

NET 1 UEPS TECHNOLOGIES INC
Form 10-K
September 12, 2018

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

FORM 10-K

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

For the fiscal year ended June 30, 2018

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
(State or other jurisdiction
of incorporation or organization)

98-0171860
(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:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
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

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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

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 No

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

Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

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

Yes No

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

Yes No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of December 31, 2017 (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 \$387,520,188. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of September 6, 2018, 56,369,737 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 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

NET 1 UEPS TECHNOLOGIES, INC.

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Year Ended June 30, 2018

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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 during our 2019 fiscal year, which runs from July 1, 2018 to June 30, 2019.

ITEM 1. BUSINESS

Overview

We are a leading provider of transaction processing services, financial inclusion products and services and payment and cryptographic technology across multiple industries and in a number of emerging and developed economies.

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

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

Our transaction processing services include multiple forms of payment and payroll processing. We operate leading processors in South Africa through EasyPay and in South Korea through KSNET, as well as end-to-end issuing, acquiring and processing services across Asia and Europe through our International Payments Group, or IPG. We manage more than 300,000 merchants worldwide and process more than three billion transactions annually. IPG has also established a leadership position in partnership with Bank Frick & Co. AG, or Bank Frick, a Liechtenstein-based bank, in Europe focused on cryptocurrency processing and the development of a number of block-chain related products.

We also provide a number of financial inclusion products and services, which are typically bundled and offered as part of our UEPS-based core banking system. In South Africa, this system is currently deployed under the brand EasyPay Everywhere, or EPE, and is a fully transactional low-cost bank account, which offers easy accessibility including in rural areas and highly-competitive loans, insurance and telecommunication products. During the fiscal year ended June 30, 2018, we distributed pension and welfare grants, on behalf of the South African government, to more than three million active EPE customers and an additional five million social grant recipient customers. In addition, we offer telecommunication products such as prepaid airtime on behalf of all network operators in South Africa and own

55% of DNI-4PL Contracts Proprietary Limited, or DNI, the largest distributor of starter packs for the third-largest network, Cell C (Pty) Limited, or Cell C.

Our technology businesses include the development and deployment of our UEPS and MVC solutions worldwide, cryptographic solutions including the STS-6 standard for utility vending solutions, hardware security modules or HSM, chip and subscriber identity module, or SIM, cards, and the reselling of point of sale equipment. Through DNI, we provide financing to Cell C to assist in the roll out of their telecommunications network infrastructure. DNI also has a micro-jobbing platform called Money 4Jam which connects parties for the execution of micro-jobs.

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

Market Opportunity

Services for the under-banked: According to the latest World Bank's Global Findex Database, 69% of adults worldwide have access to an account at a financial institution or through a mobile money service. In developing economies, this percentage is 63%. As a result, 1.7 billion adults around the world remain entirely excluded from the financial system. This situation arises when banking fees are either too high relative to an individual's income, a bank account provides little or no meaningful benefit or there is insufficient infrastructure to provide financial services economically in the individual's geographic location. We refer to these people as the unbanked and the under-banked. These individuals typically receive wages, welfare benefits, money transfers or loans in the form of cash, and conduct commercial transactions, including the purchase of food and clothing, also in cash.

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

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

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

Transaction processing services: The continued global growth of retail credit and debit card transactions is reflected in the April 2018 Nilson Report, according to which worldwide annual general purpose card dollar volume increased 10.7% to \$28.2 trillion in 2017, while transaction volume increased by 18% to 296 billion transactions and cards issued increased by 7.9% to 11.95 billion cards during the same period. General purpose cards include the major card network brands such as MasterCard, Visa, UnionPay and American Express. In South Africa, we operate the largest bank-independent transaction processing service through EasyPay, where we have developed a suite of value-added services such as bill payment, airtime top-up, gift card, money transfer and prepaid utility purchases that we offer as a complete solution to merchants and retailers. In South Korea, through KSNET, we are one of the top three VAN processors, and we provide card processing, banking value-added services and payment gateway functionality to more than 240,000 retailers. IPG, comprising Transact24 and Masterpayment, are established, growing end-to-end providers of issuing, acquiring, and processing, particularly for small merchants or those with significant cross-border operations. Another key differentiator of IPG is its extensive catalog of licenses and regulated entities, including some within the fast-growing fields of cryptocurrencies and blockchain. IPG is ably supported by Bank Frick, a European bank in which we have a sizeable strategic investment.

Mobile payments: The rapid growth of online commerce and the emergence of mobile devices as the preferred access channel for transacting online has created a global opportunity for the provision of secure payment services to online retailers and service providers. We have a business unit focused on providing secure payment solutions for all card-not-present transactions through the application of our Mobile Virtual Card, or MVC and other proprietary solutions.

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

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

Telecommunications: In addition to financial services, unbanked and under-banked customers have a strong demand for affordable telecommunication products and, increasingly so, for data. We address this market opportunity specifically in South Africa through our strategic investment in Cell-C, the third largest network in the country, as well as through DNI, its largest distributor.

The symbiotic relationship between Cell-C, DNI and Net1, allows us to create new, relevant products across both telecommunication and financial services being demanded by the unbanked and under-banked populations in South Africa.

Our Core Proprietary Technologies

UEPS and UEPS/EMV

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

The transfer of money or other information can take place without any communication with a centralized computer since all validation, creation of audit records, encryption, decryption and authorization take place on, or are generated between, the smart cards themselves. Importantly, the cards are protected through the use of biometric fingerprint identification, which is designed to ensure the security of funds and card holder information and is more secure than traditional PIN identification. 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 incorporates the software, smart cards, payment terminals, back-end processing infrastructure, biometric systems and transaction security to provide a complete payment and transaction processing solution.

Our latest version of the UEPS technology is interoperable with the global EMV standard, allowing the cards to be used wherever EMV cards are accepted, while also providing all the additional functionality offered by UEPS. This UEPS/EMV functionality is especially relevant in areas where there is an established payment system and provides flexibility to our customers to be serviced at any POS (including contactless), such as point of sale devices and ATMs. Our UEPS/EMV solution therefore expands our addressable market to include developed economies with established payment networks. The UEPS/EMV technology removes the hurdle, often perceived in developed economies, of operating a proprietary or closed-loop system by providing a truly inter-operable payment solution.

Mobile Virtual Card

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

MVC utilizes existing and traditional payment methods but enhances them by replacing or tokenizing plastic card data with 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 for each transaction with only the issuer bank identification number (first 6-digit) remaining constant.

MVC uses mobile phones to generate virtual cards offline. Mobile phones are the most available, cost-effective, secure and portable platform for generating virtual cards for remote payments (online purchasing, money transfers, phone and catalogue orders).

