
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from _____ to _____

Commission file number: 000-31203

NET 1 UEPS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Florida

(State or other jurisdiction
of incorporation or organization)

98-0171860

(IRS Employer
Identification No.)

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

(Address of principal executive offices, including zip code)

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

Not Applicable

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

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

YES NO

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

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", "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.

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

YES NO

As of November 7, 2017 (the latest practicable date), 56,927,696 shares of the registrant's common stock, par value \$0.001 per share, net of treasury shares, were outstanding.

NET 1 UEPS TECHNOLOGIES, INC.

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Part I. Financial Information

Item 1. Financial Statements

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

| | Unaudited September 30, 2017 | (A) June 30, 2017 |
|------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-------------------------|
| (In thousands, except share data) | | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 138,359 | \$ 258,457 |
| Pre-funded social welfare grants receivable (Note 2) | 3,457 | 2,322 |
| Accounts receivable, net of allowances of – September: \$1,158; June: \$1,255 | 115,652 | 111,429 |
| Finance loans receivable, net of allowances of – September: \$7,456; June: \$7,469 | 106,087 | 80,177 |
| Inventory (Note 3) | 9,278 | 8,020 |
| Deferred income taxes (Note 1) | - | 5,330 |
| Total current assets before settlement assets | 372,833 | 465,735 |
| Settlement assets (Note 4) | 411,349 | 640,455 |
| Total current assets | 784,182 | 1,106,190 |
| PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of – September: \$122,138; June: \$120,212 | 34,060 | 39,411 |
| EQUITY-ACCOUNTED INVESTMENTS (Note 6) | 97,802 | 27,862 |
| GOODWILL (Note 7) | 186,539 | 188,833 |
| INTANGIBLE ASSETS, net (Note 7) | 35,584 | 38,764 |
| DEFERRED INCOME TAXES (Note 1) | 3,969 | - |
| OTHER LONG-TERM ASSETS, including reinsurance assets (Note 6 and Note 8) | 201,166 | 49,696 |
| TOTAL ASSETS | 1,343,302 | 1,450,756 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Short-term credit facilities (Note 9) | 45,737 | 16,579 |
| Accounts payable | 14,004 | 15,136 |
| Other payables | 38,028 | 34,799 |
| Current portion of long-term borrowings (Note 10) | 59,371 | 8,738 |
| Income taxes payable | 14,126 | 5,607 |
| Total current liabilities before settlement obligations | 171,266 | 80,859 |
| Settlement obligations (Note 4) | 411,349 | 640,455 |
| Total current liabilities | 582,615 | 721,314 |
| DEFERRED INCOME TAXES (Note 1) | 8,615 | 11,139 |
| LONG-TERM BORROWINGS (Note 10) | 34,860 | 7,501 |
| OTHER LONG-TERM LIABILITIES, including insurance policy liabilities (Note 8) | 2,965 | 2,795 |
| TOTAL LIABILITIES | 629,055 | 742,749 |
| COMMITMENTS AND CONTINGENCIES (Note 18) | | |
| EQUITY | | |
| COMMON STOCK (Note 11) | | |
| Authorized: 200,000,000 with \$0.001 par value; Issued and outstanding shares, net of treasury - September: 56,927,696; June: 56,369,737 | 80 | 80 |
| PREFERRED STOCK | | |
| Authorized shares: 50,000,000 with \$0.001 par value; Issued and outstanding shares, net of treasury: September: -; June: - | - | - |
| ADDITIONAL PAID-IN-CAPITAL | 274,353 | 273,733 |
| TREASURY SHARES, AT COST: September: 24,891,292; June: 24,891,292 | (286,951) | (286,951) |
| ACCUMULATED OTHER COMPREHENSIVE LOSS (Note 12) | (176,565) | (162,569) |
| RETAINED EARNINGS | 792,759 | 773,276 |
| TOTAL NET1 EQUITY | 603,676 | 597,569 |
| REDEEMABLE COMMON STOCK | 107,672 | 107,672 |
| NON-CONTROLLING INTEREST | 2,899 | 2,766 |
| TOTAL EQUITY | 714,247 | 708,007 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,343,302 | \$ 1,450,756 |

