share of net income (loss)	1,380	1,109	2,524	(669)	4,344
Amortization - acquired intangible assets	(715)	(747)	-	-	(1,462)
Deferred taxes - acquired intangible assets	200	180	-	-	380
Accretion resulting from corporate transactions	-	-	304	-	304
Other	-	(2,084)	-	-	(2,084)
Dividends received	(864)	-	(1,920)	(454)	(3,238)
Return on investment	-	-	-	(284)	(284)
Deconsolidation of DNI (Note 3)	-	-	-	(242)	(242)
Sale of 8% interest in DNI (Note 3)	(14,996)	-	-	-	(14,996)
Foreign currency adjustment[3]	1,830	653	(878)	(34)	1,571
Balance as of June 30, 2019	**$61,030**	**$47,240**	**$35,300**	**$7,398**	**$150,968**
Investment in loans:					
Balance as of July 1, 2017	**$-**	**$-**	**$-**	**$2,159**	**$2,159**
Loans granted	-	-	-	1,000	1,000
Transfer from accounts receivable, net and other receivables	-	-	11,235	-	11,235
Transfer to investment in equity	-	-	(11,102)	-	(11,102)
Foreign currency adjustment[3]	-	-	(133)	(7)	(140)
Balance as of June 30, 2018	**-**	**-**	**-**	**3,152**	**3,152**
Transfer to accounts receivable, net and other receivables	-	-	-	(3,000)	(3,000)
Foreign currency adjustment[3]	-	-	-	(4)	(4)
Balance as of June 30, 2019	**$-**	**$-**	**$-**	**$148**	**$148**

	Equity	Loans	Total
Carrying amount as of:			
June 30, 2018	$83,203	$3,152	
Continuing	$82,864	$3,152	$86,016
Discontinued (Note 3)	$339	$-	$339
June 30, 2019	$150,968	$148	$151,116

(1) DNI was included as an equity-accounted investment from August 1, 2017 until June 30, 2018, the date upon which the Company obtained control and commenced consolidation of DNI, and then again from March 31, 2019;
(2) Includes OneFi, SmartSwitch Namibia, V2 and Walletdoc;
(3) The foreign currency adjustment represents the effects of the fluctuations of the South African rand, Nigerian naira and Namibian dollar, against the U.S. dollar on the carrying value.

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

9. EQUITY-ACCOUNTED INVESTMENTS AND OTHER LONG-TERM ASSETS (continued)

Summary financial information of equity-accounted investments

Summarized below is the financial information of equity-accounted investments (during the Company's reporting periods in which investments were carried using the equity-method, unless otherwise noted) as of the stated reporting period of the investee and translated at the applicable closing or average foreign exchange rates (as applicable):

	DNI	Bank Frick	Finbond	Other(1)
Balance sheet, as of	June 30	June 30	February 28(2)	Various(3)
Current assets(4)				
2019	$35,608	n/a	n/a	$17,781
2018	n/a	n/a	n/a	11,433
Long-term assets				
2019	39,851	$1,013,677	$240,792	2,304
2018	n/a	1,418,160	252,265	1,343
Current liabilities(4)				
2019	25,757	n/a	n/a	8,492
2018	n/a	n/a	n/a	3,295
Long-term liabilities				
2019	7,324	915,050	125,704	4,654
2018	n/a	1,323,470	175,539	3,930
Redeemable stock				
2019	-	-	-	-
2018	n/a	-	-	-
Non-controlling interests				
2019	1,100	-	11,696	25
2018	n/a	-	10,948	-
Statement of operations, for the period ended	June 30(5)	June 30(6)	February 28(2)	Various(7)
Revenue				
2019	15,898	41,126	174,177	33,807
2018	n/a	33,814	161,915	10,955
2017	n/a	n/a	97,431	7,168
Operating income (loss)				
2019	5,814	3,633	21,592	(753)
2018	n/a	776	33,989	826
2017	n/a	n/a	19,551	276
Income (loss) from continuing operations				
2019	4,306	3,169	10,152	(915)
2018	n/a	617	18,651	152
2017	n/a	n/a	9,700	3
Net income (loss)				
2019	$4,481	3,169	10,152	(1,029)
2018	n/a	$617	18,651	152
2017	n/a	n/a	$9,700	$3

(1) Includes OneFi, SmartSwitch Namibia, Walletdoc and V2, as appropriate;
(2) Finbond balances included were derived from its publically available information. The amounts as of February 28, 2018 and for the years ended February 28, 2018 and 2017, respectively, have been restated for the error described in Note 1;
(3) Balance sheet information for OneFi, SmartSwitch Namibia and V2 is as of June 30, 2019 and 2018, and Walletdoc as of February 28, 2019 and 2018, respectively.
(4) Bank Frick and Finbond are banks and do not present current and long-term assets and liabilities. All assets and liabilities of these two entities are included under the long-term caption.
(5) Statement of operations information for DNI is for the period from April 1, 2019 to June 30, 2019.
(6) Statement of operations information for 2018 for Bank Frick is for the period from October 1, 2017 to June 30, 2018.
(7) Statement of operations information for OneFi, SmartSwitch Namibia and V2 for the year ended June 30, and Walletdoc for the year ended February 28.

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

9. EQUITY-ACCOUNTED INVESTMENTS AND OTHER LONG-TERM ASSETS (continued)

Other long-term assets

Summarized below is the breakdown of other long-term assets as of June 30, 2019, and June 30, 2018:

	June 30, 2019	June 30, 2018
Total equity investments	$26,993	$199,865
Investment in 15% of Cell C, at fair value (Note 7)	-	172,948
Investment in MobiKwik[(1)]	26,993	26,917
Total held to maturity investments	-	10,395
Investment in 7.625% of Cedar Cellular Investment 1 (RF) (Pty) Ltd 8.625% notes	-	10,395
Long-term portion of payments to agents in South Korea amortized over the contract period	9,564	17,582
Policy holder assets under investment contracts (Note 11)	619	610
Reinsurance assets under insurance contracts (Note 11)	1,163	633
Other long-term assets	5,850	5,947
Total other long-term assets	$44,189	$235,032

(1) The Company has determined that MobiKwik does not have readily determinable fair value and has therefore elected to record this investment at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Company accounted for its investment in MobiKwik at cost as of June 30, 2018.

Cell C

On August 2, 2017, the Company, through its subsidiary, Net1SA, purchased 75,000,000 class “A” shares of Cell C for an aggregate purchase price of ZAR 2.0 billion ($151.0 million) in cash. The Company funded the transaction through a combination of cash and the facilities described in Note 12. Net1 SA has pledged, among other things, its entire equity interest in Cell C as security for the South African facilities described in Note 12 used to partially fund the acquisition of Cell C. The Company’s investment in Cell is carried at fair value. Refer to Note 7 for additional information regarding changes in the fair value of Cell C.

MobiKwik

The Company signed a subscription agreement with MobiKwik, which is one of India’s largest independent mobile payments networks, with over 80 million users and 2.5 million merchants. Pursuant to the subscription agreement, the Company agreed to make an equity investment of up to $40.0 million in MobiKwik over a 24 month period. The Company made an initial $15.0 million investment in August 2016 and a further $10.6 million investment in June 2017, under this subscription agreement. During the year ended June 30, 2019, the Company paid $1.1 million to subscribe for additional shares in MobiKwik. As of June 30, 2019 and 2018, respectively, the Company owned approximately 13% and 12% of MobiKwik’s issued share capital.

Cedar Cellular

In December 2017, the Company purchased, for cash, $9.0 million of notes, with a face value of $20.5 million, issued by Cedar Cellular Investment 1 (RF) (Pty) Ltd (“Cedar Cellular”), a Cell C shareholder, representing 7.625% of the issuance. The investment in the notes was made in connection with the Cell C investment discussed above. The notes are listed on The International Stock Exchange. The Company has elected to treat the investment in the notes as held to maturity securities. The investment in the notes is reviewed on a quarterly basis for indicators of other-than-temporary impairment. The notes bear interest semi-annually at 8.625% per annum on the face value and interest is payable in cash or deferred, at Cedar Cellular’s election, for payment on the maturity date. The notes mature on August 2, 2022. The notes are secured by all of Cedar Cellular’s investment in Cell C, namely, 59,000,000 class “A” shares.

The Company recognized interest income of $2.4 million and $1.4 million, related to the Cedar Cellular notes during the year ended June 30, 2019 and 2018, respectively. Interest on this investment will only be paid, at Cedar Cellular’s election, on maturity in August 2022.

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

9. EQUITY-ACCOUNTED INVESTMENTS AND OTHER LONG-TERM ASSETS (continued)

Other long-term assets (continued)

Cedar Cellular (continued)

The Company does not expect to recover the amortized cost basis of the Cedar Cellular notes due to a reduction in the amount of future cash flows expected to be collected from the debt security compared to previous expectations. The Company does not expect to generate any cash flows from the debt security at maturity in August 2022 or prior to the maturity date due to the current challenges facing the business and the uncertainties over the future value of the current equity in Cell C. Accordingly, the Company believes it is unlikely that Cedar Cellular will generate sufficient cash inflows to settle any outstanding accumulated interest and principal due to the note holders on maturity in August 2022.

The Company's cannot calculate an effective interest rate on the Cedar Cellular note because the carrying value is currently zero ($0.0 million) as of June 30, 2019. The Company therefore cannot calculate the present value of the expected cash flows to be collected from the debt security by discounting these cash flows at the interest rate implicit in the security upon acquisition (at a rate of 24.82%) because there are no future cash flows to discount. The present value of the expected cash flows of zero ($0.0 million) is less than the amortized cost basis recorded of $12.8 million (before the cumulative 2019 impairments for the year ended June 30, 2019). Accordingly, the Company recorded an other-than-temporary impairment related to a credit loss of $12.8 million during the year ended June 30, 2019. The impairment of $12.8 million is included in the caption—Impairment of Cedar Cellular note—in the consolidated statement of operations for the year ended June 30, 2019, respectively.

Summarized below are the components of the Company's equity securities without readily determinable fair value and held to maturity investments as of June 30, 2019:

	Cost basis	Unrealized holding gains	Unrealized holding losses	Carrying value
Equity securities:				
Investment in MobiKwik	$26,993	$-	$-	$26,993
Held to maturity:				
Investment in Cedar Cellular notes	-	-	-	-
Total..	$26,993	$-	$-	$26,993

Summarized below are the components of the Company's held to maturity investments as of June 30, 2018:

	Cost basis(1)	Unrealized holding gains(1)	Unrealized holding losses	Carrying value
Held to maturity:				
Investment in Cedar Cellular notes	$10,395	$-	$-	$10,395
Total..	$10,395	$-	$-	$10,395

(1) An amount of $1.4 million attributed to interest recognized under the Cedar Cellular note was incorrectly included in the unrealized holding gains column as of June 30, 2018, and has been reclassified to the cost basis column.

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

9. EQUITY-ACCOUNTED INVESTMENTS AND OTHER LONG-TERM ASSETS (continued)

Contractual maturities of held to maturity investments

Summarized below is the contractual maturity of the Company's held to maturity investment as of June 30, 2019:

	Cost basis	Estimated fair value(1)
Due in one year or less	$-	$-
Due in one year through five years(2)	-	-
Due in five years through ten years	-	-
Due after ten years	-	-
Total	$-	$-

(1) The estimated fair value of the Cedar Cellular note has been calculated utilizing the Company's portion of the security provided to the Company by Cedar Cellular, namely, Cedar Cellular's investment in Cell C.

(2) The cost basis is zero ($0.0 million).

10. GOODWILL AND INTANGIBLE ASSETS, net

Goodwill

Summarized below is the movement in the carrying value of goodwill for the years ended June 30, 2019, 2018 and 2017:

	Gross value	Accumulated impairment	Carrying value
Balance as of July 1, 2016	$179,478	$-	$179,478
Acquisition of Ceevo FS (Note 3)	2,475	-	2,475
Foreign currency adjustment(1)	6,880	-	6,880
Balance as of June 30, 2017	188,833	-	188,833
Impairment loss	-	(20,917)	(20,917)
Foreign currency adjustment(1)	1,019	144	1,163
Balance as of June 30, 2018	189,852	(20,773)	169,079
Impairment loss	-	(14,440)	(14,440)
Foreign currency adjustment(1)	(5,308)	56	(5,252)
Balance as of June 30, 2019	$184,544	$(35,157)	$149,387

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

Goodwill associated with the acquisition of Ceevo FS represents the excess of cost over the fair value of acquired net assets. The Ceevo FS 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. Ceevo FS was allocated to the Company's International transaction processing operating segment.

Impairment loss

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.

Year ended June 30, 2019

During the second quarter of fiscal 2019, the Company performed an impairment analysis and recognized an impairment loss of approximately $8.2 million, of which approximately $7.0 million related to goodwill allocated to its IPG business within its international transaction processing operating segment and $1.2 million related to goodwill within its South African transaction processing operating segment. Given the consolidation and restructuring of IPG over the period to December 31, 2018, several business lines were terminated or meaningfully reduced, resulting in lower than expected revenues, profits and cash flows. IPG's new business initiatives are still in their infancy, and it is expected to generate lower cash flows than initially forecast.

10. GOODWILL AND INTANGIBLE ASSETS, net (continued)

Goodwill (continued)

Impairment loss (continued)

Year ended June 30, 2019 (continued)

In order to determine the amount of the IPG goodwill impairment, the estimated fair value of the Company's IPG business assets and liabilities were compared to the carrying value of the IPG's assets and liabilities. The Company used a discounted cash flow model in order to determine the fair value of IPG. The allocation of the fair value of IPG required the Company to make a number of assumptions and estimates about the fair value of assets and liabilities where the fair values were not readily available or observable. Based on this analysis, the Company determined that the carrying value of IPG's assets and liabilities exceeded their fair value at the reporting date.