Following a simple registration process, the virtual card application is activated over-the-air, enabling the phone to generate virtual card numbers completely off-line. MVCs are used like traditional plastic credit or debit cards, except that as soon as the transaction is authorized, the generated card number expires once the preset monetary amount has been utilized or after completion of the specific transaction that it was generated for. While MVC has been focused primarily on card-not-present transactions for internet payments in our initial deployments, we are constantly expanding the applicability of the software to incorporate new trends such as presentation through near field communication, or NFC, or Quick Response, or QR, Codes.

Consumers can easily generate a new card on their mobile phones 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, direct deposit or other electronic wallets.

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 and opportunities for powerful co-branding schemes.

Consumers convenience, peace of mind, ease of use and rewards.

Merchants elimination of charge-backs and fraud at no extra cost.

Incognito TSM 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, cryptocurrency, 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.

Our Strategy

Our core purpose is to improve people's lives by bringing financial inclusion to the world's under-banked customers and helping small businesses access the financial services they need to prosper. We achieve this through our unique ability to efficiently digitize or tokenize the expensive and difficult to achieve last mile of financial inclusion. This includes our UEPS/EMV technology, which is accepted globally, and is protected with biometric security and enables offline and online transacting that works anywhere, anytime and with no reliance on mobile networks.

To achieve these goals, we are pursuing the following strategies:

Build on our significant and established infrastructures We control significant components of the payment infrastructure in South Africa, South Korea, Botswana and Namibia and we believe that we are well-positioned to leverage our existing asset base to continue to gain market share and build upon the critical mass that we have developed.

For example, in South Africa, we are one of the leading independent transaction processors, we have deployed the most extensive distribution network comprising of mobile and fixed ATM's and POS devices to the country's large unbanked and under-banked population, we are the largest third-party processor of retail merchant transactions, bill payments and third-party payroll payments. We believe that our large cardholder base, specialized technology and

payment infrastructure, together with our strong business relationships, position us at the epicenter of commerce in the country. Through our national distribution platform and relationships with a number of leading companies across multiple industries, we believe that we can provide many of the services consumed by our cardholders who would normally not have access to these services or would otherwise have to rely on the informal sector. We have already introduced several services to our cardholder and merchant base, such as low cost, high functionality bank accounts, microloans, life insurance, bill payment, prepaid mobile top-up and prepaid utility services. We have a network of mobile ATMs to provide services to our cardholders, and we have established a national fixed ATM and POS network. We aim to increase the adoption of our existing services by expanding our cardholder base and our transacting network, and we aim to increase our service offerings by developing new products and distribution networks and by forging partnerships with industry participants who share our vision and can accelerate the implementation of our business plan, such as Cell C, the third largest mobile operator in South Africa and our core focus remains the development and provision of our technological expertise.

We have established significant operational assets to ensure the rapid deployment of our technology. As these deployments mature, we may share or dispose of these operational assets if we believe this will result in higher efficiencies and synergistic benefits where we are able to provide technology to an expanded base of clients and operations.

Our banking product, EasyPay Everywhere, provides our target market with an affordable all-inclusive transactional bank account with access to financially inclusive services such as microloans, life insurance, remittances, value added services such as prepaid utilities and bill payments through their mobile phones and our national network of ATMs and POS devices. While the growth of this product is currently facing challenges due to the transition of the social welfare distribution service to the South African Post Office, or SAPO, we still believe this product forms a compelling offering to our target market and that its growth will resume once the transition is complete.

Our strength in South Africa has been further enhanced by the acquisition of DNI, since it significantly expands our distribution network in a complementary manner and allows us to bundle telecommunications products into our existing suite of products to improve the value adding nature of our services to this under-served customer base.

We plan to follow a similar approach in the other markets where we have an established infrastructure, taking into account the requirements of the local legislation, the composition of the local payment system and the specific components that we own or control. In markets where we do not have an established infrastructure, we intended to collaborate with local partners to provide a similar end-to-end solution.

Leveraging our new payment technologies to gain access to developed and developing 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, with a specific focus on mobile payments, that is particularly relevant to developed economies as well. Our MVC application for mobile telephones, for example, is designed to eliminate fraud associated with card-not-present credit card transactions effected by telephone or over the internet and are prevalent in developed economies such as the United States. We believe that mobile payments, mobile wallets and the related applications should be a critical component of a payment processor's future strategy and we have dedicated a significant portion of our research and development and business development resources to ensure that we remain at the forefront of this rapidly evolving technological space. While some of our mobile solutions are more relevant in developed markets such as the United States and Europe, we are targeting our mobile payment solutions at developing economies, where mobile transacting is seen as the best solution to rapidly leapfrog the antiquated payment solutions typically available in these countries at minimal cost. We plan to expand our market share in the mobile solutions and card-not-present processing markets by pursuing partnerships or supply relationships with online merchants, virtual card issuers, payment services processors, mobile remittance providers and other online service providers.

Pursue strategic acquisition opportunities or partnerships to gain access to new markets or complementary product We will continue to pursue acquisition opportunities and partnerships that provide us with an entry point for our existing products into a new market, or provide us with technologies or solutions complementary to our current offerings. Our recent investments in Cell C and DNI in South Africa open up new distribution channels for our products as well as providing access to telecommunications products that we can assist in defining and pricing and market to our existing customer base. Our investment into Bank Frick has assisted us with access to the leading global card issues, acquirers and processors and has been very complimentary to the Masterpayment and Transact24 acquisitions of the previous fiscal year. We have accordingly acquired or obtained the required licenses and regulated entities to offer an end-to-end card issuing, acquiring and processing solution to the many underserved small and medium enterprises in Europe. In addition, our core and proven competencies in the fields of cryptography, biometrics and blockchain technology enables us to design products and solutions for the rapidly growing cryptocurrency industry, within a fully regulated environment through collaboration with Bank Frick.

Our Businesses

Our company is organized into the following businesses:

Financial Services

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

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

This business unit has been allocated to our Financial inclusion and applied technologies reporting segment.

KSNET

Our KSNET business unit is based in Seoul, South Korea, and is a national payment solutions provider. KSNET has one of the broadest product offerings in the South Korean payment solutions market, a base of approximately 240,000 merchants and an extensive direct and indirect sales network. The merchant base is predominantly serviced via a network of independent agents. KSNET's core operations comprise three primary product offerings, namely card VAN, 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 South Korea. Approximately 81% of KSNET's revenue comes from the provision of payment processing services to merchants and card issuers through its card VAN. KSNET has also started providing working capital financing to those merchants where we provide payment processing services.

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 South 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 South 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 South 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.

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 South 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 is relatively small.

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

DNI

Our DNI business unit is based in Johannesburg, South Africa, and offers a number of technology and distribution services to the telecommunications industry. Through its DNI Retail subsidiary, DNI is the largest wholesaler of Cell-C starter packs nationwide. It also has an extensive distribution network comprising of more than 2,000 sales agents and a fleet of vehicles, mainly selling Cell C starter packs and airtime directly into urban communities. In addition, through its International Tower Corporation, or ITC, subsidiary, the company provides financing and project management to develop and maintain Cell C's tower network in the country. It also has a micro-jobbing platform, known as Money4Jam, which through the use of mobile phone technology connects companies and job-seekers for the completion of micro-jobs.

