NET 1 UEPS TECHNOLOGIES INC
Form 10-K
August 25, 2011

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, 2011**

or

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

For the transition period from to

Commission file number: **000-31203**

NET 1 UEPS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filings requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

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

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

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

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

Yes [ ] No [X]

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of December 31, 2010 (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 $408,272,810. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of August 23, 2011, 45,152,805 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 2011 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, 2011

PART I

FORWARD LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties that could cause our actual results to differ materially from those projected, anticipated or implied in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in Item 1A Risk Factors. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, would, expects, plans, intends, anticipates, predicts, potential or continue or the negative of such terms and other comparable terminology. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Annual Report. We undertake no obligation to release publicly any revisions to the forward-looking statements after the date of this Annual Report. You should carefully review the risk factors described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by us in our 2012 fiscal year, which runs from July 1, 2011 to June 30, 2012.

ITEM 1. BUSINESS

Overview

We provide payment solutions and transaction processing services across a wide range of industries and in various geographies.

We have developed and market a smart-card based alternative payment system for the unbanked and underbanked populations of developing economies. Our market-leading system enables the estimated four billion people who generally have limited or no access to a bank account to enter affordably into electronic transactions with each other, government agencies, employers, merchants and other financial service providers. Our universal electronic payment system, or UEPS, uses biometrically secure smart cards that operate in real-time but offline, unlike traditional payment systems offered by major banking institutions that require immediate access through a communications network to a centralized computer. This offline capability means that users of our system can conduct transactions at any time with other card holders in even the most remote areas so long as a smart card reader, which is often portable and battery powered, is available. Our off-line systems also offer the highest level of availability and affordability by removing any elements that are costly and are prone to outages. In addition to effecting purchases, cash-backs and any form of payment, our system can be used for banking, health care management, international money transfers, voting and identification.

We also develop and provide secure transaction technology solutions and services, and offer transaction processing, financial and clinical risk management solutions to various industries. Our core competencies around secure online transaction processing, cryptography, mobile telephony and integrated circuit card (chip/smart card) technologies are principally applied to electronic commerce transactions in the telecommunications, banking, payroll, retail, health care, petroleum and utility industries.

Our technology is widely used in South Africa today, where we distribute pension and welfare payments, using our UEPS technology, to over 3.2 million recipients in five of South Africa s nine provinces, process debit and credit card payment transactions on behalf of retailers that we believe represent nearly 65% of retailers within the formal retail sector in South Africa through our EasyPay system, process value-added services such as bill payments and prepaid electricity for the major bill issuers and local councils in South Africa and provide mobile telephone top-up transactions for all of the South African mobile carriers. We are the largest provider of third-party payroll payments in South Africa through our FIHRST service that processes monthly payments for approximately 1,250 employers representing over 850,000 employees. Our MediKredit service provides the majority of funders and providers of healthcare in South Africa with an on-line real-time management system for healthcare transactions. We perform a similar service in the US through our XeoHealth subsidiary.

During the second quarter of fiscal 2011, we acquired KSNET, the second largest transaction processor by volume in Korea, which offers card processing, payment gateway and banking value-added services in that country. The acquisition of KSNET expands our international footprint as well as diversifies our revenue, earnings and product portfolio.

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

Market Opportunity

Services for the Under-banked: According to the United States Census Bureau, the world s population is currently approximately seven billion people. Yet of this total, it has been reported that over four billion people earn less than the purchasing parity equivalent of two dollars per day. In general, these people either have no bank account or very limited access to formal financial services. This situation arises when either banking fees are too high relative to an individual s income, a bank account provides little or no meaningful benefit or there is insufficient infrastructure to provide financial services economically in the individual s geographic location. We refer to these people as the unbanked and the under-banked. These individuals typically receive wages, welfare benefits, money transfers or loans in the form of cash, and conduct commercial transactions, including the purchase of food and clothing, in cash.

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

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

Online transaction processing services: The rapid global growth of retail credit and debit card transactions is reflected in the March 2011 Nilson Report, according to which worldwide annual general purpose card purchase volume increased 16.4% to $12.7 trillion in 2010. General purpose cards include the major card network brands such as MasterCard, Visa, China UnionPay and American Express. We operate the largest bank-independent transaction processing service in South Africa 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. Following our acquisition of KSNET, we operate the second largest transaction processor by volume in Korea, where we provide card processing, banking value-added services and payment gateway functionality to the retail industry. Our expertise in on-line transaction processing and value-added services provides us with the opportunity to participate globally in this rapidly growing market segment.

Mobile Payments: In February 2010, the United Nations International Telecommunications Union estimated that there were now approximately 4.6 billion mobile phone subscribers deployed globally, and we believe that this number includes subscribers in the majority of our targeted emerging economies. Despite lacking access to formal financial services, large proportions of the under-banked customer segment own and utilize mobile phones. As a result, mobile phones are increasingly being viewed as a channel through which this underserved population can gain access to formal financial and other services. Today, most mobile payment solutions offered by various participants in the industry largely provide access to information and basic services, such as allowing consumers to check account balances or transfer funds between existing accounts with the financial institution, but they offer limited functionality and ability to use the mobile device as an actual payments and banking instrument. Our UEPS solution is enabled to run on the SIM cards in mobile phones and provides our users with secure payment and banking functionality.

Our proprietary Net1 Mobile Virtual Card, or MVC, technology, when used on a mobile device, is ideally suited to significantly reducing fraud in card not present transactions typically performed in developed economies such as the United States and Western Europe and is also a comprehensive banking and payment solution for the under-banked population in developing economies.

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

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

Our Key Products

The UEPS Technology

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

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

Our UEPS technology includes functionality that allows the following:

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

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

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

Payment Transaction Management

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

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

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

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

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

Healthcare Transaction Management

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

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

Payroll Transaction Management

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

MVC

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

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

The MVC solution uses the mobile phone to generate virtual cards. The mobile phone is the most available, cost-effective, secure and portable platform for generating virtual cards for remote payments (online, phone and catalogue orders). Following a simple registration process, the virtual card application is activated over-the-air, enabling the phone to generate virtual card numbers completely off-line. MVCs are used like traditional plastic credit or debit cards, except that as soon as the transaction is authorized, the generated card number expires immediately.

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

The benefits of MVC include, for:

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

Financial services

We have developed a suite of financial services that is offered to customers utilizing our payment solutions. We are able to provide our customers with competitive microfinance, insurance and money transfer products based on our understanding of their risk profiles and lifestyle requirements.

Hardware solutions

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

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

- *Chip and GSM licensing* - We supply chip cards into the South African and other international markets. We work with mobile network operators, card manufacturers and semiconductor manufacturers to provide card technology, solutions and software that enable mobile telephony, mobile transactions and value-added services to take place in a trusted, secure and convenient manner. These chip products and technology include operating system and application development, card manufacture and production, from concept and design through, printing, packaging and distribution. At the core of our chip business is the strategy of licensing chip software to a wide spectrum of other industry participants.

- *POS solutions* We supply our secure, integrated POS payment products and systems, including:

  - FlexiLANE An in-store controller ideally suited to multi-lane retail and petroleum station environments. The in- store controller forms an interfacing and concentration layer between a group of distributed terminal devices and a centralized payment and value-added service, or VAS, aggregator. This helps large retailers and petroleum companies to overcome the challenges associated with processing multiple transactions from multiple access devices using multiple tender types;

  - FlexiGATE A terminal and payment gateway that manages the routing of all FlexiLANE traffic and enables retailers to supply VAS such as airtime top-up, electricity payment and bill payment;

  - FlexiPOS An innovative retail solution that allows the retailer's various payment and VAS solution requirements to be streamlined into a single payment terminal. FlexiPOS transforms the POS terminal into a convenient and consumer friendly place of purchase, place of payment and place of service; and

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

  - Ingenico POS equipment

Our Strategy

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

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

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

- *Government focus on expansion of social benefits* As a result of the South African government s focus on the provision of social grants as a core element of its social assistance and poverty alleviation policies, we believe that we remain well- positioned to continue to provide our payment services to the government and beneficiaries. We believe that there is a compelling argument for the South African Social Security Agency, or SASSA, and other government agencies to utilize our innovative, off-line, secure, efficient and low-cost payment solution to reach beneficiaries across the country, even in the most remote and deep rural areas where the communication and electricity infrastructure is sparse or non-existent.

- *Increasing adoption of existing services* Our technology supports a variety of other products and smart card to smart card, or S2S, services that expand the use of our technology and provide us with new sources of transaction-based revenues. During the last several years, we have introduced these new products and services in South Africa for existing and newly-enrolled cardholders. We have installed our POS terminals in thousands of mostly rural merchant locations throughout the country which allows beneficiaries to receive their grants at these locations and transact business with the retailers using our smart card. During fiscal 2011, we processed 19.1 million transactions with a total value of ZAR 11.6 billion at these merchant locations.

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

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

  - <u>Value-added services through multiple EasyPay platforms</u> EasyPay is the largest bank-independent financial switch and merchant processor in South Africa for credit and debit card transactions. EasyPay processed 708 million transactions with a total value of ZAR 164.9 billion during fiscal 2011. Our technology also allows us to provide a variety of additional, value-added payment services, such as bill payment, prepaid mobile top-up, prepaid utility services and gift cards, that we can sell into our existing card holder base as well as to new customers. We have developed additional platforms to access EasyPay s offerings such as a self service kiosks, or EasyPay Kiosk, and web and mobile phone applications to create a larger, seamless, value-added payments eco-system.

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

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

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

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

Our Clusters and Business Units

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

Transactional Solutions Cluster

Cash Paymaster Services (CPS)

Our CPS business unit deploys our UEPS Social Grant Distribution technology to distribute social welfare grants on a monthly basis to roughly 3.2 million beneficiaries in five of South Africa s nine provinces. These social welfare grants are distributed on behalf of SASSA. During our 2011, 2010 and 2009 fiscal years, we derived 47%, 66% and 65% of our revenues respectively, from CPS social welfare grant distribution business.

CPS provides a secure and affordable transacting channel between social welfare grant beneficiaries, SASSA and formal businesses. CPS enrolls social welfare grant beneficiaries by issuing them a UEPS smart card that digitally stores their biometric fingerprint templates on the smart card, enabling them to access their social welfare grants securely at any time or place. The smart card is issued to the beneficiary on site and utilizes optical fingerprint sensor technology to identify and verify a beneficiary. The beneficiary simply inserts a smart card into the POS device and is prompted to present his fingerprint. If the fingerprint matches the one stored on the smart card, the smart card is loaded with the value created for that particular smart card.

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

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

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

KSNET

Our KSNET business unit is a significant payment solutions provider in Korea, has the broadest product offering in the country, a base of approximately 200,000 merchants and an extensive direct and indirect sales network.

KSNET is based in Seoul, Korea. KSNET s core operations comprise of three project offerings, namely card value-added network, or VAN, payment gateway, or PG, and banking VAN. KSNET is able to realize significant synergies across these core operations because it is the only payment solutions provider that offers all three of these offerings in Korea. Over 90% of KSNET s revenue comes from the provision of payment processing services to merchants and card issuers through its card VAN.

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

- *Card VAN* KSNET s card VAN offering manages credit and other non-cash alternative payment mechanisms for retail transaction processing for a wide range of merchants and every credit card issuer in Korea. Non-cash alternative payment mechanisms for which KSNET provides processing services include all credit and debit cards and e-currency (K-cash and TMoney). KSNET also records cash transactions for the Korean National Tax Service in the form of cash receipts.

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

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

EasyPay

Our EasyPay business unit operates the largest bank-independent financial switch in Southern Africa and is based in Cape Town, South Africa. EasyPay focuses on the provision of high-volume, secure and convenient payment, prepayment and value-added services to the South African market. EasyPay s infrastructure connects into all major South African banks and switches both debit and credit card EFT transactions for some of South Africa s leading retailers and petroleum companies. It is a South African Reserve Bank, or SARB, approved third-party payment processor.

In addition to its core transaction processing and switching operations, EasyPay provides a complete end-to-end reconciliation and settlement service to its customers. This service includes dynamic reconciliation as well as easy-to-use report and screen-query tools for down-to-store-level, management and control purposes.

The EasyPay suite of services includes:

- *EFT* EasyPay switches credit, debit and fleet card transactions for leading South African retailers and petroleum companies;
- *EasyPay bill payment* EasyPay offers consumers a point-of-sale bill payment service which is integrated into a large number of national retailers, the internet, self service kiosks and mobile handsets. EasyPay processes monthly account payment transactions for over 300 different bill issuers including major local authorities, telephone companies, utilities, medical service providers, traffic departments, mail order companies, banks and insurance companies;
- *EasyPay prepaid electricity* This service enables local utility companies such as Eskom Holdings Limited and a growing number of local authorities on a national basis to sell prepaid electricity to their customers;
- *Prepaid airtime* EasyPay vends airtime at retail POS terminals for all the South African mobile telephone network operators;
- *Electronic gift voucher* EasyPay supports the electronic generation, issuance and redemption of paper or card-based gift vouchers;
- *EasyPay licenses* EasyPay enables the issuance of new South African Broadcasting television licenses and the capturing of existing license details within retail environments via a web-based user interface;
- *Third party switching and processing support* EasyPay switches transactions from retail POS systems to the relevant back-end systems; and
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Hosting services EasyPay s infrastructure supports the hosting of payment servers and applications on behalf of third parties, including financial institutions.

- *EasyPay Kiosk* We have developed a biometrically enabled, self service kiosk that allows our EasyPay customers to access all the value-added services provided by EasyPay and to create and load their EasyPay virtual wallets with value.
- *EasyPay Web and Mobile* This service enables EasyPay customers to access all the value-added services provided by EasyPay, such as bill payments and the purchase of prepaid airtime and utilities through a secure website that may be accessed through personal computers or through mobile handsets.

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

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

MediKredit/ XeoHealth

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

Our business development in the US of our real time adjudication, or RTA, solutions for the end-to-end electronic processing of medical claims information is marketed through XeoHealth. We are currently assessing a number of ventures in the US whereby XeoHealth will act either as the primary contractor for the provision of our RTS solution to customers, or as a subcontractor to parties contracted to provide an adjudication solution.

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

FIHRST

FIHRST offers South African employers our payroll transaction management service and is based in Johannesburg, South Africa. FIHRST currently processes payments exceeding R68.5 billion on behalf of our clients every year, enabling salaries departments to achieve greater levels of efficiency and employee service. We have been chosen as the preferred payments partner by more than 1,250 companies of all sizes across all sectors of the economy, representing 850,000 employees. FIHRST is recognized by and works in partnership with the majority of third party payroll organizations including pension fund and medical aid administrators.

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

Universal Electronic Technological Solutions (UETS)

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

UETS markets the following solutions and products:

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

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

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

Net1 UTA

Our Net1 UTA business unit provides smart card-based payment systems to banks, enterprises and government authorities in Russia, Ukraine, Uzbekistan, India and Oman. Net1 UTA is headquartered in Vienna, Austria, and has subsidiaries in India and Russia. Following the decline in Net1 UTA s revenues during fiscal 2011 and 2010 as a result of the difficult market and trading conditions in its traditional markets, we recently completed a significant restructuring of its business activities. Net1 UTA now consists of a scaled-down department, based in Moscow, that provides ongoing support to its existing customers and a business development, implementation and support department, based in Vienna, that focuses on commercializing our MVC technology globally, excluding the US.

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

Net1 Virtual Card

Our Net1 Virtual Card business unit is based in Dallas, Texas, and is responsible for the commercialization of our MVC technology in the US. Our launch customer in the US, MetroPCS, is one of the top five US wireless carriers. MetroPCS offers our MVC technology under the VCPay brand as an application that is pre-loaded on new smart phones. We believe our VCPay™ application is the first mobile phone-based prepaid program with no requirement for the user to have a physical card or bank account. In addition, we have entered into agreements with MoneyGram, International, a global money transfer company, and GreenDot Corporation, a major issuer of prepaid credit cards in the United States, to enable subscribers to load their prepaid virtual accounts with cash at any of MoneyGram s and GreenDot s 100,000 US agents, which are located in most communities including many grocery, pharmacy and convenience store chains, or electronically via their bank accounts or via direct deposit.

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

Hardware and Software Sales Cluster

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

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

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

Financial Services Cluster

Finance Holdings

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

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

This business unit has been allocated to our financial services reporting segment.