The Company also identified and recognized an impairment loss of $6.2 million related to goodwill allocated to its financial inclusion and applied technologies operating segment as a result of its June 30, 2019, annual impairment test. The June 2019 impairment loss resulted from on-going losses incurred in the latter half of the fiscal year that were greater than, and were incurred for a longer duration, than initially expected.

The estimated fair value of the business assets and liabilities were compared to the carrying value of the assets and liabilities of the reporting unit within the financial inclusion and applied technologies operating segment in order to determine the $6.2 million goodwill impairment. The Company used an EV/EBITDA multiple valuation model to determine the fair value of the reporting unit.

The allocation of the fair value of the reporting unit required the Company to make a number of assumptions and estimates about the fair value of assets and liabilities where the fair values were not readily available or observable. Based on this analysis, except for the impairments recognized, the Company determined that the carrying value of the reporting unit's assets and liabilities exceeded their fair value at the reporting date. In the event that there is deterioration in the Company's operating segments, or in any other of the Company's businesses, this may lead to additional impairments in future periods.

Year ended June 30, 2018

During the third quarter of fiscal 2018, the Company recognized an impairment loss of approximately $19.9 million related to goodwill allocated to the Masterpayment business within its international transaction processing operating segment as a result of changes to the operating model of Masterpayment. During the second quarter of fiscal 2018, the Company re-evaluated the operating performance and ongoing viability of Masterpayment's working capital financing and supply chain solutions offering and determined to exit this portion of its business. While the Company believed that it could scale this offering in the medium to long-term by focusing on customers and industries outside Masterpayment's initial target market, this standalone offering did not fit the Company's strategy of providing payment solutions and working capital to small and medium-sized merchants. In order to focus on the Company's stated international strategy, the Company decided to wind-down the traditional working capital finance book issued to non-payment solutions customers. During the third quarter of fiscal 2018, the Company evaluated Masterpayment's business strategy and following the wind-down referred to above, it determined that Masterpayment was unlikely to deliver the financial results or cash flows previously anticipated. The Company and two of Masterpayment's senior managers agreed, by mutual consent, that with effect from the end of March 2018, the managers terminated their employment with Masterpayment in order to dedicate themselves to new professional tasks. The Company also impaired goodwill of approximately $1.1 million during its June 2018 annual goodwill impairment assessment related to a business allocated to its South African transaction processing operating segment, which ceased trading during the year.

In order to determine the amount of goodwill impairment, the estimated fair value of the Company's Masterpayment business was allocated to the individual fair value of the assets and liabilities of Masterpayment as if it had been acquired in a business combination, which resulted in the implied fair value of the goodwill. The Company used a discounted cash flow model in order to determine the fair value of Masterpayment. The allocation of the fair value of Masterpayment required the Company to make a number of assumptions and estimates about the fair value of assets and liabilities where the fair values were not readily available or observable.

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

10. GOODWILL AND INTANGIBLE ASSETS, net (continued)

Goodwill (continued)

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

	South African transaction processing	International transaction processing	Financial inclusion and applied technologies	Carrying value
Balance as of July 1, 2016	$20,425	$136,185	$22,868	$179,478
Acquisition of Ceevo FS (Note 3)	-	2,475	-	2,475
Foreign currency adjustment(1)	2,706	1,910	2,264	6,880
Balance as of June 30, 2017	23,131	140,570	25,132	188,833
Impairment loss	(1,052)	(19,865)	-	(20,917)
Foreign currency adjustment(1)	(1,133)	3,243	(947)	1,163
Balance as of June 30, 2018	20,946	123,948	24,185	169,079
Impairment of goodwill	(1,180)	(7,011)	(6,249)	(14,440)
Foreign currency adjustment(1)	(558)	(4,209)	(485)	(5,252)
Balance as of June 30, 2019	$19,208	$112,728	$17,451	$149,387

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

Intangible assets, net

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:		
Acquired during the year ended June 30, 2017		
Pros Software – customer relationships	$2,311	0.75
Ceevo FS – customer relationships	186	0.65
Ceevo FS – software and unpatented technology	147	1.25
Indefinite-lived intangible asset:		
Acquired during the year ended June 30, 2017		
Ceevo FS – Financial institution license	$745	n/a

On acquisition, the Company recognized deferred tax liabilities of approximately $0.7 million related to the acquisition of intangible assets during the year ended June 30, 2017.

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. Except as discussed in Note 3, no intangible assets have been impaired during the years ended June 30, 2019, 2018 and 2017, respectively.

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

10. 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, 2019 and 2018:

	As of June 30, 2019			As of June 30, 2018		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Finite-lived intangible assets:						
Customer relationships	$96,653	$(86,285)	$10,368	$100,421	$(76,237)	$24,184
Software and unpatented technology	32,071	(31,829)	242	33,121	(32,342)	779
FTS patent	2,721	(2,721)	-	2,792	(2,792)	-
Exclusive licenses	-	-	-	4,506	(4,506)	-
Trademarks	6,772	(6,265)	507	6,962	(5,589)	1,373
Total finite-lived intangible assets	138,217	(127,100)	11,117	147,802	(121,466)	26,336
Indefinite-lived intangible assets:						
Financial institution license	772	-	772	793	-	793
Total indefinite-lived intangible assets	772	-	772	793	-	793
Total intangible assets	$138,989	$(127,100)	$11,889	$148,595	$(121,466)	$27,129

Amortization expense charged for the years to June 30, 2019, 2018 and 2017 was $22.1 million, $11.8 million, and $14.0 million, respectively.

Future estimated annual amortization expense for the next five fiscal years, assuming exchange rates prevailing on June 30, 2019, 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.

2020	$7,955
2021	2,803
2022	72
2023	71
2024	71
Thereafter	145
Total future estimated amortization expense	$11,117

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

11. 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, 2019 and 2018:

	Reinsurance assets(1)	Insurance contracts(2)
Balance as of July 1, 2017	$191	$(1,611)
Increase in policy holder benefits under insurance contracts	1,899	(9,714)
Claims and policyholders' benefits under insurance contracts	(1,449)	9,214
Foreign currency adjustment(3)	(8)	79
Balance as of June 30, 2018	633	(2,032)
Increase in policy holder benefits under insurance contracts	775	(8,137)
Claims and policyholders' benefits under insurance contracts	(228)	8,237
Foreign currency adjustment(3)	(17)	52
Balance as of June 30, 2019	$1,163	$(1,880)

(1) Included in other long-term assets (refer to Note 9);
(2) Included in other long-term liabilities;
(3) Represents the effects of the fluctuations of the ZAR against the U.S. dollar.

The Company has agreements with reinsurance companies in order to limit its losses from large insurance contracts, however, if the reinsurer is unable to meet its obligations, the Company retains the liability. The value of insurance contract liabilities is based on the best estimate 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 claim reporting delays (based on average industry experience).

Reinsurance 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, 2019 and 2018:

	Assets(1)	Investment contracts(2)
Balance as of July 1, 2017	$627	$(627)
Increase in policyholder benefits under insurance contracts	13	(13)
Foreign currency adjustment(3)	(30)	30
Balance as of June 30, 2018	610	(610)
Increase in policyholder benefits under insurance contracts	24	(24)
Foreign currency adjustment(3)	(15)	15
Balance as of June 30, 2019	$619	$(619)

(1) Included in other long-term assets (refer to Note 9);
(2) Included in other long-term liabilities;
(3) Represents the effects of the fluctuations of the ZAR against the U.S. dollar.

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

12. BORROWINGS

South Africa

The amounts below have been translated at exchange rates applicable as of the dates specified.

July 2017 Facilities, as amended, comprising a short-term facility and long-term borrowings

Long-term borrowings – Facilities A, B, C and D

On July 21, 2017, Net1 SA entered into a Common Terms Agreement, Senior Facility A Agreement, Senior Facility B Agreement, Senior Facility C Agreement, Subordination Agreement, Security Cession & Pledge and certain ancillary loan documents (collectively, the “Original Loan Documents”) with RMB, a South African corporate and investment bank, and Nedbank Limited (acting through its Corporate and Investment Banking division), an African corporate and investment bank, and any other lenders that may participate in such loans (collectively, the “Lenders”), pursuant to which, among other things, Net1 SA may borrow up to an aggregate of ZAR 1.25 billion to finance a portion of its investment in Cell C and to fund its on-going working capital requirements. Net1 agreed to guarantee the obligations of Net1 SA to the Lenders and subordinate any claims it may have against Net1 SA and certain of its subsidiaries to the Lenders’ claims against such persons. On July 26, 2017, Net1 SA entered into a letter agreement (the “Letter” and together with the Original Loan Documents and March 2018 amendment described below, the “Loan Documents”) with the Lenders to amend the Common Terms Agreement to, among other things, permit the amounts borrowed under the Senior Facility B to fund the acquisition of Cell C shares and adjust the terms of certain conditions precedent. On March 8, 2018, the Company amended its South African long-term facility to include an additional term loan, Facility D, of up to ZAR 210.0 million.

The Loan Documents provide for a Facility A term loan of up to ZAR 750 million, a Facility B term loan of up to ZAR 500 million, a Facility C term loan in an amount equal to the aggregate amount of voluntary prepayments of the outstanding principal amount of the Facility A loan, and a Facility D term loan of up to ZAR 210 million. Net1 SA paid non-refundable deal origination fees of approximately $0.6 million and $0.2 million in August 2017 and March 2018, respectively. Interest on the loans was payable quarterly based on the Johannesburg Interbank Agreed Rate (“JIBAR”) in effect from time to time plus a margin of 2.25% for the Facility A loan, 3.5% for the Facility B loan , 2.25% for the Facility C loan and 2.75% for the Facility D loan. Interest expense incurred during the years ended June 30, 2019 and 2018, was $2.9 million and $7.2 million, respectively. During the years ended June 30, 2019 and 2018, $0.3 million and $0.5 million, respectively, of prepaid facility fees were amortized. On July 26, 2017, the Company utilized ZAR 1.25 billion (approximately $92.2 million) of its South African long-term facility to partially fund the acquisition of 15% of Cell C. On March 9, 2018, the Company utilized ZAR 84.0 million (approximately $7.1 million) of its new ZAR 210 million South African long-term facility to partially fund the acquisition of a further 4.0% in DNI and the balance of the facility to extend a ZAR 126.0 million (approximately $10.6 million) loan to DNI (refer to Note 3).

Principal repayments of the facilities were due in twelve quarterly installments commencing on September 29, 2017 and the Company made repayments of ZAR 683.8 million ($46.9 million) and ZAR 776.3 million ($60.5 million) during the years ended June 30, 2019 and 2018, respectively. A principal repayment of ZAR 151.3 million ($10.7 million, translated at exchange rates applicable as of June 30, 2019) was scheduled to be paid on June 29, 2019, however the Company settled the outstanding amount of ZAR 230.0 million ($16.0 million) in full on May 3, 2019, utilizing a combination of existing cash reserves and through the sale of DNI shares as discussed in Note 3.

The loans were secured by a pledge by Net1 SA of, among other things, its entire equity interests in Cell C and DNI. The Loan Documents contain customary covenants that require Net1 SA to maintain a specified total net leverage ratio and restrict the ability of Net1 SA, and certain of its subsidiaries to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make investment above specified levels, engage in certain business combinations and engage in other corporate activities, without the Lenders consent.

12. BORROWINGS (continued)

South Africa (continued)

July 2017 Facilities, as amended, comprising a short-term facility and long-term borrowings (continued)

Long-term borrowings – Facilities A, B, C and D (continued)

On September 4, 2019, Net1 SA further amended the July 2017 Facilities agreement, which included adding Main Street 1692 (RF) Proprietary Limited ("Debt Guarantor"), a South African company incorporated for the sole purpose of holding collateral for the benefit of the Lenders and acting as debt guarantor. The covenants were also amended and now include customary covenants that require Net1 SA to maintain a specified total asset cover ratio and restrict the ability of Net1 SA, and certain of its subsidiaries to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make investment above specified levels, engage in certain business combinations and engage in other corporate activities. Net1 also agreed that in the event of any sale of KSNET, Inc., it would deposit a portion of the proceeds in an amount of the USD equivalent of the Facility F loan and the Nedbank general banking facility commitment into a bank account secured in favor of the Debt Guarantor. Net1 SA also entered into a pledge and cession agreement with the Debt Guarantor pursuant to which, among other things, Net1 SA agreed to cede its shareholdings in Cell C, DNI and Net1 FIHRST Holdings (Pty) Ltd to the Debt Guarantor.

Short-term facility - Facility E

On September 26, 2018, Net1 SA further amended its amended July 2017 Facilities agreement with RMB to include an overdraft facility ("Facility E") of up to ZAR 1.5 billion ($106.5 million, translated at exchange rates applicable as of June 30, 2019) to fund the Company's ATMs. The available Facility E overdraft facility was subsequently reduced to ZAR 1.2 billion ($85.2 million) in September 2019. Interest on the overdraft facility is payable on the last day of each month and on the final maturity date based on South African prime rate. The overdraft facility will be reviewed in September 2020. The overdraft facility amount utilized must be repaid in full within one month of utilization and at least 90% of the amount utilized must be repaid with 25 days. The overdraft facility is secured by a pledge by Net1 SA of, among other things, cash and certain bank accounts utilized in the Company's ATM funding process, the cession of an insurance policy with Senate Transit Underwriters Managers Proprietary Limited, and any rights and claims Net1 SA has against Grindrod Bank Limited. The Company paid a non-refundable origination fee of approximately ZAR 3.8 million ($0.3 million) in October 2018. As at June 30, 2019, the Company had utilized approximately ZAR 1.0 billion ($69.6 million) of this overdraft facility. This ZAR 1.2 billion overdraft facility may only be used to fund ATMs and therefore the overdraft utilized and converted to cash to fund the Company's ATMs is considered restricted cash. The prime rate on June 30, 2019, was 10.25%, and reduced to 10.00% on July 19, 2019, following a reduction in the South African repo rate.