(A) – Derived from audited financial statements

See Notes to Unaudited Condensed Consolidated Financial Statements

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

| | <u>Three months ended</u> | |
|----------------------------------------------------------|---------------------------------------|------------------|
| | <u>September 30,</u> | |
| | <u>2017</u> | <u>2016</u> |
| | (In thousands, except per share data) | |
| REVENUE | \$ 152,558 | \$ 155,633 |
| EXPENSE | | |
| Cost of goods sold, IT processing, servicing and support | 74,652 | 74,780 |
| Selling, general and administration | 43,934 | 38,468 |
| Depreciation and amortization | 8,966 | 10,204 |
| OPERATING INCOME | <u>25,006</u> | <u>32,181</u> |
| INTEREST INCOME | 5,044 | 4,304 |
| INTEREST EXPENSE | <u>2,121</u> | <u>796</u> |
| INCOME BEFORE INCOME TAX EXPENSE | 27,929 | 35,689 |
| INCOME TAX EXPENSE (Note 17) | <u>10,277</u> | <u>11,103</u> |
| NET INCOME BEFORE EARNINGS FROM EQUITY-ACCOUNTED | | |
| INVESTMENTS | 17,652 | 24,586 |
| EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS | <u>2,075</u> | <u>659</u> |
| NET INCOME | 19,727 | 25,245 |
| LESS NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST | 244 | 613 |
| NET INCOME ATTRIBUTABLE TO NET1 | <u>\$ 19,483</u> | <u>\$ 24,632</u> |
| Net income per share, in U.S. dollars (Note 14) | | |
| Basic earnings attributable to Net1 shareholders | \$ 0.34 | \$ 0.46 |
| Diluted earnings attributable to Net1 shareholders | \$ 0.34 | \$ 0.46 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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

| | Three months ended | |
|------------------------------------------------------------------------------------------|---------------------------|-------------|
| | September 30, | |
| | 2017 | 2016 |
| | (In thousands) | |
| Net income | \$ 19,727 | \$ 25,245 |
| Other comprehensive (loss) income | | |
| Movement in foreign currency translation reserve | (13,880) | 22,302 |
| Movement in foreign currency translation reserve related to equity-accounted investments | (227) | - |
| Total other comprehensive (loss) income, net of taxes | (14,107) | 22,302 |
| Comprehensive income | 5,620 | 47,547 |
| Less comprehensive income attributable to non-controlling interest | (133) | (1,057) |
| Comprehensive income attributable to Net1 | \$ 5,487 | \$ 46,490 |

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.

Unaudited Condensed Consolidated Statement of Changes in Equity for the three months ended September 30, 2017 (dollar amounts in thousands)

| Net 1 UEPS Technologies, Inc. Shareholders | | | | | | | | | | | | |
|------------------------------------------------------------------------------------|------------------|--------|---------------------------|-----------------|-----------------------------------|----------------------------|-------------------|-----------------------------------------------|-------------------|-------------------------|--------------------------|------------|
| | Number of Shares | Amount | Number of Treasury Shares | Treasury Shares | Number of Shares, Net of Treasury | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Total Net1 Equity | Redeemable Common Stock | Non-Controlling Interest | Total |
| Balance – July 1, 2017 | 81,261,029 | \$ | 80 | (24,891,292) | 56,369,737 | \$ 273,733 | \$ 773,276 | \$ (162,569) | \$ 597,569 | \$ 107,672 | \$ 2,766 | \$ 708,007 |
| Restricted stock granted (Note 13) | 588,594 | | | | 588,594 | | | | - | | | - |
| Stock-based compensation charge (Note 13) | | | | | | 869 | | | 869 | | | 869 |
| Reversal of stock compensation charge (Note 13) | (30,635) | | | | (30,635) | (42) | | | (42) | | | (42) |
| Reversal of stock based-compensation charge related to equity-accounted investment | | | | | | (207) | | | (207) | | | (207) |
| Net income | | | | | | | 19,483 | | 19,483 | | 244 | 19,727 |
| Other comprehensive income (Note 12) | | | | | | | | (13,996) | (13,996) | | (111) | (14,107) |
| Balance – September 30, 2017 | 81,818,988 | \$ | 80 | (24,891,292) | 56,927,696 | \$ 274,353 | \$ 792,759 | \$ (176,565) | \$ 603,676 | \$ 107,672 | \$ 2,899 | \$ 714,247 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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