Corporate Cluster

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

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

Competition

In addition to competition that our UEPS system faces from the use of cash, checks, credit and debit cards, existing payment systems and the providers of financial services, there are a number of other products that use smart card technology in connection with a funds transfer system. While it is impossible for us to estimate the total number of competitors in the global payments marketplace, we believe that the most competitive product in this marketplace is EMV, a system that is promoted by most of the major card companies such as Visa, Mastercard, JCB and American Express. The competitive advantage of our UEPS offering is that our technology can operate real-time, but in an off-line environment, using biometric identification instead of the standard PIN methodology employed by our competitors. We 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 social welfare grants, our competitors include AllPay Consolidated Investment Holdings (Pty) Ltd, which is responsible for social welfare payments in the Free State, Gauteng and Western Cape provinces and a small portion of the Eastern Cape province, and Empilweni Payout Services which is responsible for payments in the Mpumalanga province. The South African banks and the South African Post Office, or SAPO, also offer beneficiaries the option to open low cost bank accounts that enable the beneficiaries to receive their welfare grants through the formal banking payment networks.

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

We believe that SASSA considers the technology utilized, pricing of the payment service rendered and other factors such as black economic empowerment, or BEE, rating as the most important factors when considering potential service providers. We compete with other service providers on these aspects through SASSA s tender processes, when applicable, or through contract extension negotiations.

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

EasyPay s competitors include BankservAfrica, UCS, eCentric and Transaction Junction. BankservAfrica is the largest transaction processor in South Africa which processes all transactions on behalf of the South African banks and claims to process in excess of 2.6 billion transactions valued at trillions of rands annually. During fiscal 2011, EasyPay processed 708 million transactions with an approximate value of ZAR164.9 billion.

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

Research and Development

During fiscal 2011, 2010 and 2009, we incurred research and development expenditures of $5.7 million, $7.6 million and $8.9 million, respectively. These expenditures consist primarily of the salaries of our software engineers and developers. Our research and development activities relate primarily to the continual revision and improvement of our core UEPS software and its functionality and the design and development of our MVC concept. For example, we continually advance our security protocols and algorithms as well as develop new UEPS features that we believe will enhance the attractiveness of our product and service offerings. Our research and development efforts also focus on taking advantage of improvements in the hardware platforms that are not proprietary to us but which form part of our system.

Intellectual Property

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

Financial Information about Geographical Areas and Operating Segments

Note 19 to our consolidated financial statements included in this annual report contains detailed financial information about our operating segments for fiscal 2011, 2010 and 2009. 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		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
South Africa	$ 264,485	$ 267,478	$ 220,408	$ 115,809	$ 111,430	$ 98,694
Korea	68,392	-	-	258,791	-	-
Europe	10,465	12,301	19,560	139	42,489	101,371
Rest of world	78	585	6,854	6,817	8,081	9,128
Total	$ 343,420	$ 280,364	$ 246,822	$ 381,556	$ 162,000	$ 209,193

Employees

As of June 30, 2011, we had 2,290 employees. On a segmental basis, 216 employees were part of our management, 1,558 were employed in South African transaction-based activities, 173 were employed in international transaction-based activities, 2 were employed in financial services and 341 were employed in smart card, hardware, software and related technology sales and corporate activities.

On a functional basis, four of our employees were part of executive management, 171 were employed in sales and marketing, 188 were employed in finance and administration, 312 were employed in information technology and 1,615 were employed in operations.

As of June 30, 2011, approximately 120 of the 270 employees we have in the Limpopo Province in South Africa who were performing transaction-based activities were members of the South African Commercial Catering and Allied Workers Union and approximately 154 of the 175 employees we have in Korea who perform international transaction-based activities were members of the KSNET Union. We believe we have a good relationship with our employees and these unions.

Corporate history

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

Available information

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

Executive Officers and Significant Employees of the Registrant

Executive officers

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

Name	Age	Title
Dr. Serge C.P. Belamant	57	Chief executive officer, chairman and director
Mr. Herman G. Kotze	41	Chief financial officer, treasurer, secretary and director
Mr. Phil-Hyun Oh	52	Chief executive officer and president, KSNET, Inc.
Mr. Nitin Soma	43	Senior vice president information technology

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

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

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

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

Significant employees

<u>Business Functions:</u>

Dr. Gerhard Claassen (52): General Manager   Cryptographic Solutions   Dr. Claasen joined us in August 2000 and is responsible for the marketing and business development of our cryptographic solutions consisting of the internally developed Incognito range of security solutions, as well as ToDos authenticators and the Cybertrust PKI products.

Leonid Delberg (65): Managing director: Net1 UTA   Mr. Delberg has been the CEO of Net1 UTA since 1997. Net1 UTA is responsible for the marketing and business development of our payment solutions in Russia, the CIS, Oman, India and Asia.

Wimpie du Plessis (59): Managing director: MediKredit Mrs. du Plessis joined us in January 1999 and is responsible for the marketing and business development of our MediKredit offering worldwide.

K. H. Kang (45): Division Director - Marketing Division 2 Mr. Kang joined us in December 1994 and is responsible for KSNET s market division that focuses primarily on banking VAN, PG and market development.

M. B. Lee (46): Division Director - Marketing Division 1 Mr. Lee joined us in August 1994 and is responsible for KSNET s market division that focuses primarily on card VAN.

Kanam Mann (36): Business Unit Leader: EP Kiosk and General Manager: Chip and GSM licensing Ms. Mann joined us in February 2005 and is responsible for marketing and business development of our EP Kiosk and our Chip and GSM licensing business.

Eric Meniere (45): Managing director: MVC Mr. Meniere joined us in March 2008 and is responsible for the marketing and business development of our MVC product in the US.

Nanda Pillay (40): General Manager: CPS and EasyPay Mr. Pillay joined us in May 2000 and is responsible for our South African operations, consisting of CPS and EasyPay.

Richard Schweger (47): Financial & operations director: Net1 UTA Mr. Schweger has been the CFO and COO of Net1 UTA since 1997. Net1 UTA is responsible for the marketing and business development of our payment solutions in Russia, the CIS, Oman, India and Asia.

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

Brenda Stewart (53): Managing director: Net1 Universal Electronic Technological Solutions Mrs. Stewart joined us in 1997 and is responsible for the marketing and business development of our UEPS solutions in Africa (excluding South Africa) and Iraq.

Mark Stuckenberg (49): Managing director: FIHRST Mr. Stuckenberg joined us in March 2010 and is responsible for the marketing and business development of our FIHRST offering.

Support functions:

Chris Britz (50): Vice President - Group production, repairs & maintenance Mr. Britz joined us in April 2001 and is responsible for the group s production facilities, as well as all internal and external repairs and maintenance of terminals and other hardware.

Lawrie Chalmers (50): Vice President - Group Human Resources Mr. Chalmers joined us in April 1998 and is responsible for the group s South African human resources activities, including recruitment, payroll, training and industrial relations.

Y. H. Cho (45): Head of research director Mr. Cho joined us in July 1999 and is responsible for KSNET s information technology department.

M. Y. Jun (43): Head of Strategy, Planning and Finance Mr. Jun joined us in September 2000 and is responsible for KSNET s financial function, including financial accounting, taxation and statutory reporting.

Dhruv Chopra (37): Vice President: Investor Relations Mr. Chopra joined us in June 2009 and was previously an analyst at Morgan Stanley, specializing in the payment processing and IT services sectors.

Paul Encarnacao (35): Vice President Finance Mr. Encarnacao joined us in June 2004 and is responsible for the preparation of the group s generally accepted accounting principles in the United States of America, or US GAAP, consolidated accounts and statutory reports.

Warren Segall (46): Vice President: Compliance Mr. Segall joined us in July 2006 and is our compliance officer.

Trevor Smit (54): Vice President: Joint Ventures and Investments Mr. Smit joined us in May 2007 and provides governance support to our joint ventures as our representative on the various boards of directors.

Cara van Straaten (50): Group Financial Controller Ms. Van Straaten joined us in July 2004 and is responsible for the group s South African financial function, including financial accounting, taxation and statutory reporting.

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ITEM 1A. RISK FACTORS

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

Risks Relating to Our Business

We derive a substantial portion of our revenues from the social welfare grants distribution service that we perform for SASSA. Our contract with SASSA currently expires on March 31, 2012, and we are participating in a competitive tender process for the award of new contracts for all of South Africa s nine provinces. If we do not obtain a new contract and were to discontinue providing our distribution service to SASSA, we would lose all of these revenues.

We currently derive a substantial portion of our revenues from the social welfare grants distribution service that we perform under contract for SASSA, whereby we distribute these grants in five of the nine provinces of South Africa. SASSA is our largest customer and for the foreseeable future, our business will be highly dependent on our SASSA contract. For the years ended June 30, 2011, 2010 and 2009, we derived approximately 47%, 66% and 65%, respectively, of our revenues from this contract. Our current contract expires on March 31, 2012. In late April 2011, SASSA commenced a tender process for the award of new contracts. We are participating in the tender process and have submitted our proposal. If we do not obtain a new contract and were to discontinue providing our distribution service to SASSA past the expiration of our current contract, we would lose all of these revenues.

We cannot predict with certainty the timing or ultimate outcome of the tender process and we cannot assure you that it will result in our receiving a contract to continue to distribute social welfare grants in each of the five South African provinces where we currently distribute them. Even if we do receive a new contract, or one or more extensions of the existing contract, we cannot predict the terms that such contract will contain. Any new contract or extension we receive may contain pricing or other terms that would be unfavorable to us.

Our current contract with SASSA is the latest in a series of short-term contracts and extensions that resulted from the conduct of a tender process which began in early 2007 and was ultimately terminated by SASSA in late November 2008 without awarding new contracts. We participated in the tender process and timely submitted proposals for each of South Africa s nine provinces, as well as a proposal for the entire country. There were a series of extensive delays during the tender process which resulted in numerous extensions of our bid proposals as well as an extension of our existing contract. In March 2009, we signed a new one-year contract with SASSA which expired on March 31, 2010 and which was subsequently extended to June 30, 2010. We signed our current agreement with SASSA on August 24, 2010 which was retroactively effective to July 1, 2010. The contract was originally scheduled to expire on March 31, 2011, was extended to September 30, 2011 and has been further extended to March 31, 2012.

The current tender process, as well as the previous one, and the negotiation of the additional contracts and extensions have consumed a substantial amount of our management s time and attention during the past four years. Our management has been required to devote substantial resources to the process which has impacted their ability to focus on other matters, including potential international business development activities. In addition, we have initiated several lawsuits against SASSA, including one which challenged the cancellation of the previous tender process and another one in which we unsuccessfully challenged SASSA s right to contract with SAPO to provide banking or payment services relating to social grant beneficiaries. We cannot predict the outcome of our remaining lawsuits against SASSA, or whether or how our litigation against SASSA will affect the outcome of the current tender process.

Moreover, even if we were to receive a new contract or contract extensions containing similar economic terms to those of our current contract, our profit margin could be adversely affected to the extent that any such contracts would require us to incur significant capital expenditures during the initial implementation phase. Historically, we have incurred a significant portion of the expenses, and recognized operating losses, associated with these contracts during the initial implementation phase, which averages approximately 18 months, and have historically enjoyed higher profit margins on these contracts after the completion of the implementation period. Therefore, to the extent that we were to be awarded a new contract that required significant capital expenditures, our profit margins would be adversely affected if the contract were to be terminated for any reason during the implementation period.

Finally, if we were to be awarded one or more contracts by SASSA, an unsuccessful tenderor could seek to challenge the award, which could result in the contract being set aside or could require us to expend time and resources in an attempt to defeat any such challenge.

Our current contract with SASSA is less favorable to us than our previous contract which has adversely affected our results of operations. Furthermore, the terms of any further renewals or extensions or a contract awarded under the current tender process may be even less favorable to us than the current contract. To the extent that we are unsuccessful in diversifying our business and reducing our dependence on SASSA, our business and profitability will likely suffer.

Our current contract with SASSA contains a standard pricing formula for all provinces based on a transaction fee per beneficiary paid, regardless of the number or amount of grants paid per beneficiary, calculated on a guaranteed minimum number of beneficiaries per month. The current contract is less favorable to us than the one it replaced. Because we continue to derive a substantial percentage of our revenues from our SASSA contract, the terms of the current contract have adversely affected our revenues and operating income. Further, as described in the immediately preceding risk factor, it is possible that any further extension or renewal of the current contract or a contract which we may be awarded under the recently initiated tender process may be even less favorable to us. While we are making significant efforts to reduce our dependence on our SASSA contract by diversifying our business in South Africa and expanding internationally, to the extent that these efforts are not successful, we may not be able to offset the effects of the current and possible future less favorable terms from SASSA which would have a material adverse effect on our results of operations, financial position and cash flows.

We were unsuccessful in our lawsuit against SASSA challenging SASSA s right to contract with SAPO to provide banking or payment services relating to social grant beneficiaries. If SASSA provides this business to SAPO rather than to us, the revenue and operating income we derive from our current SASSA contract could be substantially reduced, which could have a material adverse effect on us.

In 2009, we instituted a lawsuit against SASSA in the South African High Court, or High Court, in which we challenged SASSA s right to contract with SAPO to provide banking or payment services relating to social grant beneficiaries. The High Court ruled in our favor and prohibited SASSA from contracting with SAPO for these services, finding that SASSA had not followed a proper procurement process to comply with the South African Constitution and the Public Finance Management Act, or PFMA, when the previous executive management team at SASSA contracted with SAPO for the payment of grants in 2009. SASSA appealed the High Court s judgment to the South African Supreme Court of Appeal, which overturned the High Court s judgment in March 2011. We applied for leave to appeal to the South African Constitutional Court, which was denied in June 2011. Although our SASSA contract remains in effect through its current expiration date of March 31, 2012, the failure of our court challenge has enabled SASSA to pursue contracts with SAPO to provide banking or payment services relating to social grant beneficiaries, which would reduce the number of beneficiaries we serve under our SASSA contract. Although our SASSA contract guarantees us a transaction fee per beneficiary based on a guaranteed minimum number of beneficiaries, our revenues from the contract would suffer from a diversion of business to SAPO because presently we serve more than the minimum number of beneficiaries. Because we continue to derive a substantial portion of our revenue from our SASSA contract, if this source of revenue were to decline substantially, our results of operations, financial condition and cash flows would suffer.

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

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

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

We have had to record impairments of our intangible assets related to a prior acquisition, which negatively affected our earnings for fiscal 2011 and 2010. We may need to record additional writedowns from any future impairments, which could reduce our future reported earnings.

As a result of our acquisitions, a significant portion of our total assets consist of intangible assets (including goodwill). Goodwill and intangible assets, net of amortization, together accounted for approximately 42% and 31% of the total assets on our balance sheet as of June 30, 2011 and 2010, respectively. We may not realize the full fair value of our intangible assets and goodwill. We expect to engage in additional acquisitions, which may result in our recognition of additional intangible assets and goodwill. We evaluate on a regular basis whether all or a portion of our goodwill and other intangible assets may be impaired. Under current accounting rules, any determination that impairment has occurred would require us to write off the impaired portion of goodwill and such intangible assets, resulting in a charge to our earnings. For example, during fiscal years 2011 and 2010, we recorded aggregate goodwill and intangible asset impairment charges of approximately $79.2 million related to our August 2008 acquisition of Net 1 UTA. Specifically, in the third quarter of fiscal 2011, we recognized an impairment loss of approximately $41.8 million related to acquired Net1 UTA customer relationships. This loss was in addition to an impairment loss of $37.4 million we recorded in the fourth quarter of fiscal 2010. These impairment losses substantially reduced our operating income for the relevant periods. Additional impairment charges could adversely affect our financial condition and results of operations.

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

As of June 30, 2011, we had approximately $121 million of outstanding indebtedness, which we incurred to finance the KSNET acquisition. These loans are secured by substantially all of KSNET s assets, a pledge by Net1 Korea of its entire equity interest in KSNET and a pledge by the immediate parent of Net1 Korea (also one of our subsidiaries) of its entire equity interest in Net1 Korea. The terms of the loan facility require Net1 Korea and its consolidated subsidiaries to maintain certain specified financial ratios (including a leverage ratio and a debt service coverage ratio) and restrict their ability to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make capital expenditures above specified levels, engage in certain business combinations and engage in other corporate activities. Although these covenants only apply to our Korean subsidiaries, these security arrangements and covenants may reduce our operating flexibility or our ability to engage in other transactions that may be beneficial to us. If we are unable to comply with these covenants, we could be in default and the indebtedness could be accelerated. If this were to occur, we might not be able to obtain waivers of default or to refinance the debt with another lender and as a result, our business and financial condition would suffer.