Short-term facility - Facility F

On September 4, 2019, Net1 SA further amended its amended July 2017 Facilities agreement with RMB to include an overdraft facility ("Facility F") of up to ZAR 300.0 million ($21.3 million, translated at exchange rates applicable as of June 30, 2019) for the sole purposes of funding the acquisition of airtime from Cell C. Net1 SA may not dispose of the airtime acquired from Cell C prior to April 1, 2020, without the prior consent of RMB, Absa Bank Limited and Investec Asset Management Proprietary Limited. Facility F comprises (i) a first Senior Facility F loan of ZAR 220 million (ii) a second Senior Facility F loan of ZAR 80 million, or such lesser amount as may be agreed by the facility agent. Facility F is required to be repaid in full nine month following the first utilization of the facility. Net1 SA is required to prepay Facility F subject to customary prepayment terms. Interest on Facility F is payable quarterly in arrears based JIBAR plus a margin of 5.50% per annum. The margin on the Facility F will increase by 1% per annum if Net1 SA has not disposed of certain assets by October 31, 2019, and will increase by a further 1% if Net1 SA has not disposed of its shareholding in DNI by January 31, 2020. Net1 SA paid a non-refundable structuring fee of ZAR 2.2 million to the Lenders in September 2019.

12. BORROWINGS (continued)

South Africa (continued)

June 2018 Facility, a long-term borrowing (a DNI facility)

On June 28, 2018, DNI entered into a Revolving Credit Facility Agreement ("DNI Credit Facility Agreement") with RMB and K2018318388 (South Africa) (RF) Proprietary Limited ("Debt Guarantor"), a South African company incorporated for the sole purpose of holding collateral for the benefit of RMB and acting as debt guarantor. DNI, RMB and the Debt Guarantor concurrently entered into a Subordination Agreement; Shareholder Guarantee, Cession and Pledge Agreement; Guarantee Cession and Pledge Agreement (collectively with the DNI Credit Facility Agreement, the "Revolving Credit Agreement Documents"), with various other parties, including DNI's subsidiaries and DNI's shareholders (except Net1 SA), pursuant to which, among other things, DNI obtained a ZAR 200.0 million revolving credit facility with a term of three years to June 2021 from RMB to finance the acquisition and/ or requisition of telecommunication towers. The facility has been deconsolidated from the Company's consolidated balance sheet following the disposal of DNI on March 31, 2019, as described in Note 3.

Interest on the revolving credit facility is payable quarterly based on JIBAR in effect from time to time plus a margin of 2.75%. Interest expense incurred by the Company during the year ended June 30, 2019, was $0.6 million. DNI paid a non-refundable deal origination fee of approximately ZAR 2.3 million ($0.2 million) in July 2018. DNI's shareholders, excluding Net1 SA, have agreed to pledge their entire equity interest in DNI to RMB, guarantee the obligations of DNI to RMB and subordinate any claims they may have against DNI and certain of its subsidiaries to RMB's claims against such persons. DNI has agreed to ensure that Net1 SA will become bound by the terms and conditions applicable to the other DNI shareholders party to the Shareholder Guarantee, Cession and Pledge Agreement once the DNI shares pledged as security for the July 2017 facilities are released. The revolving credit facility is also secured by a pledge by DNI of, among other things, its entire equity interests in its subsidiaries and it has also agreed to arrange for the registration of notarial bonds over its movable property. The Loan Documents contain customary covenants that require DNI to maintain specified net senior debt to EBITDA and EBITDA to net senior interest ratios and restrict the ability of DNI, and certain of its subsidiaries to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make investment above specified levels, engage in certain business combinations and engage in other corporate activities, without the approval of RMB.

Nedbank facility, comprising short-term facilities

As of June 30, 2019, the aggregate amount of the Company's short-term South African credit facility with Nedbank Limited was ZAR 450.0 million ($32.0 million). The credit facility comprises an overdraft facility of (i) up to ZAR 300 million ($21.3 million), which is further split into (a) a ZAR 250.0 million ($17.8 million) overdraft facility which may only be used to fund ATMs used at pay points and (b) a ZAR 50 million ($3.6 million) general banking facility and (ii) indirect and derivative facilities of up to ZAR 150 million ($10.7 million), which include letters of guarantees, letters of credit and forward exchange contracts. The ZAR 250.0 million component of the primary amount may only be used to fund ATMs and therefore this component of the primary amount utilized and converted to cash to fund the Company's ATMs is considered restricted cash.

The Company has ceded its investment in Cash Paymaster Services Proprietary Limited ("CPS"), a South African subsidiary, as well as all of its rights, title and interest in an insurance policy issued by Fidelity Risk Proprietary Limited as security for its repayment obligations under the facility. A commitment fee of 0.35% per annum is payable on the monthly unutilized amount of the overdraft portion of the short-term facility. The Company is required to comply with customary non-financial covenants, including, without limitation, covenants that restrict its ability to dispose of or encumber its assets, incur additional indebtedness or engage in certain business combinations. The short-term facility provides Nedbank with the right to set off funds held in certain identified Company bank accounts with Nedbank against any amounts owed to Nedbank under the facility. As of June 30, 2019, the Company had total funds of $2.7 million in bank accounts with Nedbank which have been set off against $8.6 million drawn under the Nedbank facility, for a net amount drawn under the facility of $5.9 million. As of June 30, 2019, the interest rate on the overdraft facility was 9.10%, and reduced to 8.85% on July 19, 2019, following a reduction in the South African repo rate.

As of June 30, 2019, the Company has utilized approximately ZAR 82.8 million ($5.9 million) of its ZAR 250 million overdraft facility to fund ATMs and utilized none of its ZAR 50 million general banking facility. As of June 30, 2019 and 2018, the Company had utilized approximately ZAR 93.6 million ($6.6 million) and ZAR 108.0 million ($7.9 million), respectively, of its indirect and derivative facilities of ZAR 150 million to enable the bank to issue guarantee, letters of credit and forward exchange contracts, in order for the Company to honor its obligations to third parties requiring such guarantees (refer to Note 22).

12. BORROWINGS (continued)

South Africa (continued)

October 2016 long-term facilities

On October 4, 2016, Net1 SA, entered into a Subscription Agreement (the "Blue Label Subscription Agreement") with Blue Label Telecoms Limited ("Blue Label"), a JSE-listed company which is a leading provider of prepaid electricity and airtime in South Africa. Pursuant to the Blue Label Subscription Agreement, Net1 SA intended to subscribe for approximately 117.9 million ordinary shares of Blue Label at a price of ZAR 16.96 per share, for an aggregate price of ZAR 2.0 billion. Net1 SA entered into a facility agreement with RMB to fund ZAR 1.4 billion of the required ZAR 2 billion Blue Label transaction and paid a guarantee fee of approximately ZAR 16.0 million ($1.1 million) during the year ended June 30, 2017. In May 2017, Blue Label and Net1 SA mutually agreed that Net1 SA would not subscribe for the shares in Blue Label and the Blue Label Subscription Agreement was terminated. Interest expense for the year ended June 30, 2017, includes the ZAR 16.0 million guarantee fee expensed related to the October 2016 facilities obtained from RMB.

United States, a short-term facility

On September 14, 2018, the Company renewed its $10.0 million overdraft facility from Bank Frick and on February 4, 2019, the Company increased the overdraft facility to $20.0 million. The interest rate on the facilities is 4.50% plus 3-month US dollar LIBOR and interest is payable on a quarterly basis. The 3-month US dollar LIBOR rate was 2.31988% on June 30, 2019. The facility has no fixed term, however, it may be terminated by either party with six weeks written notice. The facility is secured by a pledge of the Company's investment in Bank Frick. As of June 30, 2019, the Company had utilized approximately $9.5 million of this facility.

South Korea

Short-term facility

The Company obtained a one year KRW 10 billion ($8.6 million) short-term overdraft facility from Hana Bank, a South Korean bank, in January 2019. The interest rate on the facilities is 1.984% plus 3-month CD rate. The CD rate as of June 30, 2019, was 1.780%. The facility expires in January 2020, however it can be renewed. The facility is unsecured with no fixed repayment terms. As of June 30, 2019, the Company had not utilized this facility.

Long-term borrowings

The Company's wholly owned subsidiary, Net1 Applied Technologies Korea ("Net1 Korea"), signed a five-year senior secured facilities agreement (the "Facilities Agreement") with a consortium of South Korean banks in October 2013. On October 20, 2017, the Company made an unscheduled repayment of $16.6 million and settled the full outstanding balance, including interest, related to these borrowings and the Company was released from its security obligations created under the Facilities Agreement. The Company made a scheduled repayment of its Facility A loan of KRW 10 billion ($8.8 million), unscheduled voluntary principal repayments towards its Facility A loan of KRW 22.1 billion ($19.6 million) and a prepayment towards its Facility C revolving credit facility of KRW 10.0 billion ($8.9 million) during the year ended June 30, 2017. The Company utilized approximately KRW 0.3 billion ($0.3 million) and KRW 0.9 billion ($0.8 million), of its Facility C revolving credit facility to pay interest due during the year ended June 30, 2018 and 2017, respectively.

Interest on the loans and revolving credit facility was payable quarterly and was based on the South Korean CD rate in effect from time to time plus a margin of 3.10% for the Facility A loan and Facility C revolving credit facility. Total interest expense related to the facilities during the years ended June 30, 2018 and 2017, was $0.4 million and $1.2 million, respectively. Prepaid facility fees amortized during each of the years ended June 30, 2018 and 2017, was approximately $0.1 million, respectively.

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

12. BORROWINGS (continued)

Movement in short-term borrowings

Summarized below are the Company's short-term facilities as of June 30, 2019, and the movement in the Company's short-term facilities from as of June 30, 2018 to as of June 30, 2019:

	South Africa		United States	South Korea	
	Amended July 2017	**Nedbank**	**Bank Frick**	**Hana Bank**	**Total**
Short-term facilities as of June 30, 2019:	$85,203	$31,951	$20,000	$8,648	$145,802
Overdraft	-	3,550	20,000	8,648	32,198
Overdraft restricted as to use for ATM funding only	85,203	17,751	-	-	102,954
Indirect and derivative facilities	-	10,650	-	-	10,650
Movement in utilized overdraft facilities:					
Balance as of June 30, 2018	-	-	-	-	-
Utilized	722,375	85,843	14,536	-	822,754
Repaid	(655,612)	(80,365)	(4,992)	-	(740,969)
Foreign currency adjustment(1)	2,803	402	-	-	3,205
Balance as of June 30, 2019(2)	69,566	5,880	9,544	-	84,990
Restricted as to use for ATM funding only	69,566	5,880	-	-	75,446
No restrictions as to use	-	-	9,544	-	9,544
Movement in utilized indirect and derivative facilities:					
Balance as of June 30, 2018	-	7,871	-	-	7,871
Guarantees cancelled	-	(1,075)	-	-	(1,075)
Utilized	-	46	-	-	46
Foreign currency adjustment(1)	-	(199)	-	-	(199)
Balance as of June 30, 2019	$-	$6,643	$-	$-	$6,643

(1) Represents the effects of the fluctuations between the ZAR and the U.S. dollar.
(2) Nedbank as of June 30, 2019, of $5.9 million comprises the net of total overdraft facilities withdrawn of $8.6 million offset against funds in bank accounts with Nedbank of $2.7 million.

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

12. BORROWINGS (continued)

Movement in long-term borrowings

Summarized below is the movement in the Company's long term borrowing from as of June 30, 2017, to as of June 30, 2019:

	South Korea	South Africa			
	Continuing		Discontinued		
	Net1 Korea	Amended July 2017	June 2018 Facility	Other (Note 3)	Total
Balance as of July 1, 2017, allocated to	$16,239	$-	$-	$-	$16,239
Current portion of long-term borrowings	8,738	-	-	-	8,738
Long-term borrowings	7,501	-	-	-	7,501
Utilized	197	112,960	-	-	113,157
Repaid	(16,592)	(60,470)	-	-	(77,062)
DNI acquisition (Note 3)	-	-	-	616	616
Foreign currency adjustment(1)	156	(2,942)	-	-	(2,786)
Balance as of June 30, 2018, allocated to	-	49,548	-	616	50,164
Current portion of long-term borrowings	-	44,079	-	616	44,695
Long-term borrowings	-	5,469	-	-	5,469
Utilized	-	-	14,613	-	14,613
Repaid	-	(31,844)	(4,944)	(569)	(37,357)
Repaid from sale of DNI shares (Note 3)	-	(15,011)	-	-	(15,011)
Deconsolidated (Note 3)	-	-	(10,435)	-	(10,435)
Foreign currency adjustment(1)	-	(2,693)	766	(47)	(1,974)
Balance as of June 30, 2019	$-	$-	$-	$-	$-

(1) Represents the effects of the fluctuations between the ZAR and the Korean won, against the U.S. dollar.

13. OTHER PAYABLES

Summarized below is the breakdown of other payables as of June 30, 2019 and 2018:

	2019	2018
Accrual of implementation costs to be refunded to SASSA	$34,039	$-
Accruals	10,620	16,148
Provisions	6,074	8,211
Other	10,814	9,690
Value-added tax payable	3,234	5,478
Payroll-related payables	1,113	1,533
Participating merchants settlement obligation	555	585
	$66,449	$41,645

Other includes transactions-switching funds payable, deferred income, client deposits and other payables.