| | Three months ended | |
|----------------------------------------------------------------------------------------------------------------------|--------------------|-------------------|
| | September 30, | |
| | 2017 | 2016 |
| | (In thousands) | |
| Cash flows from operating activities | | |
| Net income | \$ 19,727 | \$ 25,245 |
| Depreciation and amortization | 8,966 | 10,204 |
| Earnings from equity-accounted investments | (2,075) | (659) |
| Fair value adjustments | 91 | (83) |
| Interest payable | (88) | 32 |
| Facility fee amortized | 133 | 36 |
| Loss on disposal of property, plant and equipment | 105 | 66 |
| Stock-based compensation charge (reversal), net (Note 13) | 827 | (1,324) |
| Dividends received from equity accounted investments | 912 | 370 |
| (Increase) Decrease in accounts receivable, pre-funded social welfare grants receivable and finance loans receivable | (39,141) | 7,766 |
| Increase in inventory | (1,526) | (104) |
| Increase in accounts payable and other payables | 3,429 | 3,040 |
| Increase in taxes payable | 8,838 | 10,956 |
| Decrease in deferred taxes | (991) | (1,632) |
| Net cash (used in) provided by operating activities | (793) | 53,913 |
| Cash flows from investing activities | | |
| Capital expenditures | (1,473) | (3,423) |
| Proceeds from disposal of property, plant and equipment | 316 | 69 |
| Investment in Cell C (Note 6) | (151,003) | - |
| Investment in equity of equity-accounted investments (Note 6) | (72,846) | - |
| Investment in MobiKwik | - | (15,347) |
| Net change in settlement assets | 212,649 | (37,394) |
| Net cash used in investing activities | (12,357) | (56,095) |
| Cash flows from financing activities | | |
| Long-term borrowings utilized (Note 10) | 95,431 | 247 |
| Repayment of long-term borrowings (Note 10) | (14,260) | (26,669) |
| Proceeds from bank overdraft (Note 9) | 31,880 | - |
| Repayment of bank overdraft (Note 9) | (2,952) | - |
| Payment of guarantee fee (Note 10) | (552) | - |
| Acquisition of treasury stock (Note 11) | - | (32,081) |
| Dividends paid to non-controlling interest | - | (555) |
| Net change in settlement obligations | (212,649) | 37,394 |
| Net cash used in financing activities | (103,102) | (21,664) |
| Effect of exchange rate changes on cash | (3,846) | 5,531 |
| Net decrease in cash and cash equivalents | (120,098) | (18,315) |
| Cash and cash equivalents – beginning of period | 258,457 | 223,644 |
| Cash and cash equivalents – end of period | \$ 138,359 | \$ 205,329 |

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.
Notes to the Unaudited Condensed Consolidated Financial Statements
for the three months ended September 30, 2017 and 2016
(All amounts in tables stated in thousands or thousands of U.S. dollars, unless otherwise stated)

1. Basis of Presentation and Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements include all majority-owned subsidiaries over which the Company exercises control and have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and the rules and regulations of the United States Securities and Exchange Commission for Quarterly Reports on Form 10-Q and include all of the information and disclosures required for interim financial reporting. The results of operations for the three months ended September 30, 2017 and 2016, are not necessarily indicative of the results for the full year. The Company believes that the disclosures are adequate to make the information presented not misleading.

These financial statements should be read in conjunction with the financial statements, accounting policies and financial notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair representation of financial results for the interim periods presented.

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

Recent accounting pronouncements adopted

In August 2014, the FASB issued guidance regarding *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This guidance requires an entity to perform interim and annual assessments of its ability to continue as a going concern within one year of the date that its financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The guidance is effective for the Company beginning July 1, 2017. The adoption of this guidance did not have a material impact on the Company's financial statements disclosures.

In July 2015, the FASB issued guidance regarding *Simplifying the Measurement of Inventory*. This guidance requires entities to measure most inventory "at the lower of cost and net realizable value," thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market (market in this context is defined as one of three different measures). The guidance will not apply to inventories that are measured by using either the last-in, first-out ("LIFO") method or the retail inventory method ("RIM"). The guidance is effective for the Company beginning July 1, 2017. The adoption of this guidance did not have a material impact on the Company's financial statements.