This business unit has been allocated to our Financial inclusion and applied technologies reporting segment.

International Payments Group

IPG is based out of Hong Kong, China, and is an end-to-end payment service provider. IPG includes our Masterpayment processing business based in Munich, Germany. Transact24 in Hong Kong, holds e-money licenses in the United Kingdom and in Europe, and provides debit and credit card acquiring in Europe, the UK, and Asia including China. Additionally, IPG provides Automated Clearing House, or ACH, processing in the United States, and card acquiring services for cryptocurrency exchanges such as Bitstamp and Bitpanda.

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

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

EasyPay

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

The EasyPay suite of services includes:

EFT EasyPay switches credit, debit and fleet card transactions for leading South African retailers and petroleum companies.

EasyPay bill payment EasyPay offers consumers a point-of-sale bill payment service which is integrated into a large number of national retailers, the internet, self service kiosks and mobile handsets. EasyPay processes monthly account payment transactions for a number of bill issuers including major local authorities, telephone companies, utilities, medical service providers, traffic departments, mail order companies, banks and insurance companies.

EasyPay prepaid electricity EasyPay 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 Corporation, or SABC, television licenses and the capturing of existing license details within retail environments via a web-based user interface.

Third party switching and processing support EasyPay switches transactions from retail POS systems to the relevant back-end systems.

Hosting services EasyPay's infrastructure supports the hosting of payment or back-up servers and applications on behalf of third parties, including utility companies.

EasyPay Kiosk We have developed a biometrically enabled self-service kiosk that allows our customers to access all the value-added services provided by EasyPay and to create and load their EasyPay virtual wallets with value.

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 or mobile application.

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 processing reporting segment.

Cash Paymaster Services

Our CPS business unit is based in Johannesburg, South Africa, and has deployed our UEPS/EMV Social Grant Distribution technology to distribute social welfare grants on a monthly basis to over ten million recipient cardholders in South Africa for the last six and a half years. These social welfare grants were distributed on behalf of the South

African Social Security Agency, or SASSA. During our 2018, 2017, and 2016 fiscal years, we derived approximately 19%, 22%, and 21% of our revenues respectively, from CPS social welfare grant distribution business. The contract under which we provided this service is in the process of winding down and will terminate on September 30, 2018. Upon termination of the contract, CPS will discontinue its operations and we will seek to utilize its assets and capabilities in other parts of our Company.

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

Applied Technology

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

Payment Infrastructure The deployment of our South African ATM and POS network and the sale of biometric and POS solutions to various South African banks, retailers and financial services providers. Our biometrically-enabled ATM network is fully EMV-compliant and integrated into the South African national payment system. We deploy our ATMs in areas where our UEPS/EMV cardholders have limited access to the national payment system, or where the cost of accessing the national payment system through other service providers is prohibitive for our cardholders.

Third Party Payments Through FIHRST we are the largest provider of third party and payroll associated payments in South Africa, servicing over 2,270 employee groups that represent approximately 766,000 employees.

Prepaid Vending Our Prepaid Vending business line handles multichannel distribution of electronic products and services aimed at a variety of markets. Across Africa and abroad, our Virtual Top Up (VTU) solutions create a separate revenue stream for Mobile Network Operators, or MNOs, and other clients. The stability and scalability of our VTU offerings enables our customers to facilitate more than 100 million monthly transactions.

Chip & SIM Through our partnerships with MNOs as well as card and semiconductor manufacturers, we provide a strong lineup of feature rich chip and SIM solutions. All of these offerings include our wide range of GSM Masks and custom software that enables mobile telephony, transactions and on-chip VAS. We support the above chip and SIM developments with dedicated chip-card based commerce frameworks. These incorporate POS, terminal and interbank transaction switching and clearance aimed at national government, petroleum and retail industries.

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

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

Corporate

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

Group executive Responsible for the overall company management, defining our global strategy, investor relations and corporate finance activities.

Finance and administration Provides company-wide support in the areas of accounting, treasury, human resources, administration, legal, secretarial, taxation, compliance and internal audit.

Group information technology Defines our overall IT strategy and the overall systems architecture and is responsible for the identification and management of the group's research and development activities.

Joint ventures and investments unit Provides governance support to our joint ventures and assists with the evaluation of new investment opportunities.

Competition

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

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

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

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

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

DNI's competitors in the resale of mobile phone starter packs would include the resellers for the other major mobile operator networks, being Blue Label Telecoms, SmartCall and various other starter pack distributors in South Africa.

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

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

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

Research and Development

During fiscal 2018, 2017 and 2016, we incurred research and development expenditures of \$1.8 million, \$2.0 million and \$2.3 million, respectively. These expenditures consist primarily of the salaries of our software engineers and developers. Our research and development activities relate primarily to the continual revision and improvement of our core UEPS and UEPS/EMV software and its functionality as well as the design and development of our MVC concept and mobile payment applications. We have recently established a dedicated research and development team focused on blockchain technology and the development of solutions and products for the rapidly growing cryptocurrency industry. Our research and development efforts also focus on taking advantage of improvements in hardware platforms that are not proprietary to us but form part of our system.

Intellectual Property

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

Financial Information about Geographical Areas and Operating Segments

Note 22 to our consolidated financial statements included in this annual report contains detailed financial information about our operating segments for fiscal 2018, 2017 and 2016. 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		
	2018	2017	2016	2018	2017	2016
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
South Africa	433,421	434,124	422,022	498,418	74,370	69,213
South Korea	153,314	153,403	158,609	177,388	192,473	221,459
Rest of world	26,154	22,539	10,118	116,643	77,723	49,105
Total	612,889	610,066	590,749	792,449	344,566	339,777

Employees

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

	2018 ⁽¹⁾	2017	2016
Management	272	236	241
South African transaction processing	1,902	2,487	2,571
International transaction processing	330	354	310
Financial inclusion and applied technologies ⁽²⁾	5,875	2,281	2,576
Total	8,379	5,358	5,701

(1) Fiscal 2018 number of employees includes 2,651 DNI employees, of which 51 are included in management and 2,600 are included in Financial inclusion and applied technologies;

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

On a functional basis, six of our employees were part of executive management, 2,661 were employed in sales and marketing, 328 were employed in finance and administration, 319 were employed in information technology and 5,065 were employed in operations.

As of June 30, 2018, approximately 58 of the 1,902 and 99 of the 5,875 employees we have in South Africa who were performing transaction-based and financial inclusion activities, respectively, were members of unions in South Africa and approximately 186 of the 247 employees we have in South Korea who perform international transaction-based activities were members of a union in Korea. We believe that we have a good relationship with our employees and these unions.