Accrual of implementation costs to be refunded to SASSA

As the Company previously disclosed, in June 2014, the Company received approximately ZAR 317.0 million, including VAT, from SASSA, related to the recovery of additional implementation costs its subsidiary, CPS, incurred during the beneficiary re-registration process in fiscal 2012 and 2013.

13. OTHER PAYABLES (continued)

Accrual of implementation costs to be refunded to SASSA (continued)

After the award of the tender, SASSA requested that CPS biometrically register all social grant beneficiaries (including child grant beneficiaries) and collect additional information for each child grant recipient. CPS agreed to SASSA's request and, as a result, it performed approximately 11 million additional registrations beyond those that CPS tendered for in the quoted service fee. Accordingly, CPS sought reimbursement from SASSA of the cost of this exercise, supported by a factual findings certificate from an independent auditing firm. SASSA paid CPS ZAR 317.0 million, including VAT, as full settlement of the additional costs CPS incurred.

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

On February 22, 2018, the matter was heard by the High Court. On March 23, 2018, the High Court ordered that the June 15, 2012 variation agreement between SASSA and CPS be reviewed and set aside. CPS was ordered to refund ZAR 317.0 million to SASSA, plus interest from June 2014 to date of payment. On April 4, 2018, CPS filed an application seeking leave to appeal the whole order and judgment of the High Court with the High Court because it believed that the High Court erred in its application of the law and/or in fact in its findings. On April 25, 2018, the High Court refused the application seeking leave to appeal. In September 2018, CPS received notification from the Supreme Court that its petition seeking leave to appeal had been granted. The matter was heard on September 10, 2019.

On September 30, 2019, the Supreme Court delivered its ruling in the matter, declining CPS' appeal and awarding costs against CPS. CPS is liable to repay SASSA ZAR 317.0 million, plus interest from June 2014 to date of payment. As a result, CPS recorded the liability at June 30, 2019, of $34.0 million (ZAR 479.4 million, translated at exchange rates applicable as of June 30, 2019, comprising a revenue refund of $19.7 million (ZAR 277.6 million), accrued interest of $11.4 million (ZAR 161.0 million), unclaimed indirect taxes of $2.8 million (ZAR 39.4 million) and estimated costs of $0.1 million (ZAR 1.4 million)). The Company has reduced revenue by $19.7 million during the year ended June 30, 2019, because it has interpreted the Supreme Court ruling as a price variation and not a nonreciprocal transaction.

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

14. COMMON STOCK

Common stock

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

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

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

The Company's number of shares, net of treasury, presented in the consolidated balance sheets and consolidated statement of changes in equity includes participating non-vested equity shares (specifically contingently returnable shares) as described below in Note 17 "— Amended and Restated Stock Incentive Plan—Restricted Stock—General Terms of Awards".

The following table presents a 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, 2019, 2018 and 2017:

	2019	2018	2017
Number of shares, net of treasury:			
Statement of changes in equity – common stock	56,568,425	56,685,925	56,369,737
Less: Non-vested equity shares that have not vested as of end of year (Note 17)	583,908	765,411	505,473
Number of shares, net of treasury excluding non-vested equity shares that have not vested	55,984,517	55,920,514	55,864,264

Redeemable common stock issued pursuant to transaction with the IFC Investors

Holders of redeemable common stock have all the rights enjoyed by holders of common stock, however, holders of redeemable common stock have additional contractual rights. On April 11, 2016, the Company entered into a Subscription Agreement (the "Subscription Agreement") with International Finance Corporation, IFC African, Latin American and Caribbean Fund, LP, IFC Financial Institutions Growth Fund, LP, and Africa Capitalization Fund, Ltd. (collectively, the "IFC Investors"). Under the Subscription Agreement, the IFC Investors purchased, and the Company sold in the aggregate, approximately 9.98 million shares of the Company's common stock, par value $0.001 per share, at a price of $10.79 per share, for gross proceeds to the Company of approximately $107.7 million. The Company has accounted for these 9.98 million shares as redeemable common stock as a result of the put option discussed below.

The Company has entered into a Policy Agreement with the IFC Investors (the "Policy Agreement"). The material terms of the Policy Agreement are described below.

14. COMMON STOCK (continued)

Redeemable common stock issued pursuant to transaction with the IFC Investors (continued)

Board Rights

For so long as the IFC Investors in aggregate beneficially own shares representing at least 5% of the Company's common stock, the IFC Investors will have the right to nominate one director to the Company's board of directors. For so long as the IFC Investors in aggregate beneficially own shares representing at least 2.5% of the Company's common stock, the IFC Investors will have the right to appoint an observer to the Company's board of directors at any time when they have not designated, or do not have the right to designate, a director.

Put Option

Each Investor will have the right, upon the occurrence of specified triggering events, to require the Company to repurchase all of the shares of its common stock purchased by the IFC Investors pursuant to the Subscription Agreement (or upon exercise of their preemptive rights discussed below). Events triggering this put right relate to (1) the Company being the subject of a governmental complaint alleging, a court judgment finding or an indictment alleging that the Company (a) engaged in specified corrupt, fraudulent, coercive, collusive or obstructive practices; (b) entered into transactions with targets of economic sanctions; or (c) failed to operate its business in compliance with anti-money laundering and anti-terrorism laws; or (2) the Company rejecting a bona fide offer to acquire all of its outstanding Common Stock at a time when it has in place or implements a shareholder rights plan, or adopting a shareholder rights plan triggered by a beneficial ownership threshold of less than twenty percent. The put price per share will be the higher of the price per share paid by the IFC Investors pursuant to the Subscription Agreement (or paid when exercising their preemptive rights) and the volume weighted average price per share prevailing for the 60 trading days preceding the triggering event, except that with respect to a put right triggered by rejection of a bona fide offer, the put price per share will be the highest price offered by the offeror. The Company believes that the put option has no value and, accordingly, has not recognized the put option in its consolidated financial statements.

Registration Rights

The Company has agreed to grant certain registration rights to the IFC Investors for the resale of their shares of the Company's common stock, including filing a resale shelf registration statement and taking certain actions to facilitate resales thereunder.

Preemptive Rights

For so long as the IFC Investors hold in aggregate 5% of the outstanding shares of common stock of the Company, each Investor will have the right to purchase its pro-rata share of new issuances of securities by the Company, subject to certain exceptions.

Sale of common stock during fiscal 2017

In February 2017, the Company sold a total of five million shares of its common stock at a price of $9.00 per share to two investors, for aggregate gross proceeds to the Company of $45.0 million. These sales were made pursuant to stock purchase agreements entered into on October 6, 2016, as amended.

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

14. COMMON STOCK (continued)

Common stock repurchases

Executed under share repurchase authorizations

On February 3, 2016, the Company's Board of Directors approved the replenishment of its share repurchase authorization to repurchase up to an aggregate of $100 million of common stock. The authorization has no 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.

In June 2016, the Company adopted a 10b-5 in connection with its $100 million authorization. The plan expired at the end of August 2016. During the first quarter of the year ended June 30, 2017, the Company repurchased 3,137,609 shares under its share repurchase authorization for approximately $31.6 million.

Other repurchases

The Company did not repurchase any of its shares during the years ended June 30, 2019 and 2018, respectively, outside of the authorization. On May 24, 2017, the Company and one of its co-founders, the former chief executive officer and former member of its board of directors, Mr. S.C.P. Belamant, entered into a Separation and Release of Claims Agreement (the "Separation Agreement"). The Company repurchased 1,269,751 shares of its common stock from Mr. Belamant, at a price of $10.80 per share, for an aggregate consideration of $13.7 million under the Separation Agreement.

15. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The table below presents the change in accumulated other comprehensive (loss) income per component during the years ended June 30, 2019, 2018 and 2017:

	Accumulated Foreign currency translation reserve (as restated[A])	Total (as restated[A])
Balance as of July 1, 2016	$(189,692)	$(189,692)
Movement in foreign currency translation reserve related to equity accounted investment	(2,697)	(2,697)
Movement in foreign currency translation reserve	29,653	29,653
Balance as of June 30, 2017	(162,736)	(162,736)
Movement in foreign currency translation reserve related to equity accounted investment	(2,426)	(2,426)
Movement in foreign currency translation reserve	(19,376)	(19,376)
Balance as of June 30, 2018	(184,538)	(184,538)
Release of foreign currency translation reserve related to DNI disposal (Note 3)	1,806	1,806
Release of foreign currency translation reserve related to disposal of DNI interest as an equity method investment (Note 3)	646	646
Movement in foreign currency translation reserve related to equity accounted investment	4,251	4,251
Movement in foreign currency translation reserve	(21,438)	(21,438)
Balance as of June 30, 2019	$(199,273)	$(199,273)

(A) Certain amounts have been restated to correct the misstatement discussed in Note 1.

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

15. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME (continued)

During the year ended June 30, 2019, the Company reclassified $1.8 million from accumulated other comprehensive loss (accumulated foreign currency translation reserve) to net (loss) income related to the DNI disposal (refer to Note 3) and reclassified $0.6 million from accumulated other comprehensive loss (accumulated foreign currency translation reserve) to net (loss) income related to the disposal of the DNI interest as an equity method investment (refer to Note 3).There were no reclassifications from accumulated other comprehensive loss to comprehensive (loss) income during the year ended June 30, 2018 and 2017, respectively.

16. REVENUE

The Company is a leading provider of transaction processing services, financial inclusion products and services and secure payment technology. The Company operates market-leading payment processors in South Africa and internationally. The Company offers debit, credit and prepaid processing and issuing services for all major payment networks. In South Africa, The Company provides innovative low-cost financial inclusion products, including banking, lending and insurance, and, through DNI, was a leading distributor of mobile subscriber starter packs for Cell C, a South African mobile network operator.

The following table represents our revenue disaggregated by major revenue streams, including reconciliation to operating segments for the year ended June 30, 2019:

	South Africa	Korea	Rest of the world	Total
South African transaction processing				
Processing fees	$79,379	$-	$-	$79,379
Welfare benefit distribution fees	3,086	-	-	3,086
Other	6,583	-	-	6,583
Sub-total	89,048	-	-	89,048
International transaction processing				
Processing fees	-	132,731	9,303	142,034
Other	-	5,695	539	6,234
Sub-total	-	138,426	9,842	148,268
Financial inclusion and applied technologies				
Telecom products and services	58,209	-	-	58,209
Account holder fees	17,428	-	-	17,428
Lending revenue	27,512	-	-	27,512
Technology products	20,706	-	-	20,706
Insurance revenue	5,862	-	-	5,862
Other	13,666	-	-	13,666
Sub-total	143,383	-	-	143,383
Corporate/Eliminations – revenue refund (Note 13)	(19,709)			(19,709)
	$212,722	$138,426	$9,842	$360,990

17. STOCK-BASED COMPENSATION

Amended and Restated Stock Incentive Plan

The Company's Amended and Restated 2015 Stock Incentive Plan (the "Plan") was most recently amended and restated on November 11, 2015, after approval by 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.

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

17. STOCK-BASED COMPENSATION (continued)

Amended and Restated Stock Incentive Plan (continued)

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 11,052,580. 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 August 19, 2025, 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 three years from the date of grant. The Company issues new shares to satisfy stock option award exercises but may also use treasury shares.

Valuation Assumptions

The table below presents the range of assumptions used to value options granted during the year ended June 30, 2019:

	2019
Expected volatility	44%
Expected dividends	0%
Expected life (in years)	3
Risk-free rate	2.75%

No stock options were awarded during the years ended June 30, 2018 and 2017, respectively.

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 to Note 19) 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.

Recipients are entitled to all rights of a shareholder 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 restricted stock that are not then vested and nonforfeitable will be immediately forfeited and transferred to the Company for no consideration. Forfeited shares of restricted stock are available for future issuances by the Remuneration Committee.

17. STOCK-BASED COMPENSATION (continued)

Amended and Restated Stock Incentive Plan (continued)

Restricted Stock (continued)

General Terms of Awards (continued)

The Company issues new shares to satisfy restricted stock awards.

Valuation Assumptions

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

Vesting of all non-employee director shares issued prior to June 30, 2017

Grants of restricted stock to non-employee directors made during fiscal 2017, as well as those grants made in prior years, originally vested over a three-year period. After the end of fiscal 2017, the Company's board consulted with Pay Governance, an independent compensation consultant, and determined that one-year vesting of restricted stock grants is a more common compensation practice for independent directors and therefore, amended the terms of outstanding awards to vest one-year after grant. As a result of this amendment, 56,250 shares of restricted stock held by the non-employee directors as of June 30, 2017, were fully-vested during the year ended June 30, 2018.

Forfeiture of restricted stock awarded in August and November 2014 that did not achieve targeted market conditions

In August and November 2014, respectively, the Remuneration Committee approved an award of 127,626 and 71,530 shares of restricted stock to employees. These shares of restricted stock were scheduled to vest in full only on the date, if any, the following conditions were satisfied: (1) the closing price of the Company's common stock equals or exceeds $19.41 (subject to appropriate adjustment for any stock split or stock dividend) for a period of 30 consecutive trading days during a measurement period commencing on the date that the Company filed its Annual Report on Form 10-K for the fiscal year ended 2017 and ending on December 31, 2017 and (2) the recipient was employed by the Company on a full-time basis when the condition in (1) was met. The $19.41 price target represented a 20% increase, compounded annually, in the price of the Company's common stock on Nasdaq over the $11.23 closing price on August 27, 2014. These shares of restricted stock were forfeited during the year ended June 30, 2018, because the target market conditions were not achieved. The stock-based compensation charge related to these awards was not reversed upon forfeiture because these awards contained market conditions.