In November 2015, the FASB issued guidance regarding *Balance Sheet Classification of Deferred Taxes*. This guidance requires that deferred tax liabilities and assets are to be classified as non-current in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this update. This guidance is effective for the Company beginning July 1, 2017, and has been applied on a prospective basis. The adoption of this guidance has resulted in the reclassification of current deferred tax assets and liabilities as non-current deferred tax assets and liabilities in the unaudited condensed consolidated balance sheet as of September 30, 2017. Prior period current deferred tax assets have not been reclassified as non-current in the unaudited condensed consolidated balance sheet as of June 30, 2017.

In March 2016, the FASB issued guidance regarding *Improvements to Employee Share-Based Payment Accounting*. The guidance simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This guidance is effective for the Company beginning July 1, 2017. The adoption of this guidance did not have a material impact on the Company's financial statements. The Company has elected to continue to estimate the number of forfeitures when an award is made.

Recent accounting pronouncements not yet adopted as of September 30, 2017

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

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Recent accounting pronouncements not yet adopted as of September 30, 2017 (continued)

The guidance is effective for the Company beginning July 1, 2018. The Company expects that this guidance may have a material impact on its financial statements and is currently evaluating the impact of this guidance on its financial statements on adoption.

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

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

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

In June 2016, the FASB issued guidance regarding *Classification of Certain Cash Receipts and Cash Payments*. The guidance is intended to reduce diversity in practice and explains how certain cash receipts and payments are presented and classified in the statement of cash flows, including beneficial interests in securitization, which would impact the presentation of the deferred purchase price from sales of receivables. This guidance is effective for the Company beginning July 1, 2018, and must be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of this guidance on its financial statements disclosure.

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

In January 2017, the FASB issued guidance regarding *Simplifying the Test for Goodwill Impairment*. This guidance removes the requirement for an entity to calculate the implied fair value of goodwill (as part of step 2 of the current goodwill impairment test) in measuring a goodwill impairment loss. The guidance is effective for the Company beginning July 1, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently assessing the impact of this guidance.

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

2. Pre-funded social welfare grants receivable

Pre-funded social welfare grants receivable represents primarily amounts pre-funded by the Company to certain merchants participating in the merchant acquiring system. The October 2017 payment service commenced on October 1, 2017, but the Company pre-funded certain merchants participating in the merchant acquiring systems on the last day of September 2017. The July 2017 payment service commenced on July 1, 2017, but the Company pre-funded certain merchants participating in the merchant acquiring systems on the last day of June 2017.

3. Inventory

The Company's inventory comprised the following category as of September 30, 2017 and June 30, 2017.

| | September 30, 2017 | June 30, 2017 |
|----------------|-----------------------|------------------|
| Finished goods | \$ 9,278 | \$ 8,020 |
| | <u>\$ 9,278</u> | <u>\$ 8,020</u> |

4. Settlement assets and settlement obligations

Settlement assets comprise (1) cash received from the South African government that the Company holds pending disbursement to recipient cardholders of social welfare grants and (2) cash received from customers on whose behalf the Company processes payroll payments that the Company will disburse to customer employees, payroll-related payees and other payees designated by the customer.

Settlement obligations comprise (1) amounts that the Company is obligated to disburse to recipient cardholders of social welfare grants, and (2) amounts that the Company is obligated to pay to customer employees, payroll-related payees and other payees designated by the customer.

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

5. Fair value of financial instruments

Fair value of financial instruments

Initial recognition and measurement

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

Risk management

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

Currency exchange risk

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

Translation risk

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

Interest rate risk

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

5. Fair value of financial instruments (continued)

Fair value of financial instruments (continued)

Risk management (continued)

Working capital finance customer concentration risk

Working capital finance customer concentration risk relates to the risk of loss that the Company would incur as a result of its initial concentration of customers as it grows its working capital financing receivables base in Europe and the United States. During the year ended June 30, 2017, the Company commenced marketing activities to develop and expand its working capital financing receivables base. The Company manages the risk through on-going marketing efforts to further expand its customer base as well as through regular contact with its customer to assess their need for the Company's product.