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

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

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

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

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

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

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

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

The incumbent South African retail banks have created a common banking product, generally referred to as a Mzansi account, for unbanked South Africans, which offers limited transactional capabilities at reduced charges, when compared to the accounts traditionally offered by these banks. According to the FinScope survey, which is an annual survey conducted by the FinMark Trust, a non-profit independent trust, approximately 4.4 million and 3.5 million people in South Africa claimed to use a Mzansi account in 2009 and 2008, respectively. The 2009 survey also indicated that 22% of those surveyed opened a Mzansi account in order to receive a social welfare grant. In addition, SAPO also offers a Mzansi product which is used by some social welfare grant recipients to receive their social grants.

It is possible for a social welfare beneficiary to receive grants through a Mzansi or other low-cost banking account. SASSA does not pay us a fee for the disbursement of grants through Mzansi or other low cost bank accounts and to the extent that beneficiaries use these accounts, rather than our smart card, to receive their grants, we will not be able to generate additional revenues from retail spending by these beneficiaries. In contrast, when a beneficiary receives grants through our smart card, we are able to generate incremental revenues from the use of our card in our merchant acquiring system because merchants participating in our merchant acquiring systems are also able to accept UEPS-based smart cards. Thus, our ability to increase our revenues and operating margins will be adversely affected to the extent that there is an increase in the number or percentage of South Africans using Mzansi or other low cost bank accounts to receive their social welfare grants.

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

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

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

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

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

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

Our proprietary rights may not adequately protect our technologies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Many social welfare recipients use our services to access cash using their smart cards. We use armored vehicles to deliver large amounts of cash to rural areas across South Africa to enable these welfare recipients to receive this cash. In some cases, we also store the cash that will be delivered by the armored vehicles in depots overnight or over the weekend to facilitate delivery to these rural areas. We cannot insure against the risk of loss or theft of cash from our delivery vehicles as we have not identified any insurance underwriters willing to accept this risk on reasonable terms. Therefore, we will bear the full cost of any loss or theft in connection with the delivery process, and such loss could materially and adversely affect our financial condition, cash flows and results of operations. The Company did not incur any material losses resulting from cash distribution during fiscal 2011, 2010 and 2009, but there is no assurance that we will not incur material losses in the future.

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

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

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

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

<u>Risks Relating to Operating in South Africa and Other Foreign Markets</u>

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

The South African rand, or ZAR, is the primary operating currency for our business operations while our financial results are reported in US dollars. This means that as long as the ZAR remains our primary operating currency, depreciation in the ZAR against the US dollar, and to a lesser extent, the euro, would negatively impact our reported revenue and net income, while a strengthening of the ZAR would have the opposite effect. Depreciation in the ZAR may negatively impact the prices at which our stock trades. The US dollar/ZAR exchange rate has historically been volatile and we expect this volatility to continue. The ZAR was significantly weaker overall during 2009 than during 2011 and 2010, which negatively affected our reported 2009 results of operations when compared to 2011 and 2010. We provide detailed information about historical exchange rates in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Currency Exchange Rate Information.

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

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

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

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

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

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

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

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

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

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

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

Although Net1 is a US corporation and is not itself subject to South African exchange control regulations, these regulations do restrict the ability of our South African subsidiaries to raise and deploy capital outside the Common Monetary Area, to borrow money in currencies other than the South African rand and to hold foreign currency. Exchange control restrictions may also affect the ability of these subsidiaries to pay dividends to Net1 unless the affected subsidiary can show that any payment of such dividend will not place it in an over-borrowed position. As of June 30, 2011, approximately 76% of our cash and cash equivalents were held by our South African subsidiaries. Exchange control regulations could make it difficult for our South African subsidiaries to: (i) export capital from South Africa; (ii) hold foreign currency or incur indebtedness denominated in foreign currencies without the approval of SARB; (iii) acquire an interest in a foreign venture without the approval of SARB and first having complied with the investment criteria of SARB; (iv) repatriate to South Africa profits of foreign operations; and (v) limit our business to utilize profits of one foreign business to finance operations of a different foreign business.

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

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

In the past, trade unions have had a significant impact on the collective bargaining process as well as on social and political reform in South Africa in general. Although only approximately 12% percent of our workforce is unionized and we have not experienced any labor disruptions in recent years, such labor disruptions may occur in the future. In addition, developments in South African labor laws may increase our costs or alter our relationship with our employees and trade unions, which may have an adverse effect on us, our financial condition and our operations.

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

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

Some of these risks include:

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

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

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

Risks Relating to Government Regulation

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

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

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

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

We derive a substantial portion of our current business from the distribution of social welfare grants onto smart cards in South Africa and the transaction fees resulting from use of these smart cards. Because social welfare eligibility and grant amounts are regulated by the South African government, any changes to or reinterpretations of the government regulations relating to social welfare may result in the non-renewal or reduction of grants for certain individuals, or a determination that currently eligible social welfare grant recipients are no longer eligible. If any of these changes were to occur, the number of smart cards in use could decrease, the amount of money on any particular smart card could decrease or the amount of transactions effected on any particular smart card may decrease, all of which could result in a reduction of our revenues and cash flows.

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

The South African retail banking market is highly regulated, but the South African government has identified the need to service the unbanked market through the liberalization of the regulatory environment in order for retailers and non-banking service providers to innovate products and delivery channels for the unbanked market. However, under current law and regulations, a portion of our South African wage payment business activities in the unbanked market requires us to be registered as a bank in South Africa or to have access to an existing banking license. We are not currently so registered, but we have entered into an agreement with Grindrod Bank Limited that enables us to implement our wage payment solution in compliance with the relevant laws and regulations. If the agreement were to be terminated, we would not be able to operate our wage payment business unless we were able to obtain access to a banking license through alternate means.

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

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

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

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

We are subject to regulations in a number of the countries in which we operate relating to the collection, use, retention, security and transfer of personally identifiable information about the people who use our products and services, in particular, personal financial and health information. New laws in this area have been passed by several jurisdictions, and other jurisdictions are considering imposing additional restrictions. The interpretation and application of user data protection laws are in a state of flux. These laws may be interpreted and applied inconsistently from country to country and our current data protection policies and practices may not be consistent with those interpretations and applications. Complying with these varying requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. Any failure, or perceived failure, by us to comply with any regulatory requirements or international privacy or consumer protection-related laws and regulations could result in proceedings or actions against us by governmental entities or others, subject us to significant penalties and negative publicity and adversely affect us. In addition, as noted above, we are subject to the possibility of security breaches, which themselves may result in a violation of these laws.

Risks Relating to our Common Stock

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

Our stock price has experienced recent significant volatility. During the 2011 fiscal year, our stock price ranged from a low of $8.24 to a high of $15.04. 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:

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

Approximately 40% of our outstanding common stock is owned by two 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 40% of our outstanding common stock is owned by two shareholders. Based on its most recent SEC filing disclosing its ownership of our shares, International Value Advisers, LLC, or IVA, beneficially owned 25.4% of our outstanding common stock. In addition, investment entities affiliated with General Atlantic LLC owned 14.2% of our outstanding common stock. General Atlantic also has representation on our board of directors. The interests of IVA and General Atlantic may be different from or conflict with the interests of our other shareholders. As a result of the ownership by IVA and General Atlantic, as well as General Atlantic s board seat, they will be able, if they act together, to influence our management and affairs and all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change of control of our company, thus depriving shareholders of a premium for their shares, or facilitating a change of control that other shareholders may oppose.

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

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

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

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

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

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

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act, especially over companies that we may acquire, could have a material adverse effect on our business and stock price. Our management evaluation and auditor attestation regarding the effectiveness of our internal control over financial reporting as of June 30, 2011, excluded the operations of KSNET. If we are not able to integrate KSNET s operations into our internal control over financial reporting, our internal control over financial reporting may not be effective.

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

The requirement to evaluate and report on our internal controls also applies to companies that we acquire. As a private company, KSNET was not required to comply with Sarbanes prior to the time we acquired it. The integration of KSNET into our internal control over financial reporting has required significant time and resources from our management and other personnel and may increase our compliance costs. Our management evaluation and auditor attestation regarding the effectiveness of our internal control over financial reporting as of June 30, 2011, excluded the operations of KSNET. If we fail to successfully integrate these operations into our internal control over financial reporting, our internal control over financial reporting may not be effective.

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

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

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

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

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

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

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

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

We may become subject to a US tax liability for failing to withhold on certain distributions on instruments issued in connection with the Aplitec transaction.

There is no statutory, judicial or administrative authority that directly addresses the tax treatment of non-US holders that elected to receive units in a trust representing beneficial interests in one of our subsidiaries in connection with our 2004 acquisition of Aplitec. We believe these interests should be treated for United States federal income tax purposes as, and we did treat them as, separate and distinct interests in the subsidiary. As such, we and our affiliates did not withhold any amounts for US federal taxes in respect of any distributions paid on such interests. There is a risk, however, that these interests, together with the special convertible preferred stock, may be treated as representing a single direct equity interest in us for US federal income tax purposes. In such case, distributions received with respect to the interests in the subsidiary could be subject to US federal withholding tax, and we could be liable for failure to withhold such taxes in our capacity as withholding agent. In addition, our failure to collect and remit US federal withholding tax may also subject us to penalties.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease our corporate headquarters facility which consists of 84,193 square feet in Johannesburg, South Africa. We also lease properties throughout South Africa, a 12,088 square foot manufacturing facility in Lazer Park, a 14,230 square foot manufacturing facility in Brakpan and 73 depot facilities. We also lease additional office space in Johannesburg, Pretoria, Cape Town and Durban, South Africa; Vienna, Austria; Seoul, Republic of Korea; Moscow, Russia; New York, New York; Dallas, Texas; Fredrick, Maryland; and New Delhi, India. These leases expire at various dates through the year 2011 and 2014, respectively.

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

ITEM 3. LEGAL PROCEEDINGS

In 2009, we instituted a lawsuit against SASSA in the High Court, alleging that it unlawfully moved beneficiaries to SAPO in violation of our contract and the PFMA, seeking injunctive relief. In January 2010, the High Court ruled in our favor and directed SASSA to discontinue the registration of any beneficiaries with SAPO until a proper procurement process had been completed. SASSA appealed the High Court s ruling to the South African Supreme Court of Appeal, which overturned the High Court s judgment in March 2011. We applied for leave to appeal to the South African Constitutional Court, which was denied in June 2011. See also 1a. Risk Factors We were unsuccessful in our lawsuit against SASSA challenging SASSA s right to contract with SAPO to provide banking or payment services relating to social grant beneficiaries. If SASSA provides this business to SAPO rather than to us, the revenue and operating income we derive from our current SASSA contract could be substantially reduced, which could have a material adverse effect on us.

We also made application to the High Court for the review and setting aside of the decision to withdraw the previous SASSA tender and we are currently responding to SASSA s answering affidavit, where after the parties will apply for a hearing date.

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. RESERVED

PART II

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

Market Information

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

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

Period		High		Low
Quarter ended September 30, 2009	$	22.47	$	12.36
Quarter ended December 31, 2009	$	21.77	$	17.11
Quarter ended March 31, 2010	$	20.22	$	16.50
Quarter ended June 30, 2010	$	18.50	$	13.14
Quarter ended September 30, 2010	$	15.04	$	10.72
Quarter ended December 31, 2010	$	12.97	$	10.35
Quarter ended March 31, 2011	$	12.31	$	8.24
Quarter ended June 30, 2011	$	8.92	$	7.29

Our transfer agent in the United States is The Bank of New York Mellon, One Wall Street, New York, New York, 10286. According to the records of our transfer agent, as of August 11, 2011, there were 19 shareholders of record of our common stock. A substantially greater number of holders of our common stock are street name or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions. Our transfer agent in South Africa is Link Market Services South Africa (Pty) Ltd, 16th Floor, 11 Diagonal Street, Johannesburg, 2001, South Africa.

Dividends

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

Issuer Purchases of Equity Securities

The table below presents information relating to purchases of our common stock during the fourth quarter of fiscal 2011:

(c) **(d)**

Period	(a) Total number of shares purchased	(b) Average price paid per share (US dollars)	Total number of shares purchased as part of publicly announced plans or programs	Maximum dollar value of shares that may yet be purchased under the plans or programs (1)
April 2011	-	-	-	100,000,000
May 2011	111,842	8.17	111,842	99,086,062
June 2011	13,550	8.02	13,550	98,977,410
Total	125,392		125,392	

(1) On February 5, 2010, we announced that our Board of Directors had authorized the repurchase of up to $50 million of our common stock from time to time in open market transactions. On May 5, 2010, we announced that our Board of Directors had increased this authorization to an aggregate of up to $100 million. The authorization has no expiration date.

The table below presents our common stock purchased during fiscal 2011 per quarter:

Period	Total number of shares purchased	Average price paid per share (US dollars)
First	-	-
Second	-	-
Third	-	-
Fourth	125,392	8.16
Total fiscal 2011	125,392	8.16

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, 2006, in each of our common stock, the S&P 500 companies, and the companies in the NASDAQ Industrial Index.

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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, 2011 and 2010, and for the three years ended June 30, 2011 has been derived from our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected historical consolidated financial data presented below as of June 30, 2009, 2008 and 2007 and for the years ended June 30, 2008 and 2007, have been derived from our consolidated financial statements, which are not included herein. The selected historical financial data as of each date and for each period presented are prepared in accordance with US GAAP. These historical results are not necessarily indicative of results to be expected in any future period.

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

	Year Ended June 30				
	2011(1)	**2010**	**2009**	**2008**	**2007**
Revenue	$ 343,420	$ 280,364	$ 246,822	$ 254,056	$ 223,968
Cost of goods sold, IT processing, servicing and support	109,858	72,973	70,091	67,486	54,417
Selling, general and administrative(2)	119,692	80,854	64,833	65,362	61,625
Depreciation and amortization	34,671	19,348	17,082	10,822	11,050
Profit on sale of microlending business	-	-	455	-	-
Impairment losses(3)	41,771	37,378	1,836	-	-
Operating income	37,428	69,811	93,435	110,386	96,876
Foreign exchange gain related to short-term investment(4)	-	-	26,657	-	-
Interest income (expense), net	(1,018)	9,069	10,828	15,722	4,401
Income before income taxes	36,410	78,880	130,920	126,108	101,277
Income tax expense(5)	33,525	40,822	42,744	39,192	37,574
Income from continuing operations	2,647	38,990	86,601	86,695	63,679
Net income attributable to Net1	2,647	38,990	86,601	86,695	63,679
Income from continuing operations per share:					
Basic	$ 0.06	$ 0.84	$ 1.53	$ 1.50	$ 1.12
Diluted	$ 0.06	$ 0.84	$ 1.53	$ 1.49	$ 1.11

(1) KSNET was acquired effective November 1, 2010, and our reported results for fiscal 2011 include KSNET revenues of $68.4 million, earnings before interest, tax and amortization of $18.2 million and a net loss of $4.1 million, after acquisition-related intangible assets amortization, deferred taxes related to acquisition-related intangible asset amortization and interest related to financing obtained to partially fund the acquisition.
(2) Selling, general and administrative expense includes a charge of $1.7 million (2011), $5.5 million (2010), $4.9 million (2009), $3.8 million (2008) and $0.6 million (2007), respectively, in respect of stock-based compensation.
(3) Customer relationships acquired in the acquisition of Net1 UTA were impaired in fiscal 2011. Goodwill related to the hardware, software and related technology sales segment was impaired during fiscal 2010, and goodwill related to the financial services segment was impaired during fiscal 2009.
(4) The foreign exchange gain related to a short-term investment in the form of an asset swap arrangement which matured during fiscal 2009.
(5) The fully-distributed tax rate for fiscal 2011, 2010 and 2009 was 34.55%, for fiscal 2008 it was 35.45% and for

fiscal 2007 it was 36.89% . Our income tax expense for fiscal 2011 includes valuation allowances created related to our Net1 UTA business of $8.9 million and a reversal of $10.4 million related to the customer impairment loss. Our income tax expense for fiscal 2009 and 2008 includes the impact of the change in the fully-distributed rate during those fiscal years of approximately $3.5 million and $5.4 million, respectively.