The 127,626 and 71,530 shares of restricted stock were effectively forward starting knock-in barrier options with a strike price of zero. The fair value of these shares of restricted stock was calculated utilizing an adjusted Monte Carlo simulation discounted cash flow model which was developed for the purpose of the valuation of these shares. For each simulated share price path, the market share price condition was evaluated to determine whether or not the shares would vest under that simulation. The "adjustment" to the Monte Carlo simulation model incorporates a "jump diffusion" process to the standard Geometric Brownian Motion simulation, in order to capture the discontinuous share price jumps observed in the Company's share price movements on stock exchanges on which it is listed. Therefore, the simulated share price paths capture the idiosyncrasies of the observed Company share price movements.

In scenarios where the shares do not vest, the final vested value at maturity is zero. In scenarios where vesting occurs, the final vested value on maturity is the share price on vesting date. The value of the grant is the average of the discounted vested values. The Company used an expected volatility of 76.01%, an expected life of approximately three years, a risk-free rate of 1.27% and no future dividends in its calculation of the fair value of the 127,626 shares of restricted stock. The Company used an expected volatility of 63.73%, an expected life of approximately three years, a risk-free rate of 1.21% and no future dividends in its calculation of the fair value of the 71,530 shares of restricted stock. Estimated expected volatility was calculated based on the Company's 30 day VWAP share price using the exponentially weighted moving average of returns.

17. STOCK-BASED COMPENSATION (continued)

Amended and Restated Stock Incentive Plan (continued)

Restricted Stock (continued)

Forfeiture of restricted stock with Performance Conditions awarded in August 2015

In August 2015, the Remuneration Committee approved an award of 301,537 shares of restricted stock to employees. The shares of restricted stock awarded to employees in August 2015 were subject to time-based and performance-based vesting conditions. In order for any of the shares to have vested, the recipient had to remain employed by the Company on a full-time basis on the date that it filed its Annual Report on Form 10-K for the fiscal year ended June 30, 2018. If that condition was satisfied, then the shares would vest based on the level of Fundamental EPS the Company achieved for the fiscal year ended June 30, 2018 ("2018 Fundamental EPS"), as follows:

- One-third of the shares will vest if the Company achieves 2018 Fundamental EPS of $2.88;
- Two-thirds of the shares will vest if the Company achieves 2018 Fundamental EPS of $3.30; and
- All of the shares will vest if the Company achieves 2018 Fundamental EPS of $3.76.

At levels of 2018 Fundamental EPS greater than $2.88 and less than $3.76, the number of shares that would have vested would be determined by linear interpolation relative to 2018 Fundamental EPS of $3.30. All shares of restricted stock have been valued utilizing the closing price of shares of the Company's common stock quoted on The Nasdaq Global Select Market on the date of grant.

Any shares that did not vest in accordance with the above-described conditions would be forfeited. During the year ended June 30, 2017, the Company reversed the stock-based compensation charge recognized to date related to the 301,537 shares of restricted stock because it believed that it was unlikely that the 2018 Fundamental EPS target would be achieved due to the dilutive impact on the fundamental EPS calculation as a result of the issuance of approximately 10 million shares to the IFC in May 2016. The Company has not achieved the 2018 Fundamental EPS target and the 173,262 remaining shares that had not been forfeited as a result of terminations were forfeited during the year ended June 30, 2018.

Forfeiture of 150,000 shares of restricted stock with Performance Conditions awarded in August 2016

In August 2016, the Remuneration Committee approved an award of 350,000 shares of restricted stock to executive officers. In May 2017, the Company determined to accelerate the vesting of all (200,000) of the shares of restricted stock awarded to its former CEO. The shares of restricted stock awarded to executive officers in August 2016 were subject to time-based and performance-based vesting conditions. In order for any of the shares to vest, the recipient was required to remain employed by the Company on a full-time basis on the date that it files its Annual Report on Form 10-K for the fiscal year ended June 30, 2019. If that condition is satisfied, then the shares will vest based on the level of Fundamental EPS the Company achieves for the fiscal year ended June 30, 2019 ("2019 Fundamental EPS"), as follows:

- One-third of the shares will vest if the Company achieves 2019 Fundamental EPS of $2.60;
- Two-thirds of the shares will vest if the Company achieves 2019 Fundamental EPS of $2.80; and
- All of the shares will vest if the Company achieves 2019 Fundamental EPS of $3.00.

At levels of 2019 Fundamental EPS greater than $2.60 and less than $3.00, the number of shares that will vest will be determined by linear interpolation relative to 2019 Fundamental EPS of $2.80. All shares of restricted stock have been valued utilizing the closing price of shares of the Company's common stock quoted on The Nasdaq Global Select Market on the date of grant.

Any shares that did not vest in accordance with the above-described conditions would be forfeited. During the year ended June 30, 2019, the Company reversed the stock-based compensation charge recognized related to 150,000 shares of restricted stock because the Company did not achieve the 2019 Fundamental EPS target. The 150,000 shares of restricted stock were forfeited.

17. STOCK-BASED COMPENSATION (continued)

Amended and Restated Stock Incentive Plan (continued)

Restricted Stock (continued)

Market Conditions - Restricted Stock Granted in August 2017

In August 2017, the Remuneration Committee approved an award of 210,000 shares of restricted stock to executive officers. The shares of restricted stock awarded to executive officers in August 2017 are subject to a time-based vesting condition and a market condition and vest in full only on the date, if any, that the following conditions are satisfied: (1) the price of the Company's common stock must equal or exceed certain agreed VWAP levels (as described below) during a measurement period commencing on the date that it files its Annual Report on Form 10-K for the fiscal year ended 2020 and ending on December 31, 2020 and (2) the recipient is employed by the Company on a full-time basis when the condition in (1) is met. If either of these conditions is not satisfied, then none of the shares of restricted stock will vest and they will be forfeited. The $23.00 price target represents an approximate 35% increase, compounded annually, in the price of the Company's common stock on Nasdaq over the $9.38 closing price on August 23, 2017. The VWAP levels and vesting percentages related to such levels are as follows:

- Below $15.00 (threshold)—0%
- At or above $15.00 and below $19.00—33%
- At or above $19.00 and below $23.00—66%
- At or above $23.00—100%

These 210,000 shares of restricted stock are effectively forward starting knock-in barrier options with multi-strike prices of zero. The fair value of these shares of restricted stock was calculated utilizing a Monte Carlo simulation model which was developed for the purpose of the valuation of these shares. For each simulated share price path, the market share price condition was evaluated to determine whether or not the shares would vest under that simulation. A standard Geometric Brownian motion process was used in the forecasting of the share price instead of a "jump diffusion" model, as the share price volatility was more stable compared to the highly volatile regime of previous years. Therefore, the simulated share price paths capture the idiosyncrasies of the observed Company share price movements.

In scenarios where the shares do not vest, the final vested value at maturity is zero. In scenarios where vesting occurs, the final vested value on maturity is the share price on vesting date. The value of the grant is the average of the discounted vested values. The Company used an expected volatility of 44.0%, an expected life of approximately three years, a risk-free rate ranging between 1.275% to 1.657% and no future dividends in its calculation of the fair value of the restricted stock. The estimated expected volatility was calculated based on the Company's 30 day VWAP share price using the exponentially weighted moving average of returns.

Market Conditions - Restricted Stock Granted in September 2018

In September 2018, the Remuneration Committee approved an award of 148,000 shares of restricted stock to executive officers. The 148,000 shares of restricted stock awarded to executive officers in September 2018 are subject to a time-based vesting condition and a market condition and vest in full only on the date, if any, that the following conditions are satisfied: (1) the price of the Company's common stock must equal or exceed certain agreed VWAP levels (as described below) during a measurement period commencing on the date that it files its Annual Report on Form 10-K for the fiscal year ended 2021 and ending on December 31, 2021 and (2) the recipient is employed by the Company on a full-time basis when the condition in (1) is met. If either of these conditions is not satisfied, then none of the shares of restricted stock will vest and they will be forfeited. The $23.00 price target represents an approximate 55% increase, compounded annually, in the price of the Company's common stock on Nasdaq over the $6.20 closing price on September 7, 2018. The VWAP levels and vesting percentages related to such levels are as follows:

- Below $15.00 (threshold)—0%
- At or above $15.00 and below $19.00—33%
- At or above $19.00 and below $23.00—66%
- At or above $23.00—100%

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

17. STOCK-BASED COMPENSATION (continued)

Amended and Restated Stock Incentive Plan (continued)

Restricted Stock (continued)

Market Conditions - Restricted Stock Granted in September 2018 (continued)

The fair value of these shares of restricted stock was calculated using a Monte Carlo simulation of a stochastic volatility process. The choice of a stochastic volatility process as an extension to the standard Black Scholes process was driven by both observations of larger than expected moves in the daily time series for the Company's VWAP price, but also the observation of the strike structure of volatility (i.e. skew and smile) for out-of-the money calls and out-of-the money puts versus at-the-money options for both the Company's stock and NASDAQ futures.

In scenarios where the shares do not vest, the final vested value at maturity is zero. In scenarios where vesting occurs, the final vested value on maturity is the share price on vesting date. In its calculation of the fair value of the restricted stock, the Company used an average volatility of 37.4% for the VWAP price, a discounting based on USD overnight indexed swap rates for the grant date, and no future dividends. The average volatility was extracted from the time series for VWAP prices as the standard deviation of log prices for the three years preceding the grant date. The mean reversion of volatility and the volatility of volatility parameters of the stochastic volatility process were extracted by regressing log differences against log levels of volatility from the time series for at-the-money options 30 day volatility quotes, which were available from January 2, 2018 onwards.

Stock Appreciation Rights

The Remuneration Committee may also 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, 2019, 2018 and 2017:

	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 – July 1, 2016	2,077,524	15.92	3.65	926	4.15
Exercised	(321,026)	8.97		3,607	2.58
Expired unexercised	(474,443)	22.51		-	3.98
Forfeitures	(435,448)	17.88		-	5.34
Outstanding – June 30, 2017	846,607	13.87	3.80	486	4.21
Forfeitures	(37,333)	11.23		-	4.55
Outstanding – June 30, 2018	809,274	13.99	2.67	370	4.20
Granted – September 2018	600,000	6.20	10.00	1,212	2.02
Expired unexercised	(370,000)	19.27		-	5.00
Forfeitures	(174,695)	6.65		-	2.00
Outstanding – June 30, 2019	864,579	7.81	7.05	-	2.62

These options have an exercise price range of $6.20 to $11.23.

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

17. STOCK-BASED COMPENSATION (continued)

Stock option and restricted stock activity (continued)

Options (continued)

The following table presents stock options vested and expected to vest as of June 30, 2019:

	Number of shares	Weighted average exercise price ($)	Weighted average remaining contractual term (in years)	Aggregate intrinsic value ($'000)
Vested and expected to vest – June 30, 2019	864,579	7.81	7.05	-

These options have an exercise price range of $6.20 to $11.23.

The following table presents stock options that are exercisable as of June 30, 2019:

	Number of shares	Weighted average exercise price ($)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value ($'000)
Exercisable – June 30, 2019................	353,579	10.15	3.84	-

No stock options became exercisable during the year ended June 30, 2019. During the year ended June 30, 2018 and 2017, 105,982 and 154,803 stock options became exercisable, respectively. No stock options were exercised during the year ended June 30, 2019 and 2018, respectively. During the year ended June 30, 2017, the Company received approximately $2.9 million from the exercise of 321,026 stock options. During the year ended June 30, 2019, 2018 and 2017, employees forfeited 174,695, 37,333 and 435,448 stock options, respectively. During the year ended June 30, 2019, 200,000 stock options awarded in August 2008 and 170,000 stock options awarded in May 2009 expired unexercised. During the year ended June 30, 2017, 474,443 stock options awarded in August 2006 expired unexercised. The Company issues new shares to satisfy stock option exercises.

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

17. STOCK-BASED COMPENSATION (continued)

Stock option and restricted stock activity (continued)

Restricted stock

The following table summarizes restricted stock activity for the years ended June 30, 2019, 2018 and 2017:

	Number of Shares of Restricted Stock	Weighted Average Grant Date Fair Value ($'000)
Non-vested – July 1, 2016	**589,447**	**7,622**
Total granted	389,587	4,172
Granted – August 2016	387,000	4,145
Granted – May 2017	2,587	27
Total vested	(268,091)	2,590
Vested – August 2016	(68,091)	694
Vested – June 2017	(200,000)	1,896
Forfeitures	(205,470)	2,219
Non-vested – June 30, 2017	**505,473**	**11,173**
Total granted	618,411	4,581
Granted – August 2017	588,594	4,288
Granted – March 2018	22,817	234
Granted – May 2018	7,000	59
Vested – August 2017	(56,250)	527
Total forfeitures	(302,223)	3,222
Forfeitures – employee terminations	(33,635)	516
Forfeitures – August and November 2014 awards with market conditions	(95,326)	1,133
Forfeitures – August 2015 awards with performance conditions	(173,262)	1,573
Non-vested – June 30, 2018	**765,411**	**6,162**
Granted – September 2018	148,000	114
Total vested	(64,003)	503
Vested – August 2018	(52,594)	459
Vested – March 2019	(11,409)	44
Total forfeitures	(265,500)	1,060
Forfeitures – employee terminations	(115,500)	460
Forfeitures – August 2016 awards with performance conditions	(150,000)	600
Non-vested – June 30, 2019	**583,908**	**3,410**

The September 2018 grants comprise 148,000 shares of restricted stock awarded to executive officers that are subject to market and time-based vesting.