Corporate history

Net1 was incorporated in Florida in May 1997. In 2004, Net1 acquired Net1 Applied Technology Holdings Limited, or Aplitec, a public company listed on the Johannesburg Stock Exchange, or JSE. In 2005, Net1 completed an initial public offering and listed on the Nasdaq Stock Market. In 2008, Net1 listed on the JSE in a secondary listing, which

enabled the former Aplitec shareholders (as well as South African residents generally) to hold Net1 common stock directly.

Available information

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

Executive Officers of the Registrant

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

Name	Age	Title
Herman G. Kotzé	48	Chief Executive Officer and Director
Alex M.R. Smith	49	Chief Financial Officer, Treasurer, Secretary, and Director
Philip S. Meyer	61	Managing Director: International Payments Group
Phil-Hyun Oh	59	Chief Executive Officer and President, KSNET, Inc.
Nanda Pillay	47	Managing Director: Southern Africa
Nitin Soma	51	Chief Technology Officer

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

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

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

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

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

Nitin Soma has served as our Chief Technology Officer since June 2004. Mr. Soma joined Aplitec in 1997. He specializes in transaction switching and interbank settlements and designed the Stratus back-end system for Aplitec. Mr. Soma has over 20 years of experience in the development and design of smart card payment systems. Mr. Soma has a bachelor of science (computer science and applied mathematics) degree.

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

In fiscal 2018, we derived a significant portion of our revenues from our SASSA contract and the related bank accounts, which we will lose when we no longer provide a service to SASSA.

We derive a significant portion of our revenue from our contract with SASSA for the payment of social grants. Our SASSA contract, which we were awarded through a competitive tender process in 2012, was originally scheduled to expire in March 2017, and then extended to the end of March 2018. In March 2018, the Constitutional Court of South Africa, which retained oversight of SASSA as a result of litigation related to the original award of the contract to us in 2012, ruled that SASSA and CPS have a constitutional obligation to continue to pay social welfare grants and ordered that the contract be extended for an additional six months in respect of the payment of grant beneficiaries at cash pay points. Refer to Item 3 Legal Proceedings for a summary of the Constitutional Court's order.

We do not expect our contract with SASSA to be extended beyond September 2018 and, therefore, we expect to lose revenues from the payment of social welfare grants at the time of the expiration of the SASSA contract. In addition, SASSA has publicly conveyed its expectation that most of the SASSA/Grindrod cards will be replaced by SAPO cards and, therefore, we expect that our revenue generated from the provision of SASSA/Grindrod bank accounts is also likely to be lost. Unless we are able to replace most or all of this revenue from other sources, our results of operations, financial position, cash flows and future growth are likely to suffer materially.

It is possible that SASSA might request us to enter into a transition agreement in order to phase out our services if their plan to do so is not completed within the required timeframe. The Constitutional Court reaffirmed in its March 2017 ruling that CPS is deemed to be an organ of state for the purposes of the contract between SASSA and CPS, and that CPS has constitutional obligations that go beyond its contractual obligations. We cannot predict what the financial or other implications may be if we are required to provide our services without a valid contract, or during any transitional period required for the orderly transfer of our services to SASSA and SAPO.

Our South African business practices remain under intense scrutiny in the South African media. We continue to publicly refute what we believe to be misleading or factually incorrect statements that have damaged our reputation. However, our ability to operate effectively and efficiently in South Africa in the future will be adversely impacted if we are unable to communicate persuasively that our business practices comply with South African law and are fair to the customers who purchase our financial services products.

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

These allegations continue to be made and are being emphasized during this transition period as a justification for requiring grant beneficiaries to move to the SAPO card. We continue to deny the accusations made against us.

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

SASSA and other organizations continue to challenge our ability to conduct certain aspects of our financial services business in a commercial manner through their interpretations of recently adopted regulations under the Social Assistance Act. We are in litigation with SASSA and the Black Sash over its interpretation of these regulations. If SASSA or the Black Sash were to prevail in this legal proceeding, our business will suffer.

As described under Item 3 Legal Proceedings Litigation Regarding Legality of Debit Orders under Social Assistance Act Regulations, the High Court of the Republic of South Africa Gauteng Division, Pretoria, or Pretoria High Court, has issued the declaratory order sought by us that the Social Assistance Act and Regulations do not restrict social grant recipients in the operation of their banks accounts. SASSA continues to challenge our ability to operate certain aspects of our financial services business in a commercial manner in the South African courts. The Black Sash has also served applications petitioning the South African Supreme Court of Appeal, or the Supreme Court, to grant them leave to appeal the Pretoria High Court order through either the Supreme Court or to a full bench of the Pretoria High Court. The petitions served on the Supreme Court applying for leave to appeal were heard on August 16 and 17, 2018. We cannot predict whether leave to appeal will be granted or if granted, how the Supreme Court will rule on this matter.

If SASSA or the Black Sash were to prevail with their legal actions, our ability to operate our business, specifically our micro-lending and insurance businesses in a commercially viable manner would be impaired, which would likely have a material adverse effect on our business and might harm our reputation. Regardless of the outcome, management will be required to devote further time and resources to these legal proceedings, which may impact their ability to focus their attention on our business.

We have been ordered by the High Court to repay to SASSA certain reimbursed implementation costs. We are appealing this decision, but if we are unsuccessful and are ultimately required to repay substantial monies to SASSA, such repayment would adversely affect our results of operations, financial position and cash flows.

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

On February 22, 2018, the matter was heard by the Gauteng Division, Pretoria of the High Court of South Africa. On March 23, 2018, the High Court ordered that the June 15, 2012 variation agreement between SASSA and CPS be reviewed and set aside. CPS was ordered to refund ZAR 317.0 million to SASSA, plus interest from June 2014 to date of payment. On April 4, 2018, we filed an application seeking leave to appeal the whole order and judgment of the High Court because we believe that the High Court erred in its application of the law and/or in fact in its findings. On April 25, 2018, the High Court rejected the application seeking leave to appeal. CPS is in the process of filing an application seeking leave to appeal the whole order and judgment of the High Court with the Supreme Court of Appeal. However, we cannot predict whether leave to appeal will be granted or if granted, how the Supreme Court of Appeal will rule on the matter.

In addition, in an April 2014 ruling, the Constitutional Court ordered SASSA to re-run the tender process and required us to file with the Court, after completion of our SASSA contract in March 2017, an audited statement of our expenses, income and net profit under the contract. The March 2018 Constitutional Court order contains a similar requirement that we file an audited statement of our expenses, income and net profit within 30 days of the completion of the contract. We expect to file the required information with the Constitutional Court as ordered. Parties to the March 2018 court proceedings also requested the Constitutional Court to consider further orders, including the repayment of any profits derived by CPS under its SASSA contract. The Constitutional Court did not provide such order in its March 2018 order; however, one or more third parties may in the future institute litigation challenging our

right to retain a portion of the amounts we will have received from SASSA under our contract. We cannot predict whether any such litigation will be instituted, or if it is, whether it would be successful.

Any successful challenge to our right to receive and retain payments from SASSA that requires substantial repayments would adversely affect our results of operations, financial position and cash flows.