Additional Operating Data:
(in thousands, except percentages)

	Year ended June 30,				
	2011	**2010**	**2009**	**2008**	**2007**
Cash flows provided by operating activities	$ 66,223	$ 68,683	$ 106,768	$ 118,760	$ 65,466
Cash flows used in investing activities	$ 323,685	$ 90,186	$ 107,856	$ 3,903	$ 91,540
Cash flows provided by (used in) financing activities .	$ 183,269	$ (48,478)	$ (40,248)	$ 2,864	$ 3,225
Operating income margin	11%	25%	38%	43%	43%

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Consolidated Balance Sheet Data:
(in thousands)

	As of June 30,				
	2011	2010	2009	2008	2007
Cash and cash equivalents	$ 95,263	$ 153,742	$ 220,786	$ 272,475	$ 171,727
Total current assets before settlement assets	213,421	226,429	290,294	345,734	247,982
Goodwill (1)	209,570	76,346	116,197	76,938	85,871
Intangible assets (1)	119,856	68,347	75,890	22,216	31,609
Total assets	781,645	472,090	499,487	454,071	376,090
Total current liabilities before settlement obligations	104,396	57,927	77,809	76,503	54,698
Total long-term debt	111,776	4,343	4,185	3,766	4,100
Total Net1 equity	$ 323,006	$ 285,878	$ 373,217	$ 340,328	$ 281,073

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

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

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

Overview

We provide payment solutions and transaction processing services across a wide range of industries and in various geographies.

We have developed and market a smart-card based alternative payment system for the unbanked and underbanked populations of developing economies. Our market-leading system enables the estimated four billion people who generally have limited or no access to a bank account to enter affordably into electronic transactions with each other, government agencies, employers, merchants and other financial service providers. Our UEPS uses biometrically secure smart cards that operate in real-time but offline, unlike traditional payment systems offered by major banking institutions that require immediate access through a communications network to a centralized computer. This offline capability means that users of our system can conduct transactions at any time with other card holders in even the most remote areas so long as a smart card reader, which is often portable and battery powered, is available. Our off-line systems also offer the highest level of availability and affordability by removing any elements that are costly and are prone to outages. In addition to effecting purchases, cash-backs and any form of payment, our system can be used for banking, health care management, international money transfers, voting and identification.

We also develop and provide secure transaction technology solutions and services, and offer transaction processing, financial and clinical risk management solutions to various industries. Our core competencies around secure online transaction processing, cryptography, mobile telephony and integrated circuit card (chip/smart card) technologies are principally applied to electronic commerce transactions in the telecommunications, banking, payroll, retail, health care, petroleum and utility industries.

Our technology is widely used in South Africa today, where we distribute pension and welfare payments, using our UEPS technology, to over 3.2 million recipients in five of South Africa s nine provinces, process debit and credit card payment transactions on behalf of retailers that we believe represent nearly 65% of retailers within the formal retail sector in South Africa through our EasyPay system, process value-added services such as bill payments and prepaid electricity for the major bill issuers and local councils in South Africa and provide mobile telephone top-up transactions for all of the South African mobile carriers. We are the largest provider of third-party payroll payments in South Africa through our FIHRST service that processes monthly payments for approximately 1,250 employers representing over 850,000 employees. Our MediKredit service provides the majority of funders and providers of healthcare in South Africa with an on-line real-time management system for healthcare transactions. We perform a similar service in the United States through our XeoHealth subsidiary.

During the second quarter of fiscal 2011, we acquired KSNET, for KRW 270 billion (approximately $241 million). KSNET is the second largest transaction processor by volume in Korea and offers card VAN, PG and banking VAN in that country. The acquisition of KSNET expands our international footprint as well as diversifies our revenue, earnings and product portfolio.

Sources of Revenue

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

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

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

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

Through KSNET, we earn most of our revenue from payment processing services we provide to approximately 200,000 merchants and to card issuers in Korea through our value-added network. In the US, we earn transaction fees from our customers who utilize our VCPay technology to generate a unique, one-time use prepaid virtual card number to securely purchase goods and services or perform bill payments in any card not present environment. The revenue and costs at KSNET and VCPay , as well as those from our Iraqi contract, are reflected in our international transaction-based activities segment.

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

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

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

Business Developments during Fiscal 2011

South Africa

SASSA contract

Under our SASSA contract, we provide our social welfare grants distribution service to SASSA in five of South Africa s nine provinces (KwaZulu-Natal, Limpopo, North West, Northern Cape and Eastern Cape). The contract contains a standard pricing formula for all provinces based on a transaction fee per beneficiary paid, regardless of the number or amount of grants paid per beneficiary, calculated on a guaranteed minimum number of beneficiaries per month.

We signed our current agreement with SASSA on August 24, 2010 which was retroactively effective to July 1, 2010. The contract was originally scheduled to expire on March 31, 2011, was extended to September 30, 2011 and has been further extended to March 31, 2012 on the same terms and conditions. In April 2011, SASSA publicly commenced a tender process for the award of new contracts. We are participating in the tender process and have submitted our proposal.

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

EasyPay Kiosk pilot project

In September 2010, we launched our EasyPay Kiosk, or EP Kiosk, pilot project at select locations in the Gauteng province of South Africa. The EP Kiosk enables users to purchase prepaid electricity and airtime and perform any post paid bill payment service requirements using the interactive user-friendly touch screen kiosk interface. The user will also be able to transfer prepaid voucher value to other mobile phone users. Users can register their own prepaid voucher wallet on the EP Kiosk, with access to the wallet guaranteed via biometric identification of the user at time of registration. A five digit personal identification number, or PIN, is also required by the user so as to facilitate transactions done via their own mobile phones or via the website.

We have already deployed several EP Kiosks and we expect to sign additional agreements during fiscal 2012.

South African transaction processors

During fiscal 2011, our South African transaction processors were awarded various new business contracts to perform transaction processing including for a top five petroleum company, a medium-size retailer and four smaller-sized retailers, as well as to perform distribution of prepaid electricity for two large metropolitan areas. In addition, FIHRST continues to expand its client base and number and value of transactions processed.

Outside South Africa

Republic of Korea

On October 29, 2010, we acquired 98.73% of KSNET, a leading Republic of Korea payment processor, for KRW 270 billion (approximately $240 million based on October 29, 2010 exchange rates). Most of KSNET s revenue is derived from the provision of payment processing services to approximately 200,000 merchants and to card issuers in Korea through its VAN. KSNET has a diverse product offering and we believe it is the only total payments solutions provider offering card VAN, payment gateway and banking VAN services in Korea, which differentiates KSNET from other Korean payment solution providers and allows it to cross-sell its products across its customer base.

The acquisition of KSNET expands our international footprint as well as diversifies our revenue, earnings and product portfolio and provides an established base in Asia for further business development activities in the region.

KSNET S operating performance during fiscal 2011 has been largely in-line with our expectations and the integration of KSNET has progressed well since the acquisition closed at the end of October 2010. We have commenced a number of strategic initiatives in the Republic of Korea to maintain our current market share and to expand into adjacent markets. Specifically, we have embarked on a number of medium-term initiatives which will be funded from our existing Korean cash reserves. We do not expect to use funds generated by our other operations to fund these initiatives in Korea. Our management teams are actively engaged in identifying and evaluating opportunities in the Korean market place.

The African Continent and Iraq

During fiscal 2011, NUETS recorded revenue from transaction fees and the delivery of UEPS-enabled smartcards under its contract with the government of Iraq. NUETS expects to generate ongoing revenues from transaction fees under the Iraqi contract during fiscal 2012. NUETS has entered the second phase of its initiative in Ghana and now generates recurring income in the form of hardware and software maintenance fees.

NUETS continued to service its current customers on the African continent and in Iraq and continued its business development efforts, including responding to a number of tenders, in multiple new countries on the African continent during the year.

During fiscal 2011, SmartSwitch Namibia generated incremental transaction fees from transactions conducted between Namibian merchants and UEPS-enabled smartcards. SmartSwitch Botswana generated transaction fees during fiscal 2011 from the payment of food voucher grants. We expect SmartSwitch Namibia and Botswana to continue generating transaction fees during fiscal 2012.

SmartSwitch Namibia is no longer dependent on shareholder funding and commenced repayment of its shareholder loans and interest during fiscal 2011. The shareholders of SmartSwitch Botswana agreed to convert their loan funding to equity funding and waive all interest due. The net effect of the reversal of the interest and related foreign exchange effects are included in our results for fiscal 2011. We sold our entire interest in VinaPay during fiscal 2011.

Net1 UTA

During the third quarter of fiscal 2011, one of Net1 UTA s largest customers advised us of its intention to transition to an alternative payment platform which will negatively impact our revenue, net income and cash flow in the medium term. As a consequence of this development, as well as deteriorating trading conditions and uncertainty surrounding the timing and quantum of future net cash inflows, we reviewed customer relationships acquired as part of the Net1 UTA acquisition for impairment. As a result of this review, we recognized an impairment loss of approximately $41.8 million related to the entire carrying value of customer relationships acquired in the Net1 UTA acquisition in August 2008. In addition, we reversed the deferred tax liability of $10.4 million associated with this intangible asset.

The impairment loss has been allocated to our hardware, software and related technology sales operating segment.

In late fiscal 2011, Net1 UTA s management prepared an updated forecast for the remainder of calendar 2011 and for 2012 to determine the viability and sustainability of its operations. Based on this forecast we believe that it will take a number of years for Net1 UTA to return to profitability and that in the short term it will require additional funding. The Net1 UTA management has proposed and implemented a cost containment plan and operations in the CIS, including employee headcount, have been substantially reduced. As a result of the forecast provided, the anticipated short-term losses and the failure of Net1 UTA to generate revenues using its new transaction-based business model, we have determined to provide a valuation allowance of approximately $8.9 million for the full amount of deferred tax assets at Net1 UTA as of June 30, 2011.

In July, 2011, Net1 UTA signed a contract with Banamex, a leading bank in Mexico and part of Citigroup, for the delivery of VCpay . Banamex will offer VCpay to its customers as an application that can be downloaded to a mobile phone and linked to the customer s credit and/or debit card accounts. VCpay allows consumers to securely generate an offline, one-time use MVC number for a specific limit or purchase amount on their mobile handsets to buy goods and services or perform bill payments in any card not present environment.

Net1 Virtual Card

We launched our VCPay™ offering in the United States during fiscal 2011. Our mobile phone-based virtual payment card application is designed to eliminate fraud in CNP transactions. We have teamed up with MetroPCS Communications, Inc., or MetroPCS, The Bancorp Bank, a wholly-owned subsidiary of The Bancorp, Inc., FSV Payment Systems and MoneyGram International to offer a comprehensive card issuing, processing and distribution network to wireless subscribers in the United States.

MetroPCS offers our VCPay™ to its prepaid customers as an application that is pre-loaded on new Smartphones or can be downloaded on select existing devices. VCPay™ allows a subscriber to generate a unique, one-time use prepaid virtual card number to securely purchase goods and services or perform bill payments in any CNP environment. We believe that the VCPay™ application is the first mobile phone-based prepaid program with no requirement for the user to have a physical card or a bank account. Subscribers can load their prepaid virtual accounts with cash at any of MoneyGram and Green Dot s 100,000 U.S. agent locations, which are located in most communities including many grocery, pharmacy and convenience store chains, or electronically via their bank accounts or via direct deposit.

XeoHealth

During fiscal 2011, XeoHealth intensified its marketing efforts in the United States of its RTA solutions for the end-to-end electronic processing of medical claims information. There has been significant interest from various participants in the United States healthcare industry in the solutions offered by XeoHealth for the current and newly mandated Health Insurance Portability and Accountability Act, electronic data interchange transactions and we will expect to conclude our first agreements for the provision of our technology during fiscal 2012.

New international transaction-based activities operating segment

Effective October 1, 2010, we have allocated our international transaction-based activities to a new operating segment, namely international transaction-based activities. This operating segment comprises the transaction processing activities of KSNET, Net1 Virtual Card, and NUETS transaction processing activities for its initiative in Iraq.

KSNET currently contributes the majority of the revenue, operating income and net income of this segment.

Segment results for fiscal 2010 and 2009 have not been restated due to the insignificance of the transaction processing activities of Net1 Virtual Card, and NUETS transaction processing activities for its initiative in Iraq. However, for comparative purposes in future periods, our reported results for fiscal 2011 include all legacy international transaction-processing activities from July 1, 2010 and include KSNET from November 1, 2010.

Operating Segments

We analyze our business and operations in terms of five inter-related but independent operating segments: (1) South African transaction-based activities, (2) international transaction-based activities (3) smart card accounts, (4) financial services, and (5) hardware, software and related technology sales. Corporate and corporate office activities as well as any inter-segment eliminations are included in corporate/ eliminations. See Note 19 to our consolidated financial statements for further information about our operating segments.

South African transaction-based activities

The South African transaction-based activities operating segment consists primarily of (1) our South African social welfare payments distribution operations which we conduct through our subsidiary Cash Paymaster Services (Proprietary) Limited, or CPS, and (2) our South African transaction processors, which consist of EasyPay, MediKredit and FIHRST (collectively, transaction processors). CPS utilizes the UEPS technology to administer and distribute social welfare grants in five of South Africa s nine provinces. Segment revenues include all fees that we earn from SASSA and participating retail merchants from recurring UEPS transactions that we process through our back-end system, such as the payment of social welfare grants, debit orders, payment of wages, point of sale spending, distribution of medicine, money transfers and prepayment of utility bills, prepayment of mobile phone airtime and transaction fees from customers of our transaction processors. The expenses associated with our social welfare payments activities are primarily variable expenses such as security and guarding expenses we incur to help insure the security of the cash we transport and the safety of our employees who transport the cash, banking fees we incur when we withdraw and redeposit cash, insurance and fixed expenses such as salaries and property rental. The expenses associated with our transaction processors operations are primarily variable expenses such as data communication and bank charges for switching transactions and fixed expenses such as salaries, depreciation of switch fixed assets and property rental.

International transaction-based activities

The international transaction-based activities operating segment consists primarily of (1) KSNET, (2) Net1 Virtual Card, and (3) NUETS transaction processing activities. Segment revenues include primarily transaction processing fees that we earn from our activities in Korea, the US and Iraq. The expenses associated with these activities are primarily variable expenses such as cash incentives to agents and merchants and data communication charges and our fixed expenses include primarily salaries, depreciation of switch fixed assets, insurance and property rental.

We expect to allocate the activities of XeoHealth to this operating segment in fiscal 2012 if it achieves commercial viability. XeoHealth is expected to generate fees from adjudication and process services and its margin profile is expected to be similar to our other international transaction processors.

Smart card accounts

Our smart card accounts operating segment derives revenue from the provision of smart card accounts to our card holders, which currently primarily consist of social welfare grant beneficiaries. We provide a smart card account to all social welfare beneficiaries to whom we distribute payments. A portion of the fee we earn for the delivery of the service is for the provision of the smart card account and is therefore included in the smart card accounts operating segment. The fixed costs included in this operating segment are primarily computer equipment-related and personnel costs associated with the operation of the smart card accounts.

Financial services

Our financial services operating segment derives revenues from providing financial services to card holders through our smart card delivery channel. These financial services consist primarily of short-term loans and life insurance products. We provide the loans ourselves and generate revenue from the service fees charged on these loans. We sell life insurance products on behalf of registered underwriters and earn revenue through the commissions we receive on the sale of policies. The fees we earn for the collection of insurance policy premiums through our debit order system is included in the South African transaction-based activities operating segment. The fixed expenses associated with the financial services operating segment consist primarily of costs of administrative personnel and depreciation of computer equipment.

We operated a traditional microlending business in South Africa which we sold during the third quarter of fiscal 2009. The business extended short-term loans for periods ranging from 30 days up to four months, with the majority of loans being 30-day loans.

Hardware, software and related technology sales

We have developed a range of technological competencies to service our own internal needs and to provide links with our client enterprises. We derive revenues from the hardware, software and related technology sales operating segment by providing to customers the hardware and software required to implement our UEPS system. Typical components for a UEPS system installation are:

- hardware for the back-end switching and settlement system;
- customization of the UEPS software to suit local conditions, including UEPS management system, ATM integration and POS device integration;
- customization of an applications suite to client s specific requirements, such as banking, retail or wage payments;
- ongoing software and hardware support/maintenance; and
- license fees.

Three of our largest customers in this segment are the International Smart Card LLC, of the Iraqi Consortium, the Central Bank of Ghana and Nedbank, one of South Africa s largest banks by asset size. In Ghana, we created a national payment system in which all Ghanaian banks are required to participate. We have an arrangement with Nedbank relating to the outsourcing of its entire POS device management system, front-end switching Stratus computer platform, development of their software systems, smart cards and POS device maintenance. We also supply hardware to Nedbank in the form of POS devices and card readers on an ad hoc basis.