The August 2017 grants comprise (i) 326,000 shares of restricted stock awarded to executive officers and employees that are subject to time-based vesting, (ii) 210,000 shares of restricted stock awarded to executive officers that are subject to market and time-based vesting as described above, and (iii) 52,594 shares of restricted stock awarded to non-employee directors. The March 2018 grant relates to an award made to the Company's new Chief Financial Officer. The May 2018 grant comprises 7,000 shares of restricted stock awarded to employees on the same terms as the 326,000 awards made. The 326,000 and 7,000 shares of restricted stock will only vest if the recipient is employed by the Company on a full-time basis on August 23, 2020. The 52,594 shares of restricted stock awarded to non-employee directors only vested if the recipient was a director on August 23, 2018. The 22,817 shares of restricted stock vest in two tranches, 11,409 vested on March 1, 2019, and 11,408 will vest on March 1, 2020, subject to the Chief Financial Officer's continued employment.

The August 2016 grants comprise (i) 350,000 shares of restricted stock awarded to executive officers that are subject to performance and time-based vesting as described above and (ii) 37,000 shares of restricted stock awarded to non-employee directors.

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

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, 2019, 2018 and 2017, was $0.5 million, $0.5 million and $2.6 million, respectively. During the year ended June 30, 2019, 52,594 shares of restricted stock held by the non-employee directors and 11,409 shares of restricted stock held by the Company's Chief Financial Officer vested. During the year ended June 30, 2018, the Company determined that 56,250 shares of restricted stock held by the non-employee directors as of June 30, 2017, were fully-vested. During the year ended June 30, 2017, the Company agreed to accelerate the vesting of 200,000 shares of restricted stock granted to the Company's former Chief Executive Officer in August 2016 pursuant to the Separation Agreement signed in May 2017.

During the year ended June 30, 2019, employees forfeited 115,500 shares of restricted stock upon termination which had either time-based or market conditions. In addition, an executive officer forfeited 150,000 shares of restricted stock as the performance conditions were not achieved. During the year ended June 30, 2018, employees forfeited (i) 3,000 shares of restricted stock upon termination which did not have performance or market conditions attached and (ii) 30,635 shares of restricted stock upon termination which had either market or performance conditions. In addition, executive officers and employees forfeited 95,326 shares of restricted stock as the market conditions were not achieved and forfeited 173,262 shares of restricted stock as the performance conditions were not achieved. During the year ended June 30, 2017, employees and the former Chief Executive Officer that resigned during the year ended June 30, 2017, forfeited 205,470 shares of restricted stock that had not vested.

Stock-based compensation charge and unrecognized compensation cost

The Company has recorded a net stock compensation charge of $0.4 million, $2.6 million and $2.0 million for the years ended June 30, 2019, 2018 and 2017, 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, 2019			
Stock-based compensation charge	$2,319	$-	$2,319
Reversal of stock compensation charge related to stock options and restricted stock forfeited	(1,926)	-	(1,926)
Total – year ended June 30, 2019	$393	$-	$393
Year ended June 30, 2018			
Stock-based compensation charge	$2,656	$-	$2,656
Reversal of stock compensation charge related to restricted stock forfeited	(49)	-	(49)
Total – year ended June 30, 2018	$2,607	$-	$2,607
Year ended June 30, 2017			
Stock-based compensation charge	$3,905	$-	$3,905
Reversal of stock compensation charge related to stock options and restricted stock forfeited	(1,923)	-	(1,923)
Total – year ended June 30, 2017	$1,982	$-	$1,982

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 relevant employees.

17. STOCK-BASED COMPENSATION (continued)

Stock-based compensation charge and unrecognized compensation cost (continued)

As of June 30, 2019, the total unrecognized compensation cost related to stock options was approximately $0.8 million, which the Company expects to recognize over approximately three years. As of June 30, 2019, the total unrecognized compensation cost related to restricted stock awards was approximately $1.4 million, which the Company expects to recognize over approximately two years.

Tax consequences

The Company has recorded a deferred tax asset of approximately $0.2 million and $0.8 million, respectively, for the years ended June 30, 2019 and 2018. As of June 30, 2019 and 2018, the Company has a valuation allowance of approximately $0.2 million and $0.8 million, respectively, related to the deferred tax asset because it does not believe that the stock-based compensation deduction would be utilized as it does not anticipate generating sufficient taxable income in the United States. The Company deducts 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. INCOME TAXES

Impact of Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act (the “TCJA”), was enacted into law, significantly modifying U.S. federal tax laws. The TCJA reduced the federal statutory tax rate for corporations from 35% to 21% effective from January 1, 2018, eliminates alternative minimum tax for corporations, limits net operating loss carryforwards (and eliminates carrybacks), repeals indirect foreign tax credits carry-forward rules, limits the deductibility of interest expense and transitions the system of U.S. international taxation of corporations from a worldwide tax system to a territorial tax system.

During the year ended June 30, 2019, the Company was not significantly impacted by the transition to a territorial tax system and it does not expect a significant impact on its future consolidated effective tax rate as it generates the majority of its taxable income in tax jurisdictions with tax rates that are higher than the new federal statutory tax rate of 21% (mainly South Africa, where its income is taxed at 28%, and Korea, where its income is taxed at 22%).

Deemed repatriation of foreign earnings liability

The TCJA also requires a U.S. shareholder of a specified foreign corporation to include a deemed repatriation of foreign earnings (“Transition Tax”) as part of the transition to a territorial tax system. However, the Company did not incur a net Transition Tax liability because it generated sufficient foreign tax credits to offset any potential repatriation transition tax liability. The Transition Tax is a tax on previously untaxed accumulated and current earnings and profits (“E&P”) of certain of the Company’s foreign subsidiaries. In order to determine the amount of any Transition Tax liability, the Company was required to determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. During the year ended June 30, 2018, the Company made a reasonable estimate of its Transition Tax liability as of June 30, 2018, and recorded a provisional Transition Tax, before the application of any foreign tax credits, of $55.8 million, and had no liability after the application of generated foreign tax credits. In fact, the Company generated excess foreign tax credits. During the year ended June 30, 2019, the Company finalized its Transition Tax liability as of June 30, 2018, and incurred a Transition Tax, before the application of any foreign tax credits, of $56.9 million, and has no liability after the application of generated foreign tax credits.

Global intangible low taxed income

The TCJA creates a new requirement that certain income earned by controlled foreign corporations (“CFCs”) must be included in the gross income of the CFCs’ U.S. shareholder. Global intangible low taxed income (“GILTI”) is the excess of the shareholder’s “net CFC tested income” over the net deemed tangible income return, which is currently defined as the excess of (1) 10 percent of the aggregate of the U.S. shareholder’s pro rata share of the qualified business asset investment of each CFC with respect to which it is a U.S. shareholder over (2) the amount of certain interest expense taken into account in the determination of net CFC-tested income.

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

18. INCOME TAXES (continued)

Impact of Tax Cuts and Jobs Act (continued)

Global intangible low taxed income (continued)

It is the Company's current interpretation of the U.S. tax legislation that GILTI is only applicable for the tax year commencing July 1, 2018 (i.e. its June 2019 tax year). The Company has not incurred a GILTI tax during the year ended June 30, 2019, because it primarily operates in tax jurisdictions (such as South Africa and South Korea) which have higher corporate income tax rates than the United States and certain of its South Africa subsidiaries have incurred operating losses.

Income tax provision

The table below presents the components of income before income taxes for the years ended June 30, 2019, 2018 and 2017:

	2019	2018	2017
South Africa	$(267,637)	$131,366	$129,786
United States	(23,479)	(15,329)	(20,902)
Other	(11,910)	(15,671)	5,572
(Loss) Income before income taxes	$(303,026)	$100,366	$114,456

Presented below is the provision for income taxes by location of the taxing jurisdiction for the years ended June 30, 2019, 2018 and 2017:

	2019	2018 (As restated[A])	2017 (As restated[A])
Current income tax	$17,163	$95,529	$45,857
South Africa	10,076	35,745	35,986
Continuing	3,689	35,745	35,986
Discontinued	6,387	-	-
United States	1,100	55,788	4,686
Other	5,987	3,996	5,185
Deferred taxation (benefit) charge	(12,494)	8,537	(6)
South Africa	(11,117)	9,772	(439)
Continuing	(7,854)	9,772	(439)
Discontinued	(3,263)	-	-
United States	4	477	1,123
Other	(1,381)	(1,712)	(690)
Foreign tax credits generated – United States	(944)	(55,778)	(3,345)
Change in tax rate – United States	-	309	-
Income tax provision	$3,725	$48,597	$42,506

(A) Deferred taxation (benefit) charge – South Africa for 2018 and 2017 have been restated to correct the misstatement discussed in Note 1.

There were no changes to the enacted tax rate in the years ended June 30, 2019, 2018 and 2017. However, during the year ended June 30, 2018, there were changes to the U.S. tax code which, among other things, changed the Federal tax rate. The Company has a June year end and used a blended rate of 28.10% for its tax year ending June 30, 2018, in the U.S. Certain of the Company's deferred tax assets and liabilities which it expected would be utilized/ reversed during the period ended June 30, 2018, were re-measured at the blended rate and those deferred taxes that the Company believed would only be utilized/ reversed in subsequent tax years, were re-measured at 21%. The net impact of the change in the tax rate on the Company's deferred taxes included in income tax expense during the year ended June 30, 2018, was $0.3 million. The Company also provided an additional valuation allowance of approximately $0.6 million during the year ended June 30, 2018, related to net operating loss carryforwards that it believed would not be utilized as a result of the enactment of the TCJA.

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

18. INCOME TAXES (continued)

Income tax provision (continued)

The Company calculated its Transition Tax liability as of June 30, 2018, and incurred a Transition Tax, before the application of any foreign tax credits, of $55.8 million, and has no liability after the application of generated foreign tax credits. During the year ended June 30, 2019, the Company recorded the difference of $1.1 million between the Transition Tax liability of $56.9 million and the provisional Transition Tax liability of $55.8 million in current income tax, United States. During the year ended June 30, 2019, the Company also included the additional foreign tax credits utilized of $1.1 million against this Transition Tax in foreign tax credits generated – United States. During the year ended June 30, 2018, the Company included a provisional Transition Tax of $55.8 million in current income tax, United States. Foreign tax credits of $65.3 million were generated and included in the computation of provisional Transition Tax of which $55.8 million were utilized against the Transition Tax in that year. The foreign tax credits utilized are included in Foreign tax credits generated – United States for the year ended June 30, 2018.

During the year ended June 30, 2019, the Company incurred significant net operating losses through certain of it its South African wholly-owned subsidiaries and recorded a deferred taxation benefit related to these losses. However, the Company has created a valuation allowance for these net operating losses which reduced the deferred taxation benefit recorded. The movement in the valuation allowance for the year ended June 30, 2018, is primarily attributable to the creation of the valuation allowance related to excess tax credits recognized from the preliminary Transition Tax calculation and the creation of a valuation allowance related to net operating losses generated during the year ended June 30, 2018, that the Company does not believe it will be able to utilize in the foreseeable future. The movement in the valuation allowance for the year ended June 30, 2017, is primarily attributable to a decrease resulting from the utilization of foreign tax credits and an increase related to a valuation allowance created for net operating loss carryforwards for the Company's German subsidiaries.

As discussed above, the Company has generated excess foreign tax credits related to the Transition Tax and any distribution received from Net1's subsidiaries will first be applied against the deemed distributions recognized as a result of the Transition Tax as so called "previously taxed income, or PTI,". Therefore distributions actually made during the year ended June 30, 2018, were treated as PTI and did not generate any additional foreign tax credits because the quantum of the actual distributions were lower than the deemed distributions calculated as a result of the Transition Tax. Net1 included actual and deemed dividends received from one of its South African subsidiaries in its year ended June 30, 2017, taxation computation. Net1 applied net operating losses against this income during the year ended June 30, 2017, and did not generate any indirect foreign tax credits. Net1 has applied certain of these foreign tax credits against its current income tax provision for the years ended June 30, 2017.

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, 2019, 2018 and 2017, is as follows:

	2019	2018 (As restated[A])	2017 (As restated[A])
Income taxes at fully-distributed South African tax rates	28.00%	28.00%	28.00%
Movement in valuation allowance	(24.23%)	5.99%	0.07%
Non-deductible items	(4.75%)	15.19%	1.05%
Capital gains differential	(1.54%)	(1.81%)	-%
Taxation on deemed dividends in the United States	1.53%	1.92%	8.00%
Foreign tax rate differential	0.38%	(0.65%)	-%
Prior year adjustments	(0.63%)	(0.02%)	0.07%
Transition Tax	(0.36%)	55.38%	-%
Foreign tax credits	0.37%	(55.58%)	(0.05%)
Change in tax laws – United States	-	-%	-%
Income tax provision	(1.23%)	48.42%	37.14%

(A) Non-deductible items for 2018 and 2017 have been restated to correct the misstatement discussed in Note 1.

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

18. INCOME TAXES (continued)

Income tax provision (continued)

Percentages included in the 2019 column in the reconciliation of income taxes presented above are impacted by the loss incurred by the Company during the year ended June 30, 2019. For instance, the income tax provision of $3.7 million represents (1.39%) multiplied by the net loss before tax of $(268,987). Non-deductible items for the year ended June 30, 2019, includes the impairment losses recognized related to goodwill impaired. Movement in the valuation allowance for the year ended June 30, 2019, includes allowances created related to net operating losses incurred during the year and a valuation allowance created for a deferred tax asset recorded related to the DNI disposal capital losses generated (refer to Note 3) and the Cell C capital loss following the fair value adjustment (refer to Note 7). Non-deductible items for the year ended June 30, 2018, includes the impairment loss recognized related to goodwill impaired, non-deductible interest on borrowings and the accretion of interest. The impact on foreign tax during the year ended June 30, 2018, was primarily due to the impact of the Transition Tax.