The pricing recommended by National Treasury to the Constitutional Court for our services provided at pay points for the period from April 1, 2018 through September 30, 2018, has not yet been approved by the Constitutional Court. If the amount payable to us is not commercially reasonable, our results of operations, financial position and cash flows may be adversely affected.

Under the Constitutional Court order of March 23, 2018, related to the extension of the SASSA contract to September 30, 2018 in respect of the recipients paid at cash pay points, we were granted permission to approach National Treasury to request revised pricing of the contract. National Treasury provided a recommendation to the Constitutional Court in compliance with their order at a price per recipient of R51.00 (VAT inclusive) per month. Although we offered to accept this amount in respect of the three months ended June 30, 2018 when the number of recipients paid approximated two million per month, we have asked the Constitutional Court to reconsider the last three months of the contract. Neither the Treasury recommendation or our proposal have been approved by the Constitutional Court to date and as a result we have only recognised revenue at the rate set forth in the original contract since April 1, 2018 while we await an order from the Constitutional Court.

In line with SASSA's public statements, we have seen a material reduction in the number of recipients paid at the pay points during July and August, and this is expected to continue into September. This would result in a material decrease in the revenue from the provision of this service if National Treasury's recommendation is applied and CPS would then operate at an even greater loss for the three months to the end of the contract. If we are unable to reach a commercially reasonable settlement for this period, then this will adversely affect our results of operations, financial position and cash flows during the first quarter of fiscal 2019.

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

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

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

Acquisitions and strategic investments are an integral part of our long-term growth strategy as we seek to grow our business internationally and to deploy our technologies in new markets both inside and outside South Africa. However, we may not be able to locate suitable acquisition or investment candidates at prices that we consider appropriate. If we do identify an appropriate acquisition or investment candidate, we may not be able to successfully negotiate the terms of the transaction, finance it or, if the transaction occurs, integrate the new business into our existing business. These transactions may require debt financing or additional equity financing, resulting in additional leverage or dilution of ownership. For instance, in July 2017, we invested in Cell C utilizing a combination of existing cash reserves and external debt from South African banks. Refer to Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations - Developments During Fiscal 2018 - CPS and SASSA Contract Termination.

Acquisitions of businesses or other material operations and the integration of these acquisitions or their businesses will require significant attention from our senior management which may divert their attention from our day to day

business. The difficulties of integration may be increased by the necessity of coordinating geographically dispersed organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures. We also may not be able to maintain key employees or customers of an acquired business or realize cost efficiencies or synergies or other benefits that we anticipated when selecting our acquisition candidates.

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

We may not achieve the expected benefits from our recent Cell C and DNI investments.

We have invested more than \$240 million, in aggregate, to acquire a 15% interest in Cell C and a 55% controlling interest in DNI. We believe that there are potential synergies that we can derive from each of these transactions, including the integration of certain of our service offerings with those of Cell C and DNI. However, we may not realize some or any of the benefits we expect to achieve from these investments.

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

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

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

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

We financed our investments in Cell C and DNI through South African bank borrowings of ZAR 1.46 billion, which has since reduced to ZAR 683.8 million through the Company meeting its scheduled repayments (\$49.8 million, translated at exchange rates applicable as of June 30, 2018). The loans are secured by intercompany cross-guarantees and a pledge by Net1 Applied Technologies South Africa Proprietary Limited, or Net1 SA, of its entire equity interests in Cell C and DNI. The terms of the lending arrangement contain customary covenants that require Net1 SA to remain below a specified total net leverage ratio and restrict the ability of Net1 SA, and certain of its subsidiaries to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make investment above specified levels, engage in certain business combinations and engage in other corporate activities without the approval of the lenders.

In addition, DNI has obtained a three year revolving credit facility of ZAR 200 million (\$14.6 million, translated at exchange rates applicable as of June 30, 2018) from Rand Merchant Bank, a division of FirstRand Bank Limited, a South African bank, to expand its operations. The revolving credit facility is secured by intercompany cross-guarantees within the DNI group and a pledge by DNI of its entire equity interests in its subsidiaries. The terms of the lending arrangement contain customary covenants that require DNI to remain in accordance with specified net senior debt to EBITDA and EBITDA to net senior interest ratios and restrict the ability of DNI, and certain of its subsidiaries to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make investment above specified levels, engage in certain business combinations and engage in other corporate activities without the approval of the lenders.

Although these covenants only apply to certain of our South African 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 the covenants in South Africa, we could be in default and the indebtedness could be accelerated. If this were to occur, we might not be able to obtain waivers of default or to refinance the debt with another lender and as a result, our business and financial condition would suffer.

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

The expansion of our fixed and mobile ATM network, along with an increase in our EPE client base, necessitates access to large amounts of cash to stock the ATM s and maintain uninterrupted service levels. While we have been able to operate our ATM s using our surplus cash and existing general credit facilities, any significant reduction in our available cash reserves or general credit facilities, or our failure to increase our facilities if required, will have an adverse impact on our ability to continue uninterrupted operation of our ATM network and our profits from this business. We will also suffer reputational damage if our service levels are negatively impacted due to the unavailability of cash.

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

Certain South African banks have also developed their own low-cost banking products targeted at the unbanked and under-banked market segment. According to the 2016 FinScope survey, which is an annual survey conducted by the FinMark Trust, a non-profit independent trust, 77% of South Africans are banked (58% if SASSA account holders are excluded). As the competition to bank the unbanked in South Africa intensifies, we may not be successful in marketing our low-cost EasyPay Everywhere product to our target population. Moreover, as our product offerings increase, gain market acceptance and pose a competitive threat in South Africa, especially our UEPS/EMV product with biometric verification and our financial services offerings, the banks and SAPO may seek governmental or other regulatory intervention if they view us as disrupting their transactional or other businesses.

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

All of these microfinance loans made are for a period of six months or less. We have created an allowance for doubtful finance loans receivable related to this book. Management has considered factors including the period of the finance loan outstanding, creditworthiness of the customers and the past payment history of the borrower when creating the allowance. We consider this policy to be appropriate taking into account factors such as historical bad debts, current economic trends and changes in our customer payment patterns. However, additional allowances may be required should the ability of our customers to make payments when due deteriorate in the future. A significant amount of judgment is required to assess the ultimate recoverability of these finance loan receivables, including on-going evaluation of the creditworthiness of each customer.

Furthermore, since the commencement of SASSA s process of transitioning grant recipients to SAPO accounts, we have seen an increased incidence of our customers changing their primary bank accounts to other commercial banks or to SAPO. This has increased our recoverability risk and the risk that our allowance is insufficient.

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

We have created an allowance for doubtful working capital finance receivables related to our Mastertrading business and our Korean lending activities. We have considered factors including the period of the working capital receivable outstanding, creditworthiness of the customers and the past payment history of the borrower when creating the allowance. A significant amount of judgment is required to assess the ultimate recoverability of these and other working capital finance receivables because these are new offerings and we continue to refine and improve our processes, including the maximum amount of exposure per customer that we are willing to accept and the on-going evaluation of the creditworthiness of each customer.