Included in our hardware, software and related technology sales segment are Net1 UTA, Net1 UETS, cryptographic solutions, chip and GSM licensing, and POS solutions. Net1 UTA is currently focusing on a transaction-based activities business model and we expect to allocate revenues and expenses associated with this business to our international transaction-based activities segment beginning in fiscal 2012.

Critical Accounting Policies

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

Deferred Taxation

We estimate our tax liability through the calculations done for the determination of our current tax liability when tax returns are filed, together with assessing temporary differences resulting from the different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities which are disclosed on our balance sheet. Management then has to assess the likelihood that deferred tax assets are more likely than not to be realized in future periods. In the event it is determined that the deferred tax assets to be realized in the future would be in excess of the net recorded amount, an adjustment to the deferred tax asset valuation allowance would be recorded. This adjustment would increase income, or additional paid in capital, as appropriate, in the period such determination was made. Likewise, should it be determined that all or part of the net deferred tax asset would not be realized in the future, an adjustment to increase the deferred tax asset valuation allowance would be charged to income in the period such determination is made. In assessing the need for a valuation allowance, historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and practicable tax planning strategies are considered. During fiscal 2011, 2010, and 2009, we recorded increases to our valuation allowance of $19.5 million, $5.0 million, and $16.5 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 and recognize compensation cost on a straight line basis. Option-pricing models require estimates of a number of key valuation inputs including expected volatility, expected dividend yield, expected term and risk-free interest rate. Our management has estimated forfeitures based on historic employee behavior under similar compensation plans. No stock options were granted during fiscal 2010. During fiscal 2009, our assumptions regarding volatility changed significantly as a result of general economic conditions and trading prices of our customers and suppliers. Accordingly, the fair value of stock options is affected by the assumptions selected. Net stock-based compensation expense from continuing operations was $1.7 million, $5.7 million and $5.0 million for fiscal 2011, 2010 and 2009, respectively. Net stock-based compensation expense for fiscal 2011, includes a reversal of $3.5 million related to a portion of the restricted stock granted in August 2007 that did not vest as the performance condition prescribed in the terms of the awards was not met.

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 2011, 2010 and 2009, where we identified and recognized intangible assets. We have used the relief from royalty method, the multi-period excess earnings method, the income approach and the cost approach to value acquisition-related intangible assets. In so doing, we made assumptions regarding expected future revenues and expenses to develop the underlying forecasts, applied contributory asset charges, discount rates, exchange rates, cash tax charges and useful lives.

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

Business Combinations and the Recoverability of Goodwill

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

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

The determination of the fair value of a reporting unit requires us to make significant judgments and estimates. In determining the fair value of reporting units, we consider the value of our business as a whole and allocate this value across our reporting units based on the weighted average of the returns of the reporting units.

We base our estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. In addition, we make judgments and assumptions in allocating assets and liabilities to each of our reporting units.

The results of our impairment tests during fiscal 2011 indicated that the fair value of our reporting units exceeded their carrying values and therefore our reporting units were not at risk of potential impairment. During the fourth quarter of 2010 we determined that the carrying value of goodwill of the hardware, software and related technology sales segment reporting unit exceeded the fair value and, as a result, recorded an impairment loss of $37.4 million.

Accounts Receivable and Provision for Doubtful Debts

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

Research and Development

Accounting standards require product development costs to be charged to expenses as incurred until technological feasibility is attained. Technological feasibility is attained when our software has completed system testing and has been determined viable for its intended use. The time between the attainment of technological feasibility and completion of software development has been short. Accordingly, we did not capitalize any development costs during the years ended June 30, 2011, 2010 or 2009, particularly because the main part of our development is the enhancement and upgrading of existing products.

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

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

Recent Accounting Pronouncements

Recent accounting pronouncements adopted

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

Recent accounting pronouncements not yet adopted as of June 30, 2011

Refer to Note 2 of our consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of June 30, 2011, 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,**		
	2011	**2010**	**2009**
ZAR : $ average exchange rate	7.0286	7.6117	9.0484
Highest ZAR : $ rate during period	7.7809	8.3187	11.8506
Lowest ZAR : $ rate during period	6.4925	7.1731	7.1556
Rate at end of period	6.8449	7.6529	7.8821

Translation exchange rates

We are required to translate our results of operations from ZAR to US dollars on a monthly basis. Thus, the average rates used to translate this data for the years ended June 30, 2011, 2010 and 2009, 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,**	
	2011	**2010**	**2009**
Income and expense items: $1 = ZAR	6.9962	7.6092	8.9397
Balance sheet items: $1 = ZAR	6.8449	7.6529	7.8821

Results of Operations

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

Fiscal 2011 results include MediKredit and FIHRST for the entire period and KSNET from November 1, 2010. Fiscal 2010 results include MediKredit and FIHRST from January 1, 2010 and March 31, 2010, respectively, and do not include KSNET. Fiscal 2009 results do not include KSNET, MediKredit or FIHRST. In addition, on March 1, 2009, we sold our traditional microlending business and therefore, our fiscal 2009 results include revenue and operating loss from this business for the first eight months of that year.

Fiscal 2011 Compared to Fiscal 2010

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

- ***Impairment loss related to Net1 UTA customer relationships:*** We recorded an impairment loss of $41.8 million related to Net1 UTA s customer relationships;
- ***SASSA price and volume reductions:*** Our current contract with SASSA has reduced our revenue and operating income as a result of price and volume reductions from our previous contract;
- ***Valuation allowances related to Net1 UTA deferred tax assets:*** During fiscal 2011, we created valuation allowance totaling $8.9 million related to Net1 UTA deferred tax assets;
- ***Favorable impact from the weakness of the US dollar:*** The US dollar depreciated by 8% compared to the ZAR during fiscal 2011 compared to fiscal 2010 which has had a positive impact on our reported results;
- ***Increased revenue from KSNET at lower operating margins, before acquired intangible asset amortization, than our legacy business:*** Our KSNET acquisition in October 2010 positively impacted our revenue during fiscal 2011, however, because KSNET has an operating margin, before acquired intangible asset amortization, that is lower than our legacy businesses, it negatively impacted our operating margin. The inclusion of KSNET in our results has also contributed to the increase in selling, general and administration and depreciation and amortization expenses;
- ***Increased transaction volumes at EasyPay:*** Our reported results were positively impacted by increased transaction volumes at EasyPay resulting from growth in value-added services and higher than expected activity at retailers during the Christmas season;
- ***Increased revenue from MediKredit and FIRHST at lower operating margins than other South African transaction- based activity business:*** Our MediKredit and FIHRST acquisitions positively impacted our revenue during fiscal 2011, however, because MediKredit generated an operating loss and FIHRST has operating margin that is lower than our other transaction-based activity businesses, they negatively impacted our operating margin. The inclusion of these businesses in our results has also contributed to the increase in selling, general and administration expense;
- ***Increased user adoption in Iraq:*** Our reported results were positively impacted by increased transaction revenues at NUETS from the adoption of our UEPS technology in Iraq;
- ***Lower revenues and margins from hardware, software and related technology sales segment:*** Our hardware, software and related technology sales segment was adversely impacted by lower revenues from all contributors to this operating segment;
- ***Intangible asset amortization related to acquisitions:*** Our reported results for fiscal 2011, were adversely impacted by additional intangible asset amortization related to the acquisitions of KSNET, MediKredit and FIHRST;
- ***Lower interest income and increased interest expense resulting from KSNET acquisition:*** Our reported results were adversely impacted by lower interest income due to the payment of a portion of the KSNET purchase price in cash and increased interest expense due to the payment of a portion of the KSNET purchase price utilizing long-term debt and facility fees of approximately $2.0 million;
- ***Reversal of stock-based compensation charges:*** Our reported results were positively impacted by the reversal of stock-based compensation charge of $3.5 million (ZAR 24.5 million), primarily as a result of the forfeitures of a portion of the performance-based restricted stock granted in August 2007; and
- ***Transaction-related expenses included in selling, general and administration expense:*** During fiscal 2011, we incurred transaction-related expenses of $6.0 million, primarily for the acquisition of KSNET.

Consolidated overall results of operations

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

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

Table 3

	In United States Dollars (US GAAP) Year ended June 30,		
	2011 $ 000	**2010 $ 000**	**% change**
Revenue	343,420	280,364	22%
Cost of goods sold, IT processing, servicing and support	109,858	72,973	51%
Selling, general and administration	119,692	80,854	48%
Operating income before depreciation, amortization and impairment loss	113,870	126,537	(10)%
Depreciation and amortization	34,671	19,348	79%
Impairment loss	41,771	37,378	12%
Operating income	37,428	69,811	(46)%
Interest (expense) income, net	(1,018)	9,069	(111)%
Income before income taxes	36,410	78,880	(54)%
Income tax expense	33,525	40,822	(18)%
Net income before earnings (loss) from equity-accounted investments	2,885	38,058	(92)%
(Loss) Earnings from equity-accounted investments	(339)	93	(465)%
Net income	2,546	38,151	(93)%
Add: net loss attributable to non-controlling interest	(101)	(839)	(88)%
Net income attributable to us	2,647	38,990	(93)%

Table 4

	In South African Rand (US GAAP) Year ended June 30,		
	2011 ZAR 000	**2010 ZAR 000**	**% change**
Revenue	2,402,634	2,133,374	13%
Cost of goods sold, IT processing, servicing and support	768,589	555,274	38%
Selling, general and administration	837,389	615,243	36%
Operating income before depreciation, amortization and impairment loss	796,656	962,857	(17)%
Depreciation and amortization	242,565	147,225	65%
Impairment loss	292,238	284,420	3%
Operating income	261,853	531,212	(51)%
Interest (expense) income, net	(7,122)	69,009	(110)%
Income before income taxes	254,731	600,221	(58)%
Income tax expense	234,548	310,627	(24)%
Net income before earnings (loss) from equity-accounted investments	20,183	289,594	(93)%
(Loss) Earnings from equity-accounted investments	(2,372)	708	(435)%
Net income	17,811	290,302	(94)%

Add: net loss attributable to non-controlling interest	(707)	(6,384)	(89)%
Net income attributable to us	18,518	296,686	(94)%

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

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

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

Our direct costs of maintaining a listing on Nasdaq and the JSE, as well as compliance with the Sarbanes-Oxley Act of 2002, or Sarbanes, particularly Section 404 of Sarbanes, primarily includes independent directors fees, legal fees, fees paid to Nasdaq and the JSE, investor relations expenses, our compliance officer s salary, fees paid to consultants who assist with Sarbanes compliance and fees paid to our independent accountants related to the audit and review process. This has resulted in expenditures of $3.2 million (ZAR 22.7 million) and $2.4 million (ZAR 17.9 million) during fiscal 2011 and 2010, respectively.

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

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

Table 6	**Year ended June 30,**	
	2011	**2010**
	ZAR 000	**ZAR 000**
Amortization included in depreciation and amortization expense:	151,761	107,588
South African transaction-based activities	39,891	31,999
International transaction-based activities	60,181	-
Hardware, software and related technology sales	51,689	75,589

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

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

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

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

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

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

Results of operations by operating segment

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

Table 7			***In United States Dollars (US GAAP)***		
			Year ended June 30,		
Operating Segment	**2011 $ 000**	**% of total**	**2010 $ 000**	**% of total**	**% change**
Consolidated revenue:					
South African transaction-based activities	188,590	55%	191,362	68%	(1)%
International transaction-based activities	69,947	20%	-	-	nm
Smart card accounts	33,315	10%	31,971	11%	4%
Financial services	7,313	2%	4,023	1%	82%
Hardware, software and related technology sales	44,255	13%	53,008	20%	(17)%
Total consolidated revenue	343,420	100%	280,364	100%	22%
Consolidated operating income (loss):					
South African transaction-based activities	74,642	199%	106,036	152%	(30)%
Operating income before amortization	80,344		110,241		(27)%
Amortization	(5,702)		(4,205)		36%
International transaction-based activities	1,707	5%	-		nm
Operating income before amortization	10,309		-		nm
Amortization	(8,602)		-		nm
Smart card accounts	15,140	40%	14,532	21%	4%
Financial services	5,658	15%	2,881	4%	96%
Hardware, software and related technology sales	(49,930)	(133)%	(42,524)	(61)%	17%
Operating income before amortization and impairment of intangibles	(771)		4,787		(116)%
Amortization and impairment of intangibles	(49,159)		(47,311)		4%
Corporate/eliminations	(9,789)	(26)%	(11,114)	(16)%	(12)%
Total consolidated operating income	37,428	100%	69,811	100%	(46)%

Table 8	*In South African Rand (US GAAP)*				
	Year ended June 30,				
	2011		**2010**		
Operating Segment	**ZAR 000**	**% of total**	**ZAR 000**	**% of total**	**% change**
Consolidated revenue:					
South African transaction-based activities	1,319,413	55%	1,456,131	68%	(9)%
International transaction-based activities	489,363	20%			nm
Smart card accounts	233,078	10%	243,277	11%	(4)%
Financial services	51,163	2%	30,612	1%	67%
Hardware, software and related technology sales	309,617	13%	403,354	20%	(23)%
Total consolidated revenue	2,402,634	100%	2,133,374	100%	13%
Consolidated operating income (loss):					
South African transaction-based activities	522,210	199%	806,860	152%	(35)%
Operating income before amortization	562,101		838,859		(33)%
Amortization	(39,891)		(31,999)		25%
International transaction-based activities	11,943	5%			nm
Operating income before amortization	72,124		-		nm
Amortization	(60,181)		-		nm
Smart card accounts	105,922	40%	110,578	21%	(4)%
Financial services	39,584	15%	21,922	4%	81%
Hardware, software and related technology sales	(349,320)	(133)%	(323,578)	(61)%	8%
Operating income before amortization and impairment of goodwill	(5,393)		36,431		(115)%
Amortization and impairment of goodwill	(343,927)		(360,009)		(4)%
Corporate/eliminations	(68,486)	(21)%	(84,570)	(16)%	(19)%
Total consolidated operating income	261,853	100%	531,212	100%	(51)%

South African transaction-based activities

In ZAR, the decreases in revenue were primarily due to the new SASSA contract at lower economics, which was partially offset by increased transaction volumes at EasyPay and the inclusion of MediKredit and FIHRST.

Revenues for South African transaction-based activities include the transaction fees we earn through our merchant acquiring system and reflect the elimination of inter-company transactions.

Operating income margin of our South African transaction-based activities decreased to 40% from 55% a year ago. The decrease was primarily due to the lower revenues generated under our SASSA contract, additional intangible asset amortization related to the acquisition of MediKredit and FIHRST and lower margins in our recently-acquired transaction processing operations compared with legacy South African transaction-based activities.

***Pension and welfare operations*:**

Our revenue and operating income related to our pension and welfare operations were negatively impacted by our new contract discussed under Business Developments during Fiscal 2011 South Africa SASSA contract. Our pension and welfare operations continue to generate the majority of our revenues and operating income in this operating segment and for us as a whole.

South African transaction processors:

The table below presents the total volume and value processed during fiscal 2011 and 2010 by our transaction processors:

Table 9

Transaction processor	**Total volume (000)**		**Total value $ (000)**		**Total value ZAR (000)**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
EasyPay	707,622	655,176	23,574,378	18,904,176	164,931,066	143,847,549
MediKredit	9,805	5,411	513,503	227,881	3,592,572	1,734,015
FIHRST	21,954	5,260	9,792,178	1,858,590	68,508,034	14,142,572

Our results for fiscal 2011 include intangible asset amortization related to our MediKredit and FIHRST acquisitions but exclude RMT s intangible assets which were fully amortized during fiscal 2010. Fiscal 2010 includes amortization related to the RMT intangible assets for three quarters, MediKredit intangible assets for two quarters and FIHRST s intangible assets for one quarter.

Continued adoption of our merchant acquiring system:

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

The increase in the number of POS devices since June 30, 2010, is due to increased rental or purchase of POS devices by current merchants requesting additional equipment and new merchants joining our UEPS merchant acquiring system. The decrease in the number of participating UEPS retail locations is due to us cancelling contracts due to non-payment by the merchants. Under our normal credit control procedures we regularly scrutinize and review long outstanding debtors accounts, and after all efforts have been exhausted, we cancel our relationship with these defaulting merchants. The cancellation of these contracts has not, and should not, have a significant impact on our results of operations and as demonstrated by the key statistics below, we believe that our merchant acquiring system is functioning optimally.