Net1 received dividends from one of its South African subsidiaries during the year ended June 30, 2017, which resulted in an increase in taxation on dividends received. No significant foreign tax credits were generated during the year ended June 30, 2017, and the Company utilized foreign tax credits generated in prior years. The utilization of these foreign tax credits used in prior years is included in the movement in the valuation allowance. The non-deductible items during the year ended June 30, 2017, includes transaction related expenses, including legal and consulting fees incurred that are not deductible for tax purposes.

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 of June 30, and their classification, were as follows:

	2019	2018 (As restated[A])
Total deferred tax assets		
Capital losses related to investments[B]	$43,569	$3,226
Net operating loss carryforwards	35,873	10,242
Foreign tax credits	32,799	32,644
Provisions and accruals	13,230	5,975
FTS patent	277	367
Intangible assets	-	687
Other	2,394	4,523
Total deferred tax assets before valuation allowance	128,142	57,664
Valuation allowances	(125,887)	(48,691)
Total deferred tax assets, net of valuation allowance	2,255	8,973
Total deferred tax liabilities:		
Intangible assets	2,676	6,420
Investments	1,621	5,886
Other	489	7,515
Total deferred tax liabilities	4,786	19,821
Reported as		
Long-term deferred tax assets	2,151	4,776
Long-term deferred tax liabilities	4,682	16,067
Net deferred income tax liabilities	$2,531	$11,291

(A) Total deferred tax liabilities: Investments and long-term deferred tax liabilities have been restated to correct the misstatement discussed in Note 1.

(B) Capital losses as of June 30, 2018, were previously included in Other and have been reclassified to Capital losses related to investments.

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

18. INCOME TAXES (continued)

Deferred tax assets and liabilities (continued)

Decrease in total net deferred income tax liabilities

Capital losses related to investments

Capital losses related to investments increased primarily due to the capital loss arising from the difference between the amount paid for Cell C in August 2017 and the its fair value as of June 30, 2019 of $0.0 million and the capital losses incurred related to the DNI disposals (refer to Note 3).

Net operating loss carryforwards

Net operating loss carryforwards have increased primarily as a result of the losses incurred by certain of the Company's wholly-owned South African subsidiaries.

Intangible assets

Deferred tax liabilities – intangible assets have decreased during the year ended June 30, 2019, as a result of the disposition of DNI (refer to Note 3), and amortization of KSNET, Masterpayment and Transact24 intangible assets.

Investments

Deferred tax liabilities – investments has decreased during the year ended June 30, 2019, as a result of the fair value adjustment to reduce the carrying value of the investment in Cell C to below its initial cost.

Increase in valuation allowance

At June 30, 2019, the Company had deferred tax assets of $2.3 million (2018: $9.0 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, 2019, the Company had a valuation allowance of $125.9 million (2018: $48.7 million) to reduce its deferred tax assets to estimated realizable value. The movement in the valuation allowance for the years ended June 30, 2019 and 2018, is presented below:

	Total	Capital losses related to investments(A)	Net operating loss carry-forwards(A)	Foreign tax credits	FTS patent	Other(A)(B)
July 1, 2017	$38,967	$997	$3,699	$32,574	$120	$1,577
Charged to statement of operations	9,582	2,229	4,573	10	-	2,770
Utilized	60	-	-	60	-	-
Change in tax laws	(894)	-	(263)	-	-	(631)
Foreign currency adjustment	976	-	1,038	-	(63)	1
June 30, 2018	48,691	3,226	9,047	32,644	57	3,717
Reversed to statement of operations	(881)	-	(198)	-	(57)	(626)
Charged to statement of operations	79,029	40,159	26,570	155	-	12,145
Utilized	(1,730)	-	(10)	-	-	(1,720)
Foreign currency adjustment	778	184	452	-	-	142
June 30, 2019	$125,887	$43,569	$35,861	$32,799	$-	$13,658

(A) Capital losses related to investments for the prior year have been reclassified from Other.
(B) Net operating loss carry-forwards of $3,602 as of June 30, 2018, that were previously included in the other caption have been reclassified to the net operating loss carry-forwards caption.

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

18. INCOME TAXES (continued)

Deferred tax assets and liabilities (continued)

Net operating loss carryforwards and foreign tax credits

United States

The TCJA amends the rules regarding net operating loss carryforwards for Federal income tax purposes effective from July 1, 2018. The new rules prohibit net operating loss carrybacks, allow indefinite net operating loss carryforwards and limit the amount of the net operating loss carryforwards generated after July 1, 2018, that may be used against future taxable income, to 80% of taxable income before the net operating loss deduction. These new rules did not impact the Company's net operating loss carryforwards generated during the year ended June 30, 2018 and in prior periods.

As of June 30, 2019, Net1 had net operating loss carryforwards that will expire, if unused, as follows:

Year of expiration	**U.S. net operating loss carry forwards**
2024	$1,874
2028	$4,423

During the year ended June 30, 2019 and 2018, Net1 generated additional direct foreign tax credits related to dividends received from a foreign investment. Net1 had no net unused foreign tax credits that are more likely than not to be realized as of June 30, 2019 and 2018, respectively.

Uncertain tax positions

As of June 30, 2019 and 2018, the Company has unrecognized tax benefits of $1.2 million and $0.8 million, respectively, all of which would impact the Company's effective tax rate. The Company files income tax returns mainly in South Africa, South Korea, Germany, Hong Kong, India, Malta, the United Kingdom, Botswana and in the U.S. federal jurisdiction. As of June 30, 2019, 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, 2016. 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, 2019, 2018 and 2017:

	2019	**2018**	**2017**
Unrecognized tax benefits - opening balance	$838	$475	$1,930
Gross increases - tax positions in prior periods	107	196	-
Gross decreases - tax positions in prior periods	-	-	(2,109)
Gross increases - tax positions in current period	307	311	440
Gross decreases - tax positions in current period	-	(150)	-
Lapse of statute limitations	-	-	-
Foreign currency adjustment	(38)	6	214
Unrecognized tax benefits - closing balance	$1,214	$838	$475

As of each of June 30, 2019 and 2018, the Company had accrued interest related to uncertain tax positions of approximately $0.1 million, respectively, on its consolidated balance sheet. As of each of June 30, 2019 and 2018, the Company had accrued penalties related to uncertain tax positions of approximately $0.2 million, respectively, on its consolidated balance sheet.

19. (LOSS) EARNINGS PER SHARE

The Company has issued redeemable common stock (refer to Note 14) which is redeemable at an amount other than fair value. Redemption of a class of common stock at other than fair value increases or decreases the carrying amount of the redeemable common stock and is reflected in basic earnings per share using the two-class method. There were no redemptions of common stock, or adjustments to the carrying value of the redeemable common stock during the years ended June 30, 2019, 2018 or 2017. Accordingly, the two-class method presented below does not include the impact of any redemption.

Basic (loss) 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 (loss) earnings per share have been calculated using the two-class method and basic earnings per share for the years ended June 30, 2019, 2018 and 2017, reflects only undistributed earnings. The computation below of basic (loss) earnings per share excludes the net (loss) 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 (loss) 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 (loss) earnings per share includes the dilutive effect of a portion of the restricted stock granted to employees in August and November 2014, August 2015, August 2016, August 2017, March 2018 and September 2018 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.

The following table presents net (loss) income attributable to Net1 and the share data used in the basic and diluted (loss) earnings per share computations using the two-class method for the years ended June 30, 2019, 2018 and 2017:

	2019	2018 (As restated[A])	2017 (As restated[A])
	(in thousands except percent and per share data)		
Numerator:			
Net (loss) income attributable to Net1	$(307,618)	$64,246	$73,070
Undistributed earnings	(307,618)	64,246	73,070
Continuing	(306,607)	61,855	73,070
Discontinued	$(1,011)	$2,391	$-
Percent allocated to common shareholders (Calculation 1)	99%	98%	99%
Numerator for (loss) earnings per share: basic and diluted	$(303,299)	$63,175	$72,302
Continuing	(302,302)	60,824	72,302
Discontinued	$(997)	$2,351	$-
Denominator:			
Denominator for basic (loss) earnings per share: weighted-average common shares outstanding	55,963	55,860	53,966
Effect of dilutive securities:			
Stock options	18	51	109
Denominator for diluted (loss) earnings per share: adjusted weighted average common shares outstanding and assumed conversion	55,981	55,911	54,075

19. (LOSS) EARNINGS PER SHARE (continued)

	2019	2018 (As restated[A])	2017 (As restated[A])
	(in thousands except percent and per share data)		
(Loss) Earnings per share:			
Basic	$(5.42)	$1.13	$1.34
Continuing	($5.40)	$1.09	$1.34
Discontinued	($0.02)	$0.04	$0.00
Diluted	$(5.42)	$1.13	$1.33
Continuing	($5.40)	$1.09	$1.33
Discontinued	($0.02)	$0.04	$0.00
(Calculation 1)			
Basic weighted-average common shares outstanding (A)	55,963	55,860	53,966
Basic weighted-average common shares outstanding and unvested restricted shares expected to vest (B)	56,760	56,807	54,539
Percent allocated to common shareholders (A) / (B)	99%	98%	99%

(A) Certain amounts have been restated to correct the misstatement discussed in Note 1.

Options to purchase 864,579 shares of the Company's common stock at prices ranging from $6.20 to $11.23 per share were outstanding during the year ended June 30, 2019, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the Company's common shares. The options, which expire at various dates through September 7, 2028, were still outstanding as of June 30, 2019.

20. SUPPLEMENTAL CASH FLOW INFORMATION

The following table presents the supplemental cash flow disclosures for the years ended June 30, 2019, 2018 and 2017:

	2019	2018	2017
Cash received from interest	$5,595	$16,835	$21,130
Cash paid for interest	$10,636	$8,645	$3,713
Cash paid for income taxes	$13,110	$41,065	$45,165

Investing activities

The transaction referred to in Note 3 under which the Company reduced its shareholding in DNI from 55% to 38% and used the proceeds, of $27.6 million, from the sale to settle its obligation, of $27.6 million, to subscribe for additional shares in DNI was closed using a cashless settlement process. Therefore, the proceeds from sale and the settlement of the obligation to subscribe for additional shares in DNI were not included in net cash (used in) provided by investing activities in the Company's audited consolidated statement of cash flows for the year ended June 30, 2019.

The transaction referred to in Note 3 and Note 12 under which the Company reduced its shareholding in DNI from 38% to 30% and used the proceeds from the sale to settle a portion of its long-term borrowings, of $15.0 million, was closed using a cashless settlement process. Therefore, the proceeds from sale was not included in net cash provided by (used in) investing activities in the Company's consolidated statement of cash flows for the year ended June 30, 2019.

As disclosed in Note 9, during the year ended June 30, 2018, the Company agreed to underwrite the Finbond rights offer up to an amount of 55,585,514 shares and utilized a $10.0 million loan due by Finbond to the Company to acquire the 55,585,514 Finbond shares. Therefore, as this transaction was net settled in 2018 and there was no transfer of cash between the parties, the repayment of the loan by Finbond and the acquisition of 55,585,514 Finbond shares are not included within net cash provided by (utilized) in investing activities in the Company's consolidated statement of cash flows for the year ended June 30, 2018.

20. SUPPLEMENTAL CASH FLOW INFORMATION (continued)

Financing activities

The transaction referred to in Note 3 and Note 12 under which the Company reduced its shareholding in DNI from 38% to 30% and used the proceeds from the sale to settle a portion of its long-term borrowings, of $15.0 million was closed using a cashless settlement process. Therefore, the part settlement of the long-term borrowings was not included in net cash (used in) provided by financing activities in the Company's consolidated statement of cash flows for the year ended June 30, 2019.

Treasury shares, at cost included in the Company's consolidated balance sheet as of June 30, 2016, includes 47,056 shares of the Company's common stock acquired for approximately $0.5 million which were paid for on July 1, 2016. The liability for this payment was included in accounts payable on the Company's consolidated balance sheet as of June 30, 2016. The payment of approximately $0.5 million is included in acquisition of treasury stock in the Company's consolidated statement of cash flows for the year ended June 30, 2017.

21. OPERATING SEGMENTS

Operating segments

The Company discloses segment information as reflected in the management information systems reports that its chief operating decision maker uses in making decisions and to report certain entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets or reports material revenues.

The Company currently has three reportable segments: South African transaction processing, International transaction processing and Financial inclusion and applied technologies. The South African transaction processing and Financial inclusion and applied technologies segments operate mainly within South Africa while the International transaction processing segment operates mainly within South Korea, Hong Kong and the European Union. 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 processing segment currently consists mainly of an ATM infrastructure deployed in South Africa, transaction processing for retailers, utilities, and banks, and a welfare benefit distribution service provided to the South African government through to September 30, 2018. The welfare benefit distribution services ceased following the SASSA contract expiration on September 30, 2018. Fee income is earned from customers utilizing our ATM infrastructure. Utility providers and banks are charged a fee for transaction processing services performed on their behalf at retailers. Fee income was also earned based on the number of recipient cardholders paid through to September 30, 2018. There were no individually significant customers providing more than 10% of total revenue during the year ended June 30, 2019. This segment had an individually significant customer that accounted for more than 10% of the total revenue of the Company during the years ended June 30, 2018 (19%) and 2017 (22%). During the years ended June 30, 2019 and 2018, the operating segment incurred goodwill impairment losses of $1.2 million and $1.1 million, respectively (refer to Note 10).

The International transaction processing segment consists mainly of activities in South Korea from which the Company generates revenue from the provision of payment processing services to merchants and card issuers. This segment generates fee revenue from the provision of payment processing services and to a lesser extent from the sale of goods, primarily point of sale terminals, to customers in South Korea. Fees generated from payment services processing and other processing activities by Transact24 and Masterpayment are included in this segment. During the year ended June 30, 2019 and 2018, the operating segment incurred a goodwill impairment loss of $7.0 million and $19.9 million, respectively (refer to Note 10).