A determination that requires a change in our allowance for doubtful working capital finance receivables, or a failure by one or more of our customers to pay a significant portion of outstanding working capital finance receivables, could have a negative impact on our business, operating results, cash flows and financial condition.

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

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

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

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

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

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

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

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

Similarly following the completion of our acquisition of DNI, the success of that business is heavily dependent on the continued involvement of Messrs. Andrew Dunn and Dave Smaldon and other senior officers of the DNI group of companies who have successfully built the business to its current position and are critical to its continued success.

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, to numerous qualified individuals leaving the country, thus depleting the availability of qualified personnel in South Africa. In addition, our multi-country strategy will also require us to hire and retain highly qualified managerial personnel in each of these markets.

If we cannot recruit and retain people with the appropriate capabilities and experience and effectively integrate these people into our business, it could negatively affect our product development and marketing activities.

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

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

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

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

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

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

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

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

Our proprietary rights may not adequately protect our technologies.

Our success depends in part on our obtaining and maintaining patent, trade secret, copyright and trademark protection of our technologies in the United States and other jurisdictions as well as successfully enforcing this intellectual

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

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

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

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

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

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

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

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

Such a lack of control could result in the loss of all or part of our investment in such entities. In addition, our foreign partners may have different business methods and customs which may be unfamiliar to us and with which we disagree. Our joint venture partners may not be able to implement our business model in new areas as efficiently and

quickly as we have been able to do in South Africa. Furthermore, limitations imposed on our South African subsidiaries by South African exchange control regulations, as well as limitations imposed on us by the Investment Company Act of 1940, may limit our ability to establish partnerships or entities in which we do not obtain a controlling interest.

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

We pre-fund social welfare grants through the merchants who participate in our merchant acquiring system in the South African provinces where we operate. We also pre-fund the settlement of funds to certain customers in South Korea. These pre-funding obligations expose us to the risk of default by these merchants and customers. Although we have not experienced any material defaults by merchants or customers in the return of pre-funded amounts to us, we cannot guarantee that material defaults will not occur in the future. A material level of merchant or customer defaults could have a material adverse effect on us, our financial position and results of operations. We expect this risk to remain after the conclusion of the SASSA contract as we will continue to service our EasyPay Everywhere cardholders and our financial services branch and ATM networks.

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

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

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

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

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

Smart Life is a life insurance company and exposes us to risks typically experienced by life assurance companies. Some of these risks include the extent to which we are able to continue to reinsure our risks at acceptable costs, reinsurer counterparty risk, maintaining regulatory capital adequacy, solvency and liquidity requirements, our ability to price our insurance products appropriately, the risk that actual claims experience may exceed our estimates, the ability to recover policy premiums from our customers and the competitiveness of the South African insurance market. If we are unable to maintain our desired level of reinsurance at prices that we consider acceptable, we would have to either accept an increase in our exposure risk or reduce our insurance writings. If our reinsurers are unable to meet their commitments to us in a timely manner, or at all, we may be unable to discharge our obligations under our insurance contracts. As such, we are exposed to counterparty, including credit, risk of these reinsurers. Our product pricing includes long-term assumptions regarding investment returns, mortality, morbidity, persistency and operating costs and expenses of the business. Using the wrong assumptions to price our insurance products could materially and adversely affect our financial position, results of operations and cash flows.

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

Risks Relating to Operating in South Africa and Other Foreign Markets

If we do not achieve applicable broad-based black economic empowerment objectives in our South African businesses, we risk losing our government and/or private contracts and/or risk not being in compliance with any

government and/or private contracts which we have already entered into. In addition, it is possible that we may be required to increase the black shareholding of our company in a manner that could dilute your ownership and/or change the companies from which we purchase goods or procure services (to companies with a better BEE Contributor Status Level).

The legislative framework for the promotion of broad-based black economic empowerment, or BEE, in South Africa has been established through the Broad-Based Black Economic Empowerment Act, No. 53 of 2003, as amended from time to time, and the Amended BEE Codes of Good Practice, 2013, or BEE Codes, any sector-specific codes of good practice, or Sector Codes, published pursuant thereto. Sector Codes are fully binding between and among businesses operating in a sector for which a Sector Code has been published. Achievement of BEE objectives is measured by a scorecard which establishes a weighting for the various elements.

Save for certain exempt entities (for example, micro enterprises and qualifying small enterprises), scorecards are independently reviewed by accredited BEE verification agencies which issue a certificate that presents an entity's BEE Contributor Status Level.

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

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

We expect that our BEE Contributor Status Level will be important for us in order to remain competitive in the South African marketplace and we continually seek ways to improve our BEE Contributor Status Level, especially the ownership (so-called equity element) element thereof. For instance, in April 2014, we implemented a BEE transaction pursuant to which we issued 4.4 million shares of our common stock to our BEE partners for ZAR 60.00 per share, which represented a 25% discount to the market price of our shares at the time that we negotiated the transaction. We entered into this transaction to improve our scoring on the ownership (equity) element of our BEE scorecard. We provided funding to the BEE partners in order for them to buy these shares from us. In June 2014, and in accordance with the terms of the relevant agreements, we repurchased approximately 2.4 million of these shares of our common stock in order for the BEE partners to repay the loans we provided to them. Furthermore, in August 2014, we entered into a Subscription and Sale of Shares Agreement with Business Venture Investments No 1567 Proprietary Limited (RF), or BVI, one of our BEE partners, in preparation for any new potential SASSA tender. Pursuant to the aforesaid agreement, we repurchased BVI's remaining shares of Net1 common stock and BVI subscribed for new ordinary shares of CPS, representing approximately 12.5% of CPS's ordinary shares outstanding after the subscription.

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

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

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

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

may also have a negative impact on our stock price.

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

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

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

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

Our businesses in South Africa are dependent on electricity generated and supplied by the state-owned utility, Eskom, in order to operate. In recent years, Eskom has been unable to generate and supply the amount of electricity required by South Africans, and the entire country experienced significant and largely unpredictable electricity supply disruptions. Eskom has implemented a number of short- and long-term mitigation plans to correct these issues and the number of supply disruptions has decreased since calendar 2016.

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

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

The economy of South Africa is exposed to high inflation 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. Higher interest rates increase the cost of our debt financing, though conversely they also increase the amount of income we earn on any cash balances.

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

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

Although Net1 is a U.S. corporation and is not itself subject to South African exchange control regulations, these regulations do restrict the ability of our South African subsidiaries to raise and deploy capital outside the Common

Monetary Area, to borrow money in currencies other than the South African rand and to hold foreign currency. Exchange control restrictions may also affect the ability of these subsidiaries to pay dividends to Net1 unless the affected subsidiary can show that any payment of such dividend will not place it in an over-borrowed position. As of June 30, 2018, approximately 54% 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; or (iv) repatriate to South Africa profits of foreign operations. These regulations could also limit our ability to utilize profits of one foreign business to finance operations of a different foreign business.