Table 10			**Three months ended**			
	Mar 31, 2010	**Jun 30, 2010**	**Sep 30, 2010**	**Dec 31, 2010**	**Mar 31, 2011**	**Jun 30, 2011**
Total POS devices installed as of period end	4,700	4,794	4,772	4,823	4,835	4,921
Number of participating UEPS retail locations as of period end	2,552	2,513	2,511	2,562	2,541	2,482
Value of transactions processed through POS devices during the quarter (1) (in $ 000)	397,141	388,277	399,637	393,691	411,233	446,068
Value of transactions processed through POS devices during the completed pay cycles for the quarter (2) (in $ 000)	381,993	402,294	395,479	394,924	401,723	444,750
Value of transactions processed through POS devices during the quarter (1) (in ZAR 000)	2,992,828	2,935,543	2,940,416	2,728,101	2,920,454	3,037,006
Value of transactions processed through POS devices during the completed pay cycles for the quarter (2) (in ZAR 000)	2,878,675	3,041,514	2,909,818	2,736,648	2,852,913	3,028,036
Number of grants paid through POS devices during the quarter (1)	4,370,553	4,618,013	4,819,458	4,580,255	4,804,540	4,850,146
	4,699,620	4,741,737	4,710,596	4,599,893	4,739,062	4,839,106

Number of grants paid through POS devices during the completed pay cycles for the quarter (2)						
Average number of grants processed per terminal during the quarter (1)	933	973	1,008	955	995	994
Average number of grants processed per terminal during the completed pay cycles for the quarter (2)	1,003	999	985	959	981	992

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

International transaction-based activities

KSNET currently contributes the majority of our revenues in this operating segment. Operating margin for the segment is lower than our legacy South African transaction-based businesses and was negatively impacted by start-up expenditures related to our Virtual Card launch in the United States, but partially offset by improving profitability of NUETS initiative in Iraq. Operating income margin for fiscal 2011 was 2%.

Our results for fiscal 2011 include the intangible asset amortization related to our KSNET acquisition from November 1, 2010.

Smart card accounts

Operating income margin from providing smart card accounts was constant at 45% for each of fiscal 2011 and 2010.

In ZAR, revenue from the provision of smart card-based accounts increased in proportion to the increased number of beneficiaries serviced through our SASSA contract. A total number of 3,561,105 smart card-based accounts were active at June 30, 2011, compared to 3,532,620 active accounts as at June 30, 2010.

Financial services

Revenue from UEPS-based lending increased primarily due to an increase in the number of loans granted. Our current UEPS-based lending portfolio comprises loans made to elderly pensioners in some of the provinces where we distribute social welfare grants. We insure the UEPS-based lending book against default and thus no allowance is required.

Operating income margin for the financial services segment increased to 77% from 72%.

Hardware, software and related technology sales

The following table presents our revenue and operating income during fiscal 2011 and 2010:

Table 11	**Year ended June 30,**	
	2011	**2010**
	$ 000	**$ 000**
Revenue	44,255	53,008
Hardware, software and related technology sales excluding Net1 UTA	33,790	40,707
Net1 UTA	10,465	12,301
Operating (loss) income before amortization of intangible assets and impairment of intangibles	(771)	4,787
Operating income	(49,930)	(42,524)
Hardware, software and related technology sales excluding Net1 UTA	1,147	6,332
Net1 UTA	(51,077)	(48,856)
Net1 UTA excluding impairment of intangibles and amortization of acquisition related intangible assets	(2,570)	(2,144)
Impairment of intangibles	(41,771)	(37,378)
Amortization of acquisition related intangible assets	(6,736)	(9,334)

Table 12	**Year ended June 30,**	
	2011	**2010**
	ZAR 000	**ZAR 000**
Revenue	309,617	403,354
Hardware, software and related technology sales excluding Net1 UTA	236,402	309,752
Net1 UTA	73,215	93,602
Operating (loss) income before amortization of intangible assets and impairment of intangibles	(5,393)	36,431

Operating income	(349,320)	(323,578)
Hardware, software and related technology sales excluding Net1 UTA	8,024	48,181
Net1 UTA	(357,344)	(371,759)
Net1 UTA excluding impairment of intangibles and amortization of acquisition related intangible assets	(17,980)	(16,314)
Impairment of intangibles	(292,238)	(284,420)
Amortization of acquisition related intangible assets	(47,126)	(71,025)

In ZAR, the decrease in revenue and operating income was primarily due to lower revenues by all major contributors to this operating segment as a result of challenging trading conditions. Net1 UTA has failed to retain and expand hardware and software sales to its existing customer base and certain of our South African businesses have been impacted by increased competition. UETS was impacted by significantly lower hardware sales, primarily terminals and cards, as these sales are generally made on an ad hoc basis. The majority of these sales occur within the first two years after the commencement of a project, such as in Ghana and Iraq.

Revenue and operating income for fiscal 2011 comprised:

- software development and customization, and sales of smart cards related to our Ghana and Iraq contracts;
- sales of licenses, smart cards and terminals to Net1 UTA clients , mainly in Russia and Uzbekistan;
- sales of SIM cards to customers;
- sales of cryptographic solutions to customers;
- rental of terminals to merchants participating in our merchant acquiring system; and
- repairs and maintenance services to customers.

During fiscal 2011, customer relationships of $41.8 million acquired as part of the Net1 UTA acquisition was impaired. During fiscal 2010, we recognized a goodwill impairment loss of approximately $37.4 million (ZAR 284.4 million) as a result of deteriorating trading conditions of this segment, particularly at Net1 UTA, and uncertainty surrounding contract finalization dates which were expected to impact future cash flows.

Amortization of Prism intangible assets during fiscal 2011 and 2010, respectively, was approximately $0.7 million (ZAR 4.6 million) and $0.6 million (ZAR 4.6 million) and reduced our operating income.

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

Corporate/ Eliminations

The decrease in our corporate expenses resulted primarily from the reversal of stock-based compensation charges of $3.5 million (ZAR 24.5 million), primarily as a result of forfeitures (based on failure to achieve the required vesting conditions) of performance-based restricted stock issued in August 2007. These reductions were offset by higher corporate head office-related expenditure, including the effects of inflation in South Africa, and transaction related expenditures of $6.0 million (ZAR 42.3 million), primarily related to the acquisition of KSNET.

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

Fiscal 2010 Compared to Fiscal 2009

The following factors had an influence on our results of operations during fiscal 2010 as compared with the same period in the prior year:

- ***Favorable impact from the weakness of the US dollar:*** The US dollar depreciated by 15% compared to the ZAR during fiscal 2010 which has had a positive impact on our reported results;
- ***Increased transaction volumes at EasyPay:*** Our reported results were positively impacted by increased transaction volumes at EasyPay resulting from growth in value-added services and higher than expected activity at retailers during the Christmas season;
- ***Increased user adoption in Iraq:*** Our reported results were favorably impacted by increased transaction revenues from the adoption of our UEPS technology in Iraq;
- ***Lower revenues and margins from hardware, software and related technology sales segment:*** Our hardware, software and related technology sales segment was adversely impacted by fewer ad hoc sales to the Bank of Ghana, lower revenues and overall margin generated by Net1 UTA and weaker demand for our products as well as pricing pressures resulting from the global recession in calendar 2009, all of which was partially offset by hardware sales to Iraq;
- ***Lower net interest income:*** Our interest income, net, was adversely impacted by lower average daily ZAR cash balance and a lower average deposit rate during fiscal 2010 compared to fiscal 2009;
- ***Lower intangible asset amortization:*** In ZAR, our reported results for fiscal 2010 were positively impacted by lower intangible asset amortization as the majority of Prism and EasyPay acquisition-related intangible assets were fully amortized in fiscal 2009;
- ***Fiscal 2010 goodwill impairment losses:*** During fiscal 2010, we recognized a goodwill impairment loss of $37.4 million (ZAR 284.4 million); and
- ***Non-recurring fiscal 2009 items:*** During fiscal 2009, we recognized a foreign exchange gain of $26.7 million (ZAR 238.3 million) resulting from an asset swap arrangement and recognized a profit on the sale of our traditional microlending business of $0.5 million (ZAR 4.1 million).

Consolidated overall results of operations

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

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

Table 13	**In United States Dollars (US GAAP) Year ended June 30,**		
	2010 $ 000	**2009 $ 000**	**% change**
Revenue	280,364	246,822	14%
Cost of goods sold, IT processing, servicing and support	72,973	70,091	4%
Selling, general and administration	80,854	64,833	25%
Operating income before depreciation, amortization and impairment of goodwill	126,537	111,898	13%
Depreciation and amortization	19,348	17,082	13%
Profit on sale of microlending business	-	(455)	nm
Impairment of goodwill	37,378	1,836	nm
Operating income	69,811	93,435	(25)%
Foreign exchange gain related to short-term investment	-	26,657	nm
Interest income, net	9,069	10,828	(16)%

Income before income taxes	78,880	130,920	(40)%
Income tax expense	40,822	42,744	(5)%
Net income before earnings (loss) from equity-accounted investments	38,058	88,176	(57)%
Earnings (Loss) from equity-accounted investments	93	(874)	nm
Net income	38,151	87,302	(56)%
(Add) Less: net (loss) income attributable to non-controlling interest	(839)	701	nm
Net income attributable to us	38,990	86,601	(55)%

Table 14

	In South African Rand (US GAAP) Year ended June 30,		
	2010 ZAR 000	**2009 ZAR 000**	**% change**
Revenue	2,133,374	2,206,512	(3)%
Cost of goods sold, IT processing, servicing and support	555,274	626,592	(11)%
Selling, general and administration	615,243	579,587	6%
Operating income before depreciation, amortization and impairment of goodwill	962,857	1,000,333	(4)%
Depreciation and amortization	147,225	152,708	(4)%
Profit on sale of microlending business	-	(4,068)	nm
Impairment of goodwill	284,420	16,413	nm
Operating income	531,212	835,280	(36)%
Foreign exchange gain related to short-term investment	-	238,306	nm
Interest income, net	69,009	96,799	(29)%
Income before income taxes	600,221	1,170,385	(49)%
Income tax expense	310,627	382,118	(19)%
Net income before earnings (loss) from equity-accounted investments.	289,594	788,267	(63)%
Earnings (Loss) from equity-accounted investments	708	(7,813)	nm
Net income	290,302	780,454	(63)%
(Add) Less: net (loss) income attributable to non-controlling interest	(6,384)	6,267	nm
Net income attributable to us	296,686	774,187	(62)%

Analyzed in ZAR, the decrease in revenue and cost of goods sold, IT processing, servicing and support for fiscal 2010 was primarily due to lower revenues in our hardware, software and related technology sales segment. This decrease was offset by an increase in South African transaction-based activities which resulted primarily from increased volumes at EasyPay and the inclusion of MediKredit and FIHRST operations for a portion of the year.

Our operating income margin decreased to 25% from 38% resulting primarily from the impairment of goodwill. The other contributors to operating income varied from fiscal 2010 compared with fiscal 2009 as presented in tables 7 and 8 below. Operating income contributions, based on operating margin, from our South African transaction-based activities and smart card accounts segments were comparable; however, our financial services segment contributed more and our hardware, software and related technology sales segment contributed less during fiscal 2010 compared with fiscal 2009. We discuss the components of the operating income margin in more detail under Results of operations by operating segment .

Analyzed in ZAR, selling, general and administration expenses were higher in fiscal 2010 primarily due to increases in goods and services purchased from third parties and the inclusion of MediKredit s and FIHRST s operations. Fiscal 2010 selling, general and administration expenses include acquisition-related costs of $0.6 million (ZAR 4.7 million) and the stock-based compensation charge related to stock options awarded in May 2009 and restricted stock granted in August 2009.

Our direct costs of maintaining a listing on Nasdaq and obtaining a listing on the JSE, as well as compliance with the Sarbanes-Oxley Act of 2002, or Sarbanes, particularly Section 404 of Sarbanes, includes independent directors fees, legal fees, fees paid to Nasdaq and the JSE, our compliance officer s salary, fees paid to consultants who assist with Sarbanes compliance, fees paid to our independent accountants related to the audit and review process and, during fiscal 2009, fees paid to our consultants and advisors assisting with the JSE listing. This has resulted in expenditures of $2.4 million (ZAR 17.9 million) and $2.1 million (ZAR 18.7 million) during fiscal 2010 and 2009, respectively.

In ZAR, depreciation and amortization decreased during fiscal 2010 primarily as a result of lower Prism intangible asset amortization, offset by the intangible asset amortization related to the Net1 UTA, RMT, MediKredit and FIHRST acquisitions. The intangible asset amortization and deferred tax effects related to our various acquisitions are summarized in the tables below:

Table 15	**Year ended June 30,**	
	2010	**2009**
	$ 000	**$ 000**
Amortization included in depreciation and amortization expense:	14,138	12,387
South African transaction-based activities	4,205	1,895
Hardware, software and related technology	9,933	10,492

Table 16	Year ended June 30,	
	2010	2009
	ZAR 000	ZAR 000
Amortization included in depreciation and amortization expense:	107,588	110,734
South African transaction-based activities	31,999	16,938
Hardware, software and related technology	75,589	93,796

During the fourth quarter of fiscal 2010, we recognized an impairment loss of approximately $37.4 million on goodwill allocated to the hardware, software and related technology sales segment as a result of deteriorating trading conditions of this segment, particularly at Net1 UTA, and uncertainty surrounding contract finalization dates which were expected to impact future cash flows. With regards to the latter, through the end of the third quarter of fiscal 2010, we expected to sign our first agreement that reflects the transformed business model for Net1 UTA during the fourth quarter of fiscal 2010. However, it subsequently became clear to us that this project had been delayed due to key executive management changes at our target customer.

During fiscal 2009, we sold our traditional microlending business and recognized a profit of approximately $0.5 million (ZAR 4.1 million) and impaired goodwill of $1.8 million (ZAR 16.4 million).

We recognized a foreign exchange gain of $26.7 million (ZAR 238.3 million) during fiscal 2009 resulting from an asset swap arrangement we entered into in August 2008.

Interest on surplus cash for fiscal 2010 decreased to $10.1 million (ZAR 77.0 million) from $20.3 million (ZAR 181.4 million) for fiscal 2009. The decrease in interest on surplus cash held in South Africa was due to a lower average daily ZAR cash balance during fiscal 2010 compared with fiscal 2009 and lower deposit rates resulting from the adjustment in the South African prime interest rate from an average of approximately 14.32% per annum for fiscal 2009 to 10.43% per annum for fiscal 2010. The lower cash balances resulted primarily from our repurchase of approximately 9.2 million of our shares from Brait S.A s investment affiliates in August 2009 for $124.5 million.

Included in interest expense for fiscal 2009 is the facility fee of approximately $1.1 million (ZAR 9.7 million) that we paid to the lender under the short-term loan facility we obtained to fund the Net1 UTA acquisition and approximately $0.8 million (ZAR 7.3 million) interest on the short-term loan facility. Excluding the impact of this facility fee and the interest on the short-term loan facility, interest expense decreased during fiscal 2010 due to a decrease in the average rates of interest on our short-term facilities and the elimination of our obligation to prefund social welfare grants under our SASSA contract. In ZAR, excluding the impact of the facility fee, finance costs decreased to $1.0 million (ZAR 8.0 million) for fiscal 2010 from $7.6 million (ZAR 67.6 million) for fiscal 2009.

Total tax expense for fiscal 2010 was $40.8 million (ZAR 310.6 million) compared with $42.7 million (ZAR 382.1 million) during the same period in the prior fiscal year. Deferred tax assets and liabilities are measured utilizing the enacted fully-distributed tax rate. Accordingly, a reduction in the fully-distributed tax rate from 35.45% to 34.55% results in lower deferred tax assets and liabilities and the net change of $3.5 million (ZAR 26.5 million) is included in our income tax expense for fiscal 2009. Our total tax expense decreased primarily due to the foreign exchange gain discussed above. Our effective tax rate for fiscal 2010 was 51.8%, compared to 32.7% for fiscal 2009. The change in our effective tax rate was primarily due to an increase in non-deductible expenses, including the goodwill impairment described above, stock-based compensation charges and non-deductible acquisition-related expenses during fiscal 2010.

Earnings from equity-accounted investments for fiscal 2010 were $0.1 million (ZAR 0.7 million) compared with a net loss of $0.9 million (ZAR 7.8 million) during fiscal 2009. SmartSwitch Namibia generated net income during the year ended June 30, 2010, and we no longer account for the equity accounted losses in VTU Colombia as the accumulated losses have exceeded our initial investments.