The Financial inclusion and applied technologies segment derives revenue from the provision of short-term loans as a principal and the provision of bank accounts, as a fixed monthly fee per account is charged for the maintenance of these accounts. This segment also includes fee income and associated expenses from merchants and card holders using the Company's merchant acquiring system, the sale of prepaid products (electricity and airtime) as well as the sale of hardware and software. Finally, the Company earns premium income from the sale of life insurance products through its insurance business. DNI was acquired on June 30, 2018, and has been allocated to the Financial inclusion and applied technologies segment. DNI contributed to segment performance for the first nine months of the year ended June 30, 2019. DNI did not contribute to segment performance during the last three months of the year ended June 30, 2019 and during the year ended June 30, 2018.

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

21. OPERATING SEGMENTS (continued)

Operating segments (continued)

DNI primarily derives revenue from fees generated through the distribution of starter packs and, to a less extent, from interest income earned through the provision of financing to Cell C in order for it to expand components of Cell C's telecommunications infrastructure in South Africa. During the year ended June 30, 2019, the operating segment incurred a goodwill impairment loss of $6.2 million (refer to Note 10).

Corporate/eliminations includes the Company's head office cost center and the amortization of acquisition-related intangible assets. The $5.3 million impairment loss related to the impairment of DNI intangible assets (refer to Note 3) during the year ended June 30, 2019, has been allocated to corporate/ elimination. The $8.0 million paid to the Company's founder, former chief executive officer and former member of our board of directors during the year ended June 30, 2017, is also included in corporate/ eliminations.

The reconciliation of the reportable segments revenue to revenue from external customers for the years ended June 30, 2019, 2018 and 2017, respectively, is as follows:

	Revenue			
	Reportable Segment	Corporate/ Eliminations (Note 13)	Inter-segment	From external customers
South African transaction processing	$96,038	$-	$6,990	$89,048
International transaction processing	148,268	-	-	148,268
Financial inclusion and applied technologies	146,184	-	2,801	143,383
Reportable segments	390,490	-	9,791	380,699
Corporate/Eliminations – revenue refund	-	(19,709)	-	(19,709)
Total for the year ended June 30, 2019	$390,490	($19,709)	$9,791	$360,990
South African transaction processing	$268,047	$-	$29,949	$238,098
International transaction processing	180,027	-	-	180,027
Financial inclusion and applied technologies	221,906	-	27,142	194,764
Total for the year ended June 30, 2018	$669,980	$-	$57,091	$612,889
South African transaction processing	$249,144	$-	$24,518	$224,626
International transaction processing	176,729	-	-	176,729
Financial inclusion and applied technologies	235,901	-	27,190	208,711
Total for the year ended June 30, 2017	$661,774	$-	$51,708	$610,066

The Company does not allocate interest income, interest expense or income tax expense to its reportable segments. The Company evaluates segment performance based on segment operating income before acquisition-related intangible asset amortization which represents operating income before acquisition-related intangible asset amortization and expenses allocated to Corporate/Eliminations, all under GAAP. The reconciliation of the reportable segments measure of profit or loss to (loss) income before income taxes for the years ended June 30, 2019, 2018 and 2017, respectively, is as follows:

	For the years ended June 30,		
	2019[(1)]	2018	2017
Reportable segments measure of profit or loss	$(42,692)	$85,690	$130,799
Operating loss: Corporate/Eliminations	(70,816)	(26,741)	(33,756)
Change in fair value of equity securities	(167,459)	32,473	-
Loss on disposal of DNI	(5,771)	-	-
Interest income	7,229	17,885	20,897
Interest expense	(10,724)	(8,941)	(3,484)
Impairment of Cedar Cellular note	(12,793)	-	-
(Loss) Income before income taxes	$(303,026)	$100,366	$114,456

(1) - Operating loss: Corporate/Eliminations includes $34.0 million related to the accrual referred to in Note 13.

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

21. OPERATING SEGMENTS (continued)

The following tables summarize segment information for the years ended June 30, 2019, 2018 and 2017:

	For the years ended June 30,		
	2019	**2018**	**2017**
Revenues			
South African transaction processing	$96,038	$268,047	$249,144
International transaction processing	148,268	180,027	176,729
Financial inclusion and applied technologies	146,184	221,906	235,901
Continuing	89,847	221,906	235,901
Discontinued	56,337	-	-
Total	**390,490**	**669,980**	**661,774**
Continuing	334,153	669,980	661,774
Discontinued	56,337	-	-
Operating income (loss)			
South African transaction processing(1)	(30,771)	42,796	59,309
International transaction processing	2,837	(12,478)	13,705
Financial inclusion and applied technologies(1)	(14,758)	55,372	57,785
Continuing(1)	(39,158)	55,372	57,785
Discontinued	24,400	-	-
Subtotal: Operating segments	(42,692)	85,690	130,799
Corporate/Eliminations	(70,816)	(26,741)	(33,756)
Continuing	(58,097)	(22,127)	(33,756)
Discontinued	(12,719)	(4,614)	-
Total(1)	**(113,508)**	**58,949**	**97,043**
Continuing(1)	(125,189)	63,563	97,043
Discontinued	11,681	(4,614)	-
Depreciation and amortization			
South African transaction processing	3,612	4,625	4,614
International transaction processing	9,962	17,627	21,366
Financial inclusion and applied technologies	1,968	1,441	1,422
Continuing	1,355	1,441	1,422
Discontinued	613	-	-
Subtotal: Operating segments	15,542	23,693	27,402
Corporate/Eliminations	21,807	11,791	13,976
Continuing	14,394	11,791	13,976
Discontinued	7,413	-	-
Total	**37,349**	**35,484**	**41,378**
Continuing	29,323	35,484	41,378
Discontinued	8,026	-	-
Expenditures for long-lived assets			
South African transaction processing	3,590	3,988	2,473
International transaction processing	3,607	4,397	7,745
Financial inclusion and applied technologies	2,219	1,264	977
Continuing	1,488	1,264	977
Discontinued	731	-	-
Subtotal: Operating segments	9,416	9,649	11,195
Corporate/Eliminations	-	-	-
Total	**9,416**	**9,649**	**11,195**
Continuing	8,685	9,649	11,195
Discontinued	$731	$-	$-

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

21. OPERATING SEGMENTS (continued)

(1) South African transaction processing and Financial inclusion and applies technologies include retrenchment costs for the year ended June 30, 2019, of: $4,665 and $1,604, respectively, for total retrenchment costs for the year ended June 30, 2019, of $6,269. The retrenchment costs are included in selling, general and administration expense on the consolidated statement of operations for the year ended June 30, 2019.

The segment information as reviewed by the chief operating decision maker does not include a measure of 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.

Geographic Information

Long-lived assets based on the geographic location for the years ended June 30, 2019, 2018 and 2017, are presented in the table below:

	Long-lived assets		
	2019	**2018 (as restated[A])**	**2017 (as restated[B])**
South Africa	$143,924	$496,442	$72,443
South Korea	149,390	177,388	192,473
Rest of world	83,972	116,643	77,723
Total	$377,286	$790,473	$342,639

(A) The South Africa and total amounts have been restated by $1,976 to correct the misstatement discussed in Note 1.
(B) The South Africa and total amounts have been restated by $1,927 to correct the misstatement discussed in Note 1.

22. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Company leases certain premises. At June 30, 2019, the future minimum payments under operating leases consist of:

Due within 1 year	$6,010
Due within 2 years	$2,654
Due within 3 years	$1,122
Due within 4 years	$518
Due within 5 years	$-

Operating lease payments related to premises and equipment were $12.1 million, $10.7 million and $9.8 million, respectively, for the years ended June 2019, 2018 and 2017, respectively.

Capital commitments

As of June 30, 2019 and 2018, the Company had outstanding capital commitments of approximately $2.0 million and $1.1 million, respectively.

22. COMMITMENTS AND CONTINGENCIES (continued)

Purchase obligations

As of June 30, 2019 and 2018, the Company had purchase obligations totaling $3.5 million and $5.6 million, respectively. The purchase obligations as of June 30, 2019, primarily include inventory that will be delivered to the Company and sold to customers in the second half of calendar 2019.

Guarantees

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

Nedbank has issued guarantees to these third parties amounting to ZAR 93.6 million ($6.6 million, translated at exchange rates applicable as of June 30, 2019) and thereby utilizing part of the Company's short-term facility. The Company in turn has provided nonrecourse, unsecured counter-guarantees to Nedbank for ZAR 93.6 million ($6.6 million, translated at exchange rates applicable as of June 30, 2019). The Company pays commission of between 0.4% per annum to 1.94% per annum of the face value of these guarantees and does not recover any of the commission from third parties.

The Company has not recognized any obligation related to these counter-guarantees in its consolidated balance sheet as of June 30, 2019. The maximum potential amount that the Company could pay under these guarantees is ZAR 93.6 million ($6.6 million, translated at exchange rates applicable as of June 30, 2019). The guarantees have reduced the amount available for borrowings under the Company's indirect short-term credit facility described in Note 12.

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 other matters, individually or in the aggregate, will not have a material adverse impact on the Company's financial position, results of operations or cash flows.

23. RELATED PARTY TRANSACTIONS

Transact24 had an existing relationship in place between itself and a company controlled by the spouse of Transact24's Managing Director at the time of the Transact24 acquisition during the year ended June 30, 2016. This arrangement therefore was also in place before the Managing Director became an executive officer of the Company. This relationship was disclosed to the Company during the due diligence process and has been considered by the Company's management to be critical to the ongoing operations of Transact24. The company controlled by the spouse of the managing director performs transaction processing and Transact24 provides technical and administration services to the company.

The Company has recorded revenue of approximately $0.4 million, $4.4 million and $4.2 million related to this relationship during the years ended June 30, 2019, 2018 and 2017, respectively. Transact24's Managing Director has an indirect interest in these transactions as a result of his relationship with his spouse, with an approximate value of $0.1 million, $0.3 million and $1.6 million during the years ended June 30, 2019, 2018 and 2017, respectively. No amounts were due to the Company as of June 30, 2019. The Company was due $0.2 million, as of June 30, 2018, related to the service provided by Transact24 and these amounts are included in accounts receivable, net and other receivables as of June 30, 2018.

DNI leased a building that was owned by a company in which Mr. A.J. Dunn, DNI's Chief Executive Officer, has a direct shareholding of 16%. The property was sold in November 2018. During the nine months ended March 31, 2019, DNI paid rental of approximately $1.0 million. On April 2, 2019, the Company's board of directors determined that Mr. A.J. Dunn no longer performs a policy-making function by virtue of the change in his position within the Net1 group and is, therefore, no longer an executive officer.

24. UNAUDITED QUARTERLY RESULTS

The following tables contain selected unaudited consolidated statements of operations information for each quarter of fiscal 2019 and 2018:

	Three months ended				
	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Year ended June 30, 2019
	(In thousands except per share data)				
Revenue	$51,472	$86,484	$97,150	$125,884	$360,990
Continuing (Q4 includes $19,709 refund)	51,472	68,642	77,442	107,097	304,653
Discontinued	-	17,842	19,708	18,787	56,337
Operating income	(49,646)	(21,683)	(43,075)	896	(113,508)
Continuing	(49,646)	(22,356)	(48,901)	(4,286)	(125,189)
Discontinued	-	673	5,826	5,182	11,681
Net income attributable to Net1	(183,694)	(54,784)	(63,941)	(5,199)	(307,618)
Continuing	(183,694)	(50,299)	(65,469)	(7,145)	(306,607)
Discontinued	$-	$(4,485)	$1,528	$1,946	$(1,011)
Net income per share, in United States dollars					
Basic earnings attributable to Net1 shareholders	($3.23)	($0.96)	($1.13)	($0.09)	($5.42)
Continuing	($3.23)	($0.88)	($1.16)	($0.12)	($5.40)
Discontinued	$0.00	($0.08)	$0.03	$0.03	($0.02)
Diluted earnings attributable to Net1 shareholders	($3.23)	($0.96)	($1.12)	($0.09)	($5.42)
Continuing	($3.23)	($0.88)	($1.15)	($0.13)	($5.40)
Discontinued	$0.00	($0.08)	$0.03	$0.03	($0.02)

	Three months ended				
	Jun 30, 2018 (as restated[A])	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Year ended June 30, 2018 (as restated[A])
	(In thousands except per share data)				
Revenue	$149,194	$162,721	$148,416	$152,558	$612,889
Continuing	149,194	162,721	148,416	152,558	612,889
Discontinued	-	-	-	-	-
Operating income	10,072	7,564	16,307	25,006	58,949
Continuing	14,686	7,564	16,307	25,006	63,563
Discontinued	(4,614)	-	-	-	(4,614)
Net income attributable to Net1	2,766	32,375	9,622	19,483	64,246
Continuing	5,577	29,084	8,576	18,618	61,855
Discontinued	$(2,811)	$3,291	$1,046	$865	$2,391
Net income per share, in United States dollars					
Basic earnings attributable to Net1 shareholders	$0.05	$0.57	$0.17	$0.34	$1.13
Continuing	$0.10	$0.51	$0.15	$0.32	$1.09
Discontinued	$(0.05)	$0.06	$0.02	$0.02	$0.04
Diluted earnings attributable to Net1 shareholders	$0.05	$0.57	$0.17	$0.34	$1.13
Continuing	$0.10	$0.51	$0.15	$0.32	$1.09
Discontinued	$(0.05)	$0.06	$0.02	$0.02	$0.04

(A) Certain amounts have been restated to correct the misstatement discussed in Note 1. The impact of the restatement for the year ended June 30, 2018, has been recorded during the three months ended June 30, 2018.

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