Credit risk

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

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

Microlending credit risk

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

Equity price and liquidity risk

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

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

Financial instruments

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

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

Derivative transactions - Foreign exchange contracts

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

5. Fair value of financial instruments (continued)

Financial instruments (continued)

Derivative transactions - Foreign exchange contracts (continued)

The Company had no outstanding foreign exchange contracts as of September 30, 2017 and June 30, 2017, respectively.

The following table presents the Company's assets measured at fair value on a recurring basis as of September 30, 2017, according to the fair value hierarchy:

| | Quoted price in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|--------------------------------------------------------------------|---------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|-----------------|
| Assets | | | | |
| Related to insurance business: | | | | |
| Cash and cash equivalents (included in other long-term assets) | \$ 599 | \$ - | \$ - | \$ 599 |
| Fixed maturity investments (included in cash and cash equivalents) | 5,796 | - | - | 5,796 |
| Other | - | 37 | - | 37 |
| Total assets at fair value | <u>\$ 6,395</u> | <u>\$ 37</u> | <u>\$ -</u> | <u>\$ 6,432</u> |

The following table presents the Company's assets measured at fair value on a recurring basis as of June 30, 2017, according to the fair value hierarchy:

| | Quoted Price in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|--------------------------------------------------------------------|---------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|-----------------|
| Assets | | | | |
| Related to insurance business: | | | | |
| Cash and cash equivalents (included in other long-term assets) | \$ 627 | \$ - | \$ - | \$ 627 |
| Fixed maturity investments (included in cash and cash equivalents) | 5,160 | - | - | 5,160 |
| Other | - | 37 | - | 37 |
| Total assets at fair value | <u>\$ 5,787</u> | <u>\$ 37</u> | <u>\$ -</u> | <u>\$ 5,824</u> |

There have been no transfers in or out of Level 3 during the three months ended September 30, 2017 and 2016, respectively.

Assets and liabilities measured at fair value on a nonrecurring basis

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

6. Equity-accounted investments and other long-term assets

Equity-accounted investments

The Company's ownership percentage in its equity-accounted investments as of September 30, 2017 and June 30, 2017, was as follows:

| | September 30, 2017 | June 30, 2017 |
|---------------------------------------------------------|-----------------------|------------------|
| DNI-4PL (Pty) Ltd ("DNI") | 45% | - |
| Finbond Group Limited ("Finbond") | 27% | 26% |
| KZ One Limited (formerly One Credit Limited) ("KZ One") | 25% | 25% |
| SmartSwitch Namibia (Pty) Ltd ("SmartSwitch Namibia") | 50% | 50% |
| Walletdoc Proprietary Limited ("Walletdoc") | 20% | 20% |

On July 27, 2017, the Company subscribed for 44,999,999 ordinary A shares in DNI, representing a 45% voting and economic interest in DNI, for a subscription price of ZAR 945.0 million (\$72.0 million) in cash. Under the terms of the Company's agreements with DNI, the Company is required to pay to DNI an additional amount of up to ZAR 360 million (\$26.5 million, translated at the foreign exchange rates applicable as of September 30, 2017), in cash, subject to the achievement of certain performance targets by DNI. The Company has not accrued for this contingent consideration as of September 30, 2017. Net1 SA has pledged, among other things, its entire equity interest in DNI as security for the South African facilities described in Note 10 used to partially fund the acquisition of Cell C.

As of September 30, 2017, the Company owned 205,483,967 shares in Finbond. Finbond is listed on the Johannesburg Stock Exchange and its closing price on September 29, 2017, the last trading day of the quarter, was R3.20 per share. The aggregate value of the Company's holding in Finbond on September 30, 2017 was R657.5 million (\$48.5 million translated at exchange rates applicable as of September 30, 2017). On July 13, 2017, the Company acquired an additional 3.6 million shares in Finbond for approximately ZAR 11.2 million (\$0.8 million). On July 17, 2017, the Company, pursuant to its election, received an additional 4,361,532 shares in Finbond as a capitalization share issue in lieu of a dividend.