Results of operations by operating segment

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

Table 17

	In United States Dollars (US GAAP)				
	Year ended June 30,				
Operating Segment	**2010 $ 000**	**% of total**	**2009 $ 000**	**% of total**	**% change**
Consolidated revenue:					
South African transaction-based activities	191,362	68%	148,399	60%	29%
Smart card accounts	31,971	11%	29,576	12%	8%
Financial services	4,023	1%	5,430	2%	(26)%
Hardware, software and related technology sales	53,008	20%	63,417	26%	(16)%
Total consolidated revenue	280,364	100%	246,822	100%	14%
Consolidated operating income (loss):					
South African transaction-based activities	106,036	152%	83,509	89%	27%
Operating income before amortization	110,241		85,404		29%
Amortization	(4,205)		(1,895)		122%
Smart card accounts	14,532	21%	13,442	14%	8%
Financial services	2,881	4%	(34)	-%	nm
Operating income before profit on sale of microlending business and impairment of goodwill	2,881		1,347		nm
Profit on sale of microlending business and impairment of goodwill	-		(1,381)		nm
Hardware, software and related technology sales	(42,524)	(61)%	5,498	6%	nm
Operating income before amortization and impairment of goodwill	4,787		15,990		(70)%
Amortization and impairment of goodwill	(47,311)		(10,492)		nm
Corporate/eliminations	(11,114)	(16)%	(8,980)	(9)%	24%
Total consolidated operating income	69,811	100%	93,435	100%	(25)%

Table 18

	In South African Rand (US GAAP)				
	Year ended June 30,				
Operating Segment	**2010 ZAR 000**	**% of total**	**2009 ZAR 000**	**% of total**	**% change**
Consolidated revenue:					
South African transaction-based activities	1,456,131	68%	1,326,641	60%	10%
Smart card accounts	243,277	11%	264,400	12%	(8)%
Financial services	30,612	1%	48,543	2%	(37)%
Hardware, software and related technology sales	403,354	20%	566,928	26%	(29)%
Total consolidated revenue	2,133,374	100%	2,206,512	100%	(3)%
Consolidated operating income (loss):					
South African transaction-based activities	806,860	152%	746,545	89%	8%
Operating income before amortization	838,859		763,483		10%
Amortization	(31,999)		(16,938)		89%
Smart card accounts	110,578	21%	120,167	14%	()%8
Financial services	21,922	4%	(304)	-%	Nm
	21,922		12,041		Nm

Operating income before profit on sale of microlending business and impairment of goodwill					
Profit on sale of microlending business and impairment of goodwill	-		(12,345)		Nm
Hardware, software and related technology sales	(323,578)	(61)%	49,150	6%	Nm
Operating income before amortization and impairment of goodwill	36,431		142,946		(75)%
Amortization and impairment of goodwill	(360,009)		(93,796)		Nm
Corporate/eliminations	(84,570)	(16)%	(80,278)	(9)%	5%
Total consolidated operating income	531,212	100%	835,280	100%	(36)%

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South African transaction-based activities

In ZAR, the increases in revenue were primarily due to our MediKredit and FIHRST acquisitions and increased transaction volumes at EasyPay and Iraq. We discuss these factors in more detail below.

Revenues for South African transaction-based activities include the transaction fees we earn through our merchant acquiring system and reflect the elimination of inter-company transactions.

Segment operating income margin decreased to 55% from 56%, mainly as a result of lower margins from our MediKredit and FIHRST operations and at EasyPay as compared with our pension and welfare operations. This decrease was partially offset by cost management controls in our pension and welfare operations and increased transaction fees from the utilization of our UEPS system in Iraq.

***Pension and welfare operations*:**

Effective April 1, 2009, we signed a one-year contract with SASSA which expired on March 31, 2010, and which was subsequently extended on its existing terms by three months to June 30, 2010.

The SASSA contract described above contained a standard pricing formula for all provinces based on a transaction fee per beneficiary paid regardless of the number or amount of grants paid per beneficiary, calculated on a guaranteed minimum number of beneficiaries per month. Under our previous provincial contracts, depending on the province, we received either a fee per grant distributed, or per beneficiary paid, or as a percentage of the total grant amount distributed. In addition, commencing with the May 2009 pay cycle, SASSA assumed responsibility for the pre-funding of all social welfare grants. Our average revenue per beneficiary paid therefore remains unchanged during the term of the contract, including the current extension. From time to time, we are requested to assist with the payment of ad-hoc special grants or benefits (such as disaster relief payments), which may be at a different rate than the standard welfare distribution price. We also receive a once-off registration fee for every new beneficiary we enroll on our system.

Transaction processors:

We acquired MediKredit and FIHRST on January 1 and March 31, 2010, respectively, and their operations are included in our results from those dates. MediKredit s results include claims processing support fees received from a customer it lost in late calendar 2009 and which contractually continued to pay fees through the end of April 2010. After intangible asset amortization MediKredit generated nominal operating income and FIHRST generated a nominal operating loss, although it was cash flow positive. During fiscal 2011, we expect that MediKredit will be cash flow negative and that FIHRST will continue to be cash flow positive. These cash flows are not expected to be significant to our operations during fiscal 2011.

The table below presents the total volume and value processed during fiscal 2010 and 2009 by our transaction processors:

Table 19

Transaction	Total volume		Total value $ (000)		Total value ZAR (000)	
processor	2010	2009	2010	2009	2010	2009
EasyPay	655,175,671	580,738,580	18,904,176	14,671,863	143,847,549	131,161,910
MediKredit	5,410,984	-	227,881	-	1,734,015	-
FIHRST	5,259,808	-	1,858,590	-	14,142,572	-

Transaction processing related to our Iraqi contract continued to grow sequentially through fiscal 2010 and we expect this trend to continue into fiscal 2011.

Certain EasyPay intangible assets were fully amortized at the end of fiscal 2009, however, savings related to the reduction in amortization of EasyPay intangible assets was offset by intangible asset amortization related to the MediKredit and FIHRST acquisitions.

Continued adoption of our merchant acquiring system:

Refer to discussion under Fiscal 2011 compared to fiscal 2010 Results of operations by operating segment South African transaction-based activities Continued adoption of our merchant acquiring system.

Smart card accounts

Operating income margin from providing smart card accounts was constant at 45% for each of the fiscal 2010 and 2009.

In ZAR, revenue from the provision of smart card-based accounts decreased in proportion to the lower number of beneficiaries serviced through our SASSA contract. A total number of 3,532,620 smart card-based accounts were active at June 30, 2010, compared to 3,875,463 active accounts as at June 30, 2009. The decrease in the number of active accounts resulted largely from the suspension and removal of invalid or fraudulent grants by SASSA.

Financial services

Revenue from UEPS-based lending increased primarily due to an increase in the number of loans granted. In addition, on average, the return on these UEPS-based loans was higher. Our current UEPS-based lending portfolio comprises loans made to elderly pensioners in some of the provinces where we distribute social welfare grants. We insure the UEPS-based lending book against default and thus no allowance is required.

The operating loss for fiscal 2009 includes a profit of $0.5 million (ZAR 4.1 million) on the sale of our traditional microlending business and goodwill impairment of $1.8 million (ZAR 16.4 million).

Excluding the effects of the goodwill impairment and profit on the sale of our traditional microlending business, operating income margin for the financial services segment increased to 72% from 25%.

Hardware, software and related technology sales

Operating results include Net1 UTA for fiscal 2010 and from September 1, 2008, for fiscal 2009. The following table presents our revenue and operating income during fiscal 2010 and 2009:

Table 20	**Year ended June 30,**	
	2010	**2009**
	$ 000	**$ 000**
Revenue	53,008	63,417
Hardware, software and related technology sales excluding Net1 UTA	40,707	43,857
Net1 UTA	12,301	19,560
Operating income before amortization of intangible assets and goodwill impairment	4,787	15,990
Operating income	(42,524)	5,498
Hardware, software and related technology sales excluding Net1 UTA	6,332	8,474
Net1 UTA	(48,856)	(2,976)
Net1 UTA excluding impairment of goodwill and amortization of acquisition related intangible assets	(2,144)	4,508
Impairment of goodwill	(37,378)	-
Amortization of acquisition related intangible assets	(9,334)	(7,484)

Table 21	**Year ended June 30,**	
	2010	**2009**
	ZAR 000	**ZAR 000**
Revenue	403,354	566,928
Hardware, software and related technology sales excluding Net1 UTA	309,752	392,068
Net1 UTA	93,602	174,860

Operating income before amortization of intangible assets and goodwill impairment	36,431	142,946
Operating income	(323,578)	49,150
Hardware, software and related technology sales excluding Net1 UTA	48,181	75,755
Net1 UTA	(371,759)	(26,605)
Net1 UTA excluding impairment of goodwill and amortization of acquisition related intangible assets	(16,314)	40,300
Impairment of goodwill	(284,420)	-
Amortization of acquisition related intangible assets	(71,025)	(66,905)

In ZAR, the decrease in revenue was primarily due to lower revenues at Net1 UTA and software development sales in 2009 under our Ghana contract that were not repeated in 2010, which was offset marginally by increased hardware sales to Iraq in 2010. In addition, our revenues in ZAR were negatively impacted by the depreciation of the USD against the ZAR as sales to customers in Europe, Ghana and Iraq are primarily denominated in USD. In ZAR, the decrease in operating income was primarily due to amortization of Net1 UTA intangible assets, impairment of goodwill and lower sales activity.

Revenue and operating income for fiscal 2010 comprised:

- software development and customization, sales of terminals and smart cards related to our Ghana contract;
- sales of licenses, smart cards and terminals to Net1 UTA clients , mainly in Russia and Uzbekistan;
- sales of SIM cards to customers;
- sales of cryptographic solutions to customers;
- rental of terminals to merchants participating in our merchant acquiring system; and
- repairs and maintenance services to customers.

Amortization of Prism intangible assets during fiscal 2010 and 2009, respectively, was approximately $0.6 million (ZAR 4.6 million) and $3.0 million (ZAR 26.9 million) and reduced our operating income. During fiscal 2010, we recognized an impairment loss of approximately $37.4 million (ZAR 284.4 million) as a result of deteriorating trading conditions of this segment, particularly at Net1 UTA, and uncertainty surrounding contract finalization dates which will impact future cash flows.

Corporate/ Eliminations

The increase in our losses resulted from increases in corporate head office-related expenditure, including the effects of the increase in inflation in South Africa and stock-based compensation charges.

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

Liquidity and Capital Resources

Our business has historically generated and continues to generate high levels of cash. At June 30, 2011, our cash balances were $95.3 million, which comprised mainly ZAR-denominated balances of ZAR 493.2 million ($72.1 million), KRW-denominated balances of KRW 13.6 billion ($12.6 million) and US dollar-denominated balances of $9.9 million and other currency deposits, primarily euro, of $0.7 million. The decrease in our cash balances from June 30, 2010, is primarily as a result of the payment of approximately $124.3 million to fund a portion of the KSNET purchase price and the Secondary Taxation on Companies, or STC, of $14.7 million incurred related to dividends paid from South Africa to the United States in connection with the KSNET transaction. We currently believe that our cash and credit facilities described below are sufficient to fund our current operations for at least the next four quarters.

We generally invest the surplus cash held by our South African operations in overnight call accounts that we maintain at South African banking institutions, and surplus cash held by our non-South African companies in the US and European money markets. We have invested surplus cash in Korea in short-term investment accounts at Korean banking institutions. In addition, we are required to invest the interest payable under our Korean debt facilities due in the next six months in an interest reserve account in Korea.

Historically, we have financed most of our operations, research and development, working capital, capital expenditures and acquisitions through our internally generated cash. We take the following factors into account when considering whether to borrow under our financing facilities:

- cost of capital;
- cost of financing;
- opportunity cost of utilizing surplus cash; and
- availability of tax efficient structures to moderate financing costs.

We have short-term credit facilities in South Africa of approximately ZAR 250 million ($36.5 million) which remained fully undrawn as of June 30, 2011.

As of June 30, 2011, we had outstanding indebtedness of 130.5 billion KRW (approximately $120.1 million based on June 30, 2011 exchange rates) under credit facilities with a group of Korean banks (the Facilities Agreement). The loans bear interest at the Korean CD rate in effect from time to time (3.00% as of June 30, 2011) plus a margin of 4.10% . Semi-annual principal payments of approximately $7.5 million (based on June 30, 2010 exchange rates) are due commencing in October 2011, with final maturity scheduled for October 2015. The loans are secured by substantially all of KSNET s assets, a pledge by our subsidiary, Net1 Korea, of its entire equity interest in KSNET and a pledge by the immediate parent of Net1 Korea (also one of our subsidiaries) of its entire equity interest in Net1 Korea. The Facilities Agreement contains customary covenants that require Net1 Korea and its consolidated subsidiaries to maintain certain specified financial ratios (including a leverage ratio and a debt service coverage ratio) and restrict their ability to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make capital expenditures above specified levels, engage in certain business combinations and engage in other corporate activities. The loans under the Facilities Agreement are without recourse to, and the covenants and other agreements contained therein do not apply to, us or any of our subsidiaries (other than Net1 Korea and its subsidiaries, including KSNET).

We have a unique cash flow cycle due to the funding mechanism under our SASSA contact and our pre-funding of certain merchants. Under our SASSA contract, we receive the grant funds 48 hours prior to the provision of the service and any interest we earn on these amounts is for the benefit of SASSA. We pre-fund certain merchants for grants paid through our merchant acquiring system on our behalf before the start of the payment service at pay points. We typically reimburse merchants that are not pre-funded within 48 hours after they distribute the grants to the social welfare beneficiaries.

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

health care plans which we disburse to health care service providers once we have adjudicated claims;

customers on whose behalf we processes off payroll payments that we will disburse to customer employees, payroll-related payees and other payees designated by the customer; and

credit card companies (as well as other types of payment services) which have business relationships with merchants selling goods and services via the internet in Korea which are our customers and on whose behalf we process the transactions between various parties and settle the funds from the credit card companies to our merchant customers.

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

Cash flows from operating activities

Cash flows from operating activities for fiscal 2011 decreased to $66.2 million (ZAR 463.4 million) from $68.7 million (ZAR 522.1 million) for fiscal 2010. Our net cash from operating activities decreased primarily due to the SASSA price and volume reductions which were effective July 1, 2010. During fiscal 2011, we paid interest under the Facilities Agreement of $4.1 million.

Cash flows from operating activities for fiscal 2010 decreased to $68.7 million (ZAR 522.1 million) from $106.8 million (ZAR 954.5 million) for fiscal 2009, largely due to the factors that contributed to decreases in revenues and operating income in our hardware, software and related technology sales segments, offset by increases in revenue and operating income in our transaction-based activities.

During fiscal 2011, we made a first provisional payment of $16.6 million (ZAR 113.7 million), a second provisional payment of $12.3 million (ZAR 84.0 million) related to our 2011 tax year in South Africa and paid STC of $15.2 million (ZAR 106.5 million) related to cross-border intercompany dividends paid. We made an additional second provisional tax payment of $1.8 million (ZAR 12.7 million) related to our 2010 tax year in South Africa. We also paid taxes totaling $2.6 million in other tax jurisdictions, primarily Korea.

During fiscal 2010 we made an additional second provisional tax payment of $4.0 million (ZAR 30.1 million) related to our 2009 tax year in South Africa. In addition, we made a first provisional payment of $17.8 million (ZAR 133.5 million), a second provisional payment of $20.3 million (ZAR 155.8 million) related to our 2010 tax year in South Africa and paid STC of $12.1 million (ZAR 92.2 million) related to cross-border intercompany dividends paid.

Taxes paid during fiscal 2011 and 2010 were as follows:

Table 22	Year ended June 30,			
	2011 $ 000	2010 $ 000	2011 ZAR 000	2010 ZAR 000
First provisional payments	16,565	17,788	113,708	133,522
Second provisional payments	12,331	20,309	84,019	155,769
Third provisional payments	335	239	2,296	1,789
Taxation paid related to prior years	1,774	3,996	12,716	30,119
Taxation refunds received	(213)	(241)	(1,577)	(1,913)
Secondary taxation on companies	15,216	12,052	106,500	92,215
Total South African taxes paid	46,008	54,143	317,662	411,501
Foreign taxes paid, primarily Korea	2,622	-	18,098	-
Total tax paid	48,630	54,143	335,760	411,501

Cash flows from investing activities

During fiscal 2011, we paid approximately $230.2 million (ZAR 1.6 billion), net of cash received, for 98.73% of KSNET.

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

SmartSwitch Namibia commenced repayment of loans provided by its shareholders during fiscal 2011 and cash flows from investing activities for fiscal 2011, includes principal repayments of $0.5 million. In July 2010, we provided additional loan funding to VTU Colombia of approximately $0.4 million.