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

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

Trade unions have had a significant impact on the collective bargaining process as well as on social and political reform in South Africa in general. Although only approximately 1% percent of our South African workforce is unionized and we have not experienced any labor disruptions in recent years, such labor disruptions may occur in the future. In addition, developments in South African labor laws may increase our costs or alter our relationship with our employees and trade unions, which may have an adverse effect on us, our financial condition and our operations.

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

Emerging markets such as South Africa, as well as some of the other markets into which we have recently begun to expand, including African countries outside South Africa, South and Southeast Asia and Central Europe, are subject to greater risks than more developed markets.

While we focus our business primarily on emerging markets because that is where we perceive to be the greatest opportunities to market our products and services successfully, the political, economic and market conditions in many of these markets present risks that could make it more difficult to operate our business successfully.

Some of these risks include:

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

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

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

Risks Relating to Government Regulation

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

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

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

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

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

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

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

new partnerships and joint venture relationships worldwide, could increase the risk of OFAC violations in the future.

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

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

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

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

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

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

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

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 provision of financial and other services to social grant recipients. Because social welfare eligibility and grant amounts are regulated by the South African government, any changes to or reinterpretations of the government regulations relating to social welfare may result in the

non-renewal or reduction of grants for certain individuals, or a determination that currently eligible social welfare grant recipient cardholders are no longer eligible. If any of these changes were to occur, this could result in a reduction of our revenue, profits and cash flows.

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

The South African retail banking market is highly regulated. Under current law and regulations, our South African social welfare grant distribution and EasyPay Everywhere business activities requires us to be registered as a bank in South Africa or to have access to an existing banking license.

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

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

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

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

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

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

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

personal data within a set time frame.

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

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 2018 fiscal year, our stock price ranged from a low of \$8.05 to a high of \$13.20. We expect that the trading price of our common stock may continue to be volatile as a result of a number of factors, including, but not limited to the following:

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

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

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

Approximately 38% of our outstanding common stock is owned by three shareholders. The interests of these shareholders may conflict with those of our other shareholders.

There is a concentration of ownership of our outstanding common stock because approximately 38% of our outstanding common stock is owned by three shareholders. Based on their most recent SEC filings disclosing ownership of our shares, IFC Investors, International Value Advisers, LLC, or IVA, and Allan Gray Proprietary Limited, beneficially owned approximately 18%, 15% and 5% of our outstanding common stock, respectively.

The interests of the IFC Investors, IVA and Allan Gray, may be different from or conflict with the interests of our other shareholders. As a result of the ownership by the IFC Investors, IVA and Allan Gray, they will be able, if they act together, to significantly influence our management and affairs and all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership

may have the effect of delaying or preventing a change of control of our company, thus depriving shareholders of a premium for their shares, or facilitating a change of control that other shareholders may oppose.

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

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

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

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

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

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

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

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

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

The requirement to evaluate and report on our internal controls over financial reporting also applies to companies that we acquire. As a private company, DNI was not required to comply with the requirements of Sarbanes prior to the time we acquired it. As DNI was acquired on June 30, 2018, there was not sufficient time, and therefore it was not possible for management to perform an assessment of the internal controls at DNI. Our management evaluation and auditor attestation regarding the effectiveness of our internal control over financial reporting as of June 30, 2018, excluded the operations of DNI. If we fail to successfully integrate the operations of these acquired companies into our internal control over financial reporting, our internal control over financial reporting may not be effective. The integration of DNI into our internal control over financial reporting requires significant time and resources from our

management and other personnel and may increase our compliance costs.

In addition, our independent registered public accounting firm identified a material weakness in our internal control related to our recognition of revenue from our SASSA contract during the three months ended June 30, 2018. As discussed in “Item 3—Legal Proceedings—Constitutional Court order regarding extension of contract with SASSA for 12 months,” our SASSA contract was extended by, and is currently subject to the ongoing oversight of, the Constitutional Court. Specifically, they concluded that our procedures and controls did not appropriately assess the documentation specific to the provision of cash payment services during the three months ended June 30, 2018, which should have resulted in the Company concluding that there is no evidence of an arrangement at a fixed and determinable price other than that noted in the court order extension. This material weakness could have resulted in a material misstatement of our financial statements that would not have been prevented or detected. In the event that we are faced with a similar set of circumstances in the future, we intend to appoint an independent expert to assist us in determining the appropriate accounting treatment. We cannot assure you that the measures we have taken to date, and actions we may take in the future, will be sufficient to remediate the control deficiencies that led to our material weakness in our internal control over financial reporting or that they will prevent potential future material weaknesses.

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

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

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

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

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

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

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

Whether a judgment was contrary to public policy depends on the facts of each case. Exorbitant, unconscionable, or excessive awards will generally be contrary to public policy. South African courts cannot enter into the merits of a foreign judgment and cannot act as a court of appeal or review over the foreign court. Further, if a foreign judgment is enforced by a South African court, it will be payable in South African currency. Also, under South Africa's exchange

control laws, the approval of SARB is required before a defendant resident in South Africa may pay money to a non-resident plaintiff in satisfaction of a foreign judgment enforced by a court in South Africa.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease our corporate headquarters facility which consists of approximately 93,000 square feet in Johannesburg, South Africa. We also lease properties throughout South Africa, including a 12,088 square foot manufacturing facility in Lazer Park, a 50,052 square foot administration building in Kramerville, Johannesburg, 175 financial services branches and 78 depot facilities. We also lease additional office space in Johannesburg, Cape Town and Durban, South Africa; London, United Kingdom; Seoul, South Korea; Munich, Germany; Hong Kong and Zhuhai, China; Mumbai, India and Black River, Mauritius. These leases expire at various dates through 2022. We own land and buildings in Ahnsung, Kyung-gi, South Korea, that is used for the storage of business documents. We believe that we have adequate facilities for our current business operations.

ITEM 3. LEGAL PROCEEDINGS

Constitutional Court order regarding extension of contract with SASSA for 12 months

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

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

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

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

opt-in to the sharing of confidential information for the marketing of goods and services.

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

Further to the March 2017 order, SASSA and certain other parties, including the independent panel of experts appointed by the Constitutional Court, have made various submissions to the Constitutional Court. Argument was heard on March 6, 2018 and on March 23, 2018, the Constitutional Court issued an order reiterating that SASSA and CPS have a constitutional obligation to pay social welfare grants and that the contract between SASSA and CPS, for the payment of social grants to beneficiaries who are paid in cash (i.e. those grant recipients who receive their grants at pay points), be extended for a further six months to September 30, 2018, or March 2018 order. The Constitutional Court's order provides for the payment of these grants under the extended contract's terms and conditions. The Constitutional Court permitted CPS to request National Treasury to evaluate and recommend the price to be charged by CPS for the payment of grants in cash under the extended contract. National Treasury submitted its recommendations to the Constitutional Court on April 30, 2018, proposing fee levels that were materially lower than CPS had requested, but significantly higher than the current fee levels. We submitted a responding affidavit to the Constitutional Court on May 11, 2018, but, until the Constitutional Court issues an order, we do not have certainty around CPS's compensation for providing this service.