Cash used in investing activities for fiscal 2010 includes capital expenditure of $2.7 million (ZAR 20.7 million), primarily for the acquisition of POS devices to service our merchant acquiring system, improvements to leasehold property and the acquisition of computer equipment.

During fiscal 2010, we paid $1.0 million (ZAR 7.3 million), net of cash received, for 100% of the outstanding ordinary capital of MediKredit and all claims outstanding and $9.4 million (ZAR 69.0 million), net of cash received for the FIHRST business and software.

Cash used in investing activities for fiscal 2009 includes capital expenditure of $4.8 million (ZAR 42.6 million), which relates primarily to the purchase of back-end processing machines to maintain and expand current operations, equipment acquired for our card manufacturing facility, modifications to vehicles acquired to distribute social welfare grants, acquisition of POS terminals for our merchant acquiring system and computer hardware acquired to upgrade our EasyPay switch and service potential customers.

During fiscal 2009, we paid $97.9 million (ZAR 767.3 million), net of cash received, for 80.1% of Net1 UTA, which includes approximately $0.5 million paid to consultants. In addition, we paid $3.4 million (ZAR 34.8 million) in cash to acquire a further interest in Finbond and $1.4 million (ZAR 12 million) in cash to purchase RMT. We also made additional equity investments in VinaPay and VTU Colombia for a total of approximately $0.6 million and a loan to VTU Colombia of approximately $0.2 million, all of which were used to fund operating activities.

Cash flows from financing activities

During fiscal 2011, we incurred $116.4 million of long-term debt to fund a portion of the KSNET purchase price and paid facility fees of $3.1 million. We also paid approximately $0.6 million for the remaining 19.9% of Net1 UTA during fiscal 2011 and acquired 125,392 shares of our common stock for $1.0 million.

During fiscal 2010 we repurchased, using our ZAR reserves, 9,221,526 shares of our common stock from Brait S.A. s investment affiliates for $13.50 (ZAR 105.98) per share, for an aggregate repurchase price of $124.5 million (ZAR 977.3 million). In addition, we incurred costs of approximately $0.5 million (ZAR 3.9 million) related to the repurchase of these shares. We also paid $1.3 million on account of shares we repurchased on June 30, 2009, under our 2009 share buy-back program and received $0.7 (ZAR 5.5 million) from employees exercising stock options and repaying loans.

During fiscal 2009, we received and repaid a $110 million short-term loan facility and we paid the $1.1 million related facility fee. We also acquired 3,621,247 shares of our common stock for $40.7 million, and received $0.3 million (ZAR2.7 million) from stock option exercises.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Capital Expenditures

Capital expenditures for the years ended June 30, 2011, 2010 and 2009 were as follows:

Table 23

	Year ended June 30,					
Operating Segment	**2011 $ 000**	**2010 $ 000**	**2009 $ 000**	**2011 ZAR 000**	**2010 ZAR 000**	**2009 ZAR 000**
South African transaction-based activities	2,423	2,177	3,161	16,952	16,565	28,258
International transaction-based activities	12,113	-	-	84,745	-	-
Smart card accounts	-	-	-	-	-	-
Financial services	400	302	751	2,798	2,298	6,714
Hardware, software and related technology sales .	117	251	858	819	1,910	7,670
Corporate / Eliminations	-	-	-	-	-	-
Consolidated total	15,053	2,730	4,770	105,314	20,773	42,642

We operate in an environment where the payment of social welfare grants requires substantial capital investment to establish an operational infrastructure when a contract commences. Further capital investment is required when the number of beneficiaries increases to the point where the maximum capacity of the original infrastructure is exceeded.

Our capital expenditures for fiscal 2011, 2010 and 2009, 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, 2011, of $0.4 million related mainly to computer equipment ordered in order to maintain and expand activities. We anticipate that capital spending for the first quarter of fiscal 2012 will relate primarily to ongoing replacement of equipment used to administer and distribute social welfare grants, provide a switching service through EasyPay and expand our operations in Korea. We expect to fund these expenditures through internally generated funds.

Contractual Obligations

The following table sets forth our contractual obligations as of June 30, 2011:

Table 24

	Payments due by Period, as of June 30, 2011(in $ 000s)				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
	$ 151,002	$ 23,205	$ 43,201	$ 79,990	$ 4,606

Long-term debt obligations (A)										
Operating lease obligations		5,979		3,392		2,587		-		-
Purchase obligations		1,881		1,881		-		-		-
Other long-term obligations		1,272		-		-		-		1,272
Total	$	160,134	$	28,478	$	45,788	$	79,990	$	5,878

(A) - Includes $118.0 million of loans under the Facilities Agreement discussed under Liquidity and capital resources and includes interest payable under the Facilities Agreement at the rate applicable as of June 30, 2011.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Currency Exchange Risk

We are subject to currency exchange risk because we purchase inventories that we are required to settle in other currencies, primarily the euro and US dollar. We have used forward contracts to limit our exposure in these transactions to fluctuations in exchange rates between the ZAR, on the one hand, and the US dollar and the euro, on the other hand. As of June 30, 2011, and 2010, our outstanding foreign exchange contracts were as follows:

As of June 30, 2011

None.

As of June 30, 2010

Notional amount		Strike price		Fair market value price		Maturity
EUR	207,000	ZAR	10.1107	ZAR	9.4802	July 30, 2010
EUR	31,200	ZAR	9.5976	ZAR	9.5080	October 9, 2010

Translation Risk

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

Interest Rate Risk

As a result of our normal borrowing and leasing activities, our operating results are exposed to fluctuations in interest rates, which we manage primarily through our regular financing activities. In addition, outstanding indebtedness under our Facilities Agreement bears interest at the Korean CD rate plus 4.10% . As interest rates, and specifically the Korean CD rate, are outside our control, there can be no assurance that future increases in interest rates, specifically the Korean CD rate, will not adversely affect our results of operations and financial condition. As of June 30, 2011, the Korean CD rate was 3.00% .

The following table illustrates the effect on our annual expected interest charge, translated at exchange rates applicable as of June 30, 2011, as a result of a change in the Korean CD rate. The effects of a hypothetical 1% increase and a 1% decrease in the Korean CD rate as of June 30, 2011, is shown. The selected 1% hypothetical change does not reflect what could be considered the best or worst case scenarios.

Table 25	Annual	As of June 30, 2011 Estimated annual expected

	expected interest charge ($ 000)	Hypothetical change in Korean CD rate	interest charge after change in Korean CD rate ($ 000)
Interest on Facilities Agreement	8,588	1%	9,798
		(1)%	7,379

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

Credit Risk

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

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

Equity Price and Liquidity Risk

Equity price risk relates to the risk of loss that we would incur as a result of the volatility in the exchange-traded price of equity securities that we hold and the risk that we may not be able to liquidate these securities. We have invested in approximately 22% of the issued share capital of Finbond Group Limited which are exchange-traded equity securities. The fair value of these securities as of June 30, 2011, represented approximately 1% of our total assets, including these securities. We expect to hold these securities for an extended period of time and we are not concerned with short-term equity price volatility with respect to these securities provided that the underlying business, economic and management characteristics of the company remain sound.

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

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

The following table summarizes our exchange-traded equity securities with equity price risk as of June 30, 2011. The effects of a hypothetical 10% increase and a 10% decrease in market prices as of June 30, 2011, is also shown. The selected 10% hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due both to the nature of equity markets and the aforementioned liquidity risk.

Table 26

	As of June 30, 2011			
	Fair value ($ 000)	**Hypothetical price change**	**Estimated fair value after hypothetical change in price ($ 000)**	**Hypothetical Percentage Increase (Decrease) in Shareholders Equity**
Exchange-traded equity securities .	8,161	10%	8,977	0.25%
		(10)%	7,345	(0.25)%

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on this evaluation, the chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2011.

Internal Control over Financial Reporting

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

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

Inherent Limitations in Internal Control over Financial Reporting

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

Management s Report on Internal Control Over Financial Reporting

Management, including our chief executive officer and our chief financial officer, is responsible for establishing and maintaining adequate internal control over our financial reporting. Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of June 30, 2011. As permitted by the rules of the SEC, management has excluded KSNET from its evaluation for the year ended June 30, 2011, the year of acquisition. Deloitte & Touche (South Africa), our independent registered public accounting firm, has issued an audit report on our internal control over financial reporting, excluding KSNET. As of June 30, 2011, KSNET s total assets represented approximately 42% of our consolidated total assets and approximately 46% of consolidated total current assets. Its total revenues constituted approximately 20% of our consolidated revenue and its operating income constituted approximately 5% of our consolidated operating income for the year ended June 30, 2011.

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, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As stated above, management has excluded KSNET from its evaluation of the effectiveness of internal control over financial reporting for the year ended June 30, 2011, the year of acquisition but continues to evaluate KSNET s internal control over financial reporting. See Item 1A Risk Factors Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act, especially over companies that we may acquire, could have a material adverse effect on our business and stock price. Our management evaluation and auditor attestation regarding the effectiveness of our internal control over financial reporting as of June 30, 2011, excluded the operations of KSNET. If we are not able to integrate KSNET s operations into our internal control over financial reporting, our internal control over financial reporting may not be effective for additional information.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Shareholders of Net 1 UEPS Technologies, Inc.

We have audited the internal controls over financial reporting of Net 1 UEPS Technologies, Inc. and subsidiaries (the Company) as of June 30, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management s report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at KSNET Incorporated (KSNET), which was acquired on October 29, 2010. As of June 30, 2011, KSNET s combined total assets represented approximately 42% of consolidated total assets, approximately 46% of consolidated total current assets and the total revenues constituted approximately 20% of consolidated revenue and the operating income constituted approximately 5% of consolidated operating income for the year ended June 30, 2011. Accordingly, our audit did not include the internal control over financial reporting at KSNET. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended June 30, 2011 of the Company and our report dated August 25, 2011, expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche (South Africa)
Per PJ Smit
Partner
August 25, 2011

National Executive: GG Gelink Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit DL Kennedy Risk Advisory NB Kader Tax & Legal Services L Geeringh Consulting L Bam Corporate Finance JK Mazzocco Human Resources CR Beukman Finance TJ Brown Clients & Markets NT Mtoba Chairman of the Board MJ Comber Deputy Chairman of the Board

A full list of partners and directors is available on request

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information about our executive officers is set out in Part I, Item 1 under the caption Executive Officers and Significant Employees of the Registrant. The other information required by this Item is incorporated by reference to the sections of our definitive proxy statement for our 2011 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 2011 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 2011 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 2011 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 2011 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-51.

2. Financial Statement Schedules

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

(b) Exhibits

Exhibit No.	Description of Exhibit	Included Herewith	Incorporated by Reference Herein: Form	Exhibit	Filing Date
3.1	Amended and Restated Articles of Incorporation		8-K	3.1	December 1, 2008
3.2	Amended and Restated By-Laws of Net 1 UEPS Technologies, Inc.		8-K	3.2	November 5, 2009
4.1	Form of common stock certificate		S-1	4.1	June 20, 2005
10.1	Distribution Agreement, dated July 1, 2002, between Net 1 UEPS Technologies, Inc. and Net 1 Investment Holdings (Pty) Limited		S-4	10.1	February 3, 2004
10.2	Patent and Technology Agreement, dated June 19, 2000, by and between Net 1 Holdings S.a.r.1. and Net 1 UEPS Technologies, Inc.		S-4	10.2	February 3, 2004
10.3	Technology License Agreement between Net 1 Investment Holdings (Proprietary) Limited and Visa International Service Association		S-1	10.12	May 26, 2005
10.4	Product License Agreement between Net 1 Holdings S.a.r.1. and Net 1 Operations S.a.r.1.		S-4/A	10.8	April 21, 2004

10.5	Non Exclusive UEPS License Agreement between Net 1 Investment Holdings (Proprietary) Limited and SIA Netcards		S-4/A	10.10	April 21, 2004
10.6	Assignment of Copyright and License of Patents and Trade Marks between MetroLink (Proprietary) Limited and Net 1 Products (Proprietary) Limited		S-1	10.18	May 26, 2005
10.7	Agreement between Nedcor Bank Limited and Net 1 Products (Proprietary) Limited		S-1/A	10.16	July 19, 2005
10.8	Patent and Technology Agreement by and among Net 1 Investment Holdings (Proprietary) Limited, Net 1 Applied Technology Holding Limited and Nedcor Bank Limited		S-1	10.19	May 26, 2005

10.9	Patent and Technology Agreement by and among Net 1 Holdings S.a.r.1., Net 1 Applied Technology Holdings Limited and Nedcor Bank Limited		S-1/A	10.19	July 19, 2005
10.10	Agreement by and among Nedbank Limited, Net 1 UEPS Technologies, Inc., and Net 1 Applied Technologies South Africa Limited		S-1/A	10.20	July 19, 2005
10.11	Banking Facility between Nedbank Limited and Net 1 Applied Technologies South Africa Limited dated as of April 30, 2010		10-K	10.13	August 26, 2010
10.12*	Amended and Restated Stock Incentive Plan of Net 1 UEPS Technologies, Inc.		14A	A	October 28, 2009
10.13*	Form of Restricted Stock Agreement (employees)		10-K	10.40	August 29, 2007
10.14*	Form of Stock Option Agreement, under Amended and Restated Stock Incentive Plan		10-Q	10.48	November 6, 2008
10.15*	Form of Restricted Stock Agreement (non- employee directors)	X			
10.16	Share Purchase Agreement, dated as of September 14, 2010, by and among Net 1 UEPS Technologies, Inc., Payment Services Asia LLC and H&Q NPS Van Investment, Ltd.		8-K	2.1	September 17, 2010
10.17	Senior Facilities Agreement dated October 29, 2010, between Net 1 Applied Technologies Korea, as borrower, Hana Daetoo Securities Co., Ltd., as mandated lead arranger, Shinhan Bank and Woori Bank, as co-arrangers, the financial institutions listed therein as original lenders and Hana Bank, as agent and security agent		8-K	10.51	November 3, 2010
10.18	Service Level Agreement, dated as of August 24, 2010, between the South African Social Security Agency and Cash Paymaster Services (Pty) Limited		10-Q	10.52	November 9, 2010
10.19	Employment agreement dated September 17, 2010 between KSNET, Inc. and Phil-Hyun Oh	X			
12	Statement of Ratio of Earnings to Fixed Charges	X			
14	Amended and Restated Code of Ethics		8-K	14	August 27, 2009
21	Subsidiaries of Registrant	X			
23		X			

	Consent of Independent Registered Public Accounting Firm	
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended	X
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended	X
32	Certification pursuant to 18 USC Section 1350	X
101.INS	XBRL Instance Document	X
101.SCH	XBRL Taxonomy Extension Schema	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X
101.LAB	XBRL Taxonomy Extension Label Linkbase	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	X

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

SIGNATURES

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

NET 1 UEPS TECHNOLOGIES, INC.

By: /s/ Serge C.P. Belamant

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

Date: August 25, 2011

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

NAME	TITLE	DATE
/s/ Serge C.P. Belamant Serge C.P. Belamant	Chief Executive Officer and Chairman of the Board and Director (Principal Executive Officer)	August 25, 2011
/s/ Herman Gideon Kotzé Herman Gideon Kotzé	Chief Financial Officer, Treasurer and Secretary and Director (Principal Financial and Accounting Officer)	August 25, 2011
/s/ Antony Charles Ball Antony Charles Ball	Director	August 25, 2011
/s/ Christopher Stefan Seabrooke Christopher Stefan Seabrooke	Director	August 25, 2011
/s/ Alasdair Jonathan Kemsley Pein Alasdair Jonathan Kemsley Pein	Director	August 25, 2011
/s/ Paul Edwards Paul Edwards	Director	August 25, 2011
/s/ Tom Tinsley Tom Tinsley	Director	August 25, 2011

NET 1 UEPS TECHNOLOGIES, INC.

LIST OF CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Shareholders of Net 1 UEPS Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Net 1 UEPS Technologies, Inc. and subsidiaries (the Company) as of June 30, 2011 and 2010 and the related consolidated statements of operations, changes in equity, comprehensive income and cash flows for each of the three years in the period ended June 30, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Net 1 UEPS Technologies, Inc. and subsidiaries as of June 30, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 25, 2011, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche (South Africa)

Per PJ Smit
Partner
August 25, 2011

NET 1 UEPS TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS
as of June 30, 2011 and 2010

		2011		2010
	(In thousands, except share data)			
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	95,263	$	153,742
Pre-funded social welfare grants receivable (Note 4)		4,579		6,660
Accounts receivable, net (Note 5)		82,780		41,854
Finance				