The Constitutional Court included public accountability provisions in its March 2018 order that directly impact CPS. These provisions are similar to those included in the Constitutional Court's April 2014 and March 2017 orders and require CPS to provide SASSA with an independently audited statement of expenses incurred, income received and profit earned under the contract. SASSA is also required to obtain an independent audit of the audited information provided by CPS. Furthermore, the Constitutional Court directed SASSA to send this audited information to National Treasury for its approval prior to submission to the Constitutional Court.

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

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

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

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

On February 6, 2018, CPS applied to the Constitutional Court requesting clarity on whether CPS may participate in any future SASSA tender processes. On February 23, 2018, the Constitutional Court ordered that CPS may participate in the new SASSA tender process, which commenced in December 2017.

Litigation Regarding Legality of Debit Orders under Social Assistance Act Regulations

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

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

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

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

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

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

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

On July 19, 2017, SASSA and the Black Sash served applications petitioning the South African Supreme Court of Appeal to grant them leave to appeal to either the Supreme Court or to a full bench of the Pretoria High Court. On September 29, 2017, the Supreme Court of Appeal referred the petitions to oral argument. The oral argument in respect of the petitions was heard on August 16 and 17, 2018.

We believe that SASSA's and the Black Sash's claims are without merit, and we intend to defend against them vigorously. However, we cannot predict how the courts will rule on the matter.

In addition, on June 15, 2016, SASSA brought criminal charges against us and Grindrod Bank for contravening the Social Assistance Act, alleging that we and Grindrod Bank failed to act in accordance with SASSA's instructions by processing debit orders against social welfare beneficiaries' bank accounts after the Regulations came into effect. On June 28, 2016, the Pretoria High Court prohibited SASSA from making any representations to the South African Police Services and the National Prosecuting Authority regarding the criminal charges brought against us and Grindrod Bank pending the determination of the proceedings, including the determination of any appeals. In addition, the order prevented SASSA from issuing further demands to us and Grindrod Bank to stop the processing of debit transactions against SASSA bank accounts pending the determination of the dispute, including the determination of any appeals. On August 8, 2016, we were informed that the NPA had reached a no prosecution decision on the criminal charges filed by SASSA. On May 17, 2017, the NPA reaffirmed its no prosecution decision reached in August 2016 on the criminal charges brought by SASSA against us and Grindrod Bank. In addition, the NPA notified us that no further action would be taken and that we could consider the case closed.

Challenge to Payment by SASSA of Additional Implementation Costs

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

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

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

On May 23, 2018, CPS delivered its petition seeking leave to appeal the whole order and judgment of the High Court with the Supreme Court of Appeal. On June 21, 2018, Corruption Watch delivered a responding affidavit and, on July 4, 2018, CPS delivered its replying affidavit. We await directions from the Supreme Court of Appeal. However, we cannot predict whether leave to appeal will be granted or if granted, how the Supreme Court of Appeal would rule on the matter.

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

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

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

Regarding the NCR's application to cancel the registration of Moneyline, we raised a number of procedural points in defense, which, if we are successful, will be dispositive of the application. Argument on these points was heard on November 27, 2015, before three tribunal members. Two ruled against us and one upheld our points. We are appealing the majority ruling to the High Court. This matter was initially scheduled to be heard on December 6, 2017, however, the matter was subsequently removed from the roll. A new hearing date has not been allocated and the matter will be heard on December 4, 2018 by a full bench of the Pretoria High Court.

If we are successful, it will dispose of the application. If we do not prevail, then the NCR's application will be set down before the Consumer Tribunal for argument on the main issues raised by the NCR, as dealt with above. We cannot predict the outcome of this litigation.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUANCE OF COMMON STOCK***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, 2016	\$ 11.30	\$ 8.37
Quarter ended December 31, 2016	\$ 12.26	\$ 8.57
Quarter ended March 31, 2017	\$ 13.53	\$ 11.33
Quarter ended June 30, 2017	\$ 12.23	\$ 9.19
Quarter ended September 30, 2017	\$ 10.35	\$ 9.06
Quarter ended December 31, 2017	\$ 13.20	\$ 8.87
Quarter ended March 31, 2018	\$ 13.15	\$ 9.12
Quarter ended June 30, 2018	\$ 10.71	\$ 8.05

Our transfer agent in the United States is Computershare Shareowner Services LLC, 480 Washington Blvd, Jersey City, New Jersey, 07310. According to the records of our transfer agent, as of August 16, 2018, there were 15 shareholders of record of our common stock. A substantially greater number of holders of our common stock are "street name" or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions. Our transfer agent in South Africa is Link Market Services South Africa (Pty) Ltd, 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein, 2001, South Africa.

Dividends

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

Issuer purchases of equity securities

On February 3, 2016, our board of directors approved the replenishment of our existing share repurchase authorization to repurchase up to an aggregate of \$100 million of common stock and, as of June 30, 2018, we had utilized approximately \$47.5 million of this authorization and approximately \$52.5 million remains available. The authorization has no expiration date. We did not repurchase any shares of our common stock during fiscal 2018.

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, 2013, in each of our common stock, the companies in the S&P 500 Index, and the companies in the NASDAQ Industrial Index.

ITEM 6. SELECTED FINANCIAL DATA

The following selected historical consolidated financial data should be read together with Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8 Financial Statements and Supplementary Data. The following selected historical financial data as of June 30, 2018 and 2017, and for the three years ended June 30, 2018, have been derived from our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected historical consolidated financial data presented below as of June 30, 2016, 2015 and 2014 and for the years ended June 30, 2015 and 2014, have been derived from our consolidated financial statements, which are not included herein. The selected historical financial data as of each date and for each period presented have been prepared in accordance with U.S. 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				
	2018	2017	2016	2015	2014⁽¹⁾
Revenue	\$ 612,889	\$ 610,066	\$ 590,749	\$ 625,979	\$ 581,656
Cost of goods sold, IT processing, servicing and support	304,536	292,383	290,101	297,856	260,232
Selling, general and administrative ⁽²⁾	193,003	179,262	145,886	158,919	168,072
Equity instruments granted pursuant to BEE transactions ⁽³⁾	-	-	-	-	11,268
Depreciation and amortization	35,484	41,378	40,394	40,685	40,286
Impairment loss	20,917	-	-	-	-
Operating income	58,949	97,043	114,368	128,519	101,798
Interest income	17,885	20,897	15,292	16,355	14,817
Interest expense	8,941	3,484	3,423	4,456	7,473
Income before income taxes	67,893	114,456	126,237	140,418	109,142
Income tax expense	41,353	42,472	42,080		