On October 7, 2016, the Company provided a loan of ZAR 139.2 million (\$10.0 million, translated at the foreign exchange rates applicable on the date of the loan) to Finbond in order to partially finance Finbond's expansion strategy in the United States. The loan is included in accounts receivable, net, on the Company's unaudited condensed consolidated balance sheet as of September 30, 2017 and June 30, 2017. Interest on the loan is payable quarterly in arrears and is based on the London Interbank Offered Rate ("LIBOR") in effect from time to time plus a margin of 12.00%. The LIBOR rate was 1.3339% on September 30, 2017. The loan was initially set to mature at the earlier of Finbond concluding a rights offer or February 28, 2017, but the agreement was subsequently amended to extend the rights offer date to November 30, 2017.

The Company has provided a credit facility of up to \$10 million in the form of convertible debt to KZ One, of which \$2 million had been drawn as of September 30, 2017 and June 30, 2017.

6. Equity-accounted investments and other long-term assets (continued)

Equity-accounted investments (continued)

Summarized below is the movement in equity-accounted investments during the three months ended September 30, 2017:

| | DNI | Finbond | KZ One | Other ⁽¹⁾ | Total |
|---------------------------------------------------------------------|-----------|-----------|-----------|----------------------|-----------|
| Investment in equity: | | | | | |
| Balance as of June 30, 2017 | \$ - | \$ 18,961 | \$ 5,945 | \$ 797 | \$ 25,703 |
| Acquisition of shares | 72,001 | 1,941 | - | - | 73,942 |
| Stock-based compensation | - | (207) | - | - | (207) |
| Comprehensive income (loss): | 865 | 874 | (54) | 163 | 1,848 |
| Other comprehensive loss | - | (227) | - | - | (227) |
| Equity accounted earnings (loss) | 865 | 1,101 | (54) | 163 | 2,075 |
| Share of net income (loss) | 1,408 | 1,931 | (54) | 163 | 3,448 |
| Amortization of acquired intangible assets | (753) | - | - | - | (753) |
| Deferred taxes on acquired intangible assets | 210 | - | - | - | 210 |
| Dilution resulting from corporate transactions | - | (830) | - | - | (830) |
| Dividends received | (616) | (1,096) | - | (296) | (2,008) |
| Foreign currency adjustment ⁽²⁾ | (2,327) | (767) | (502) | (33) | (3,629) |
| Balance as of September 30, 2017 | \$ 69,923 | \$ 19,706 | \$ 5,389 | \$ 631 | \$ 95,649 |
| Investment in loans: | | | | | |
| Balance as of June 30, 2017 | \$ - | \$ - | \$ 2,000 | \$ 159 | \$ 2,159 |
| Foreign currency adjustment ⁽²⁾ | - | - | - | (6) | (6) |
| Balance as of September 30, 2017 | \$ 0 | \$ 0 | \$ 2,000 | \$ 153 | \$ 2,153 |
| Equity Loans Total | | | | | |
| Carrying amount as of: | | | | | |
| June 30, 2017 | | | \$ 25,703 | \$ 2,159 | \$ 27,862 |
| September 30, 2017 | | | \$ 95,649 | \$ 2,153 | \$ 97,802 |

(1) Includes SmartSwitch Namibia and Walletdoc;

(2) The foreign currency adjustment represents the effects of the fluctuations South African rand, Nigerian Naira and the Namibian dollar, and the U.S. dollar on the carrying value.

Strategic investment

Bank Frick

On October 2, 2017, the Company acquired a 30% interest in Bank Frick & Co AG ("Bank Frick"), a fully licensed bank based in Balzers, Liechtenstein, from the Kuno Frick Family Foundation ("Frick Foundation") for approximately CHF 39.8 million (\$40.8 million translated at exchange rates applicable as of September 30, 2017). Following the successful completion of this investment, the Company has a two-year option to acquire an additional 35% interest in Bank Frick.

Bank Frick provides a complete suite of banking services, with one of its key strategic pillars being the provision of payment services and funding of financial technology opportunities. Bank Frick holds acquiring licenses from both Visa and MasterCard and operates a branch in London. The Company and Bank Frick have jointly identified several funding opportunities, including for the Company's working capital finance, card issuing and acquiring and transaction processing activities. The investment in Bank Frick has the potential to provide the Company with a stable, long term and strategic relationship with a fully licensed bank. The Company and Bank Frick have agreed that approximately \$30 million of the Bank Frick's free equity will be utilized as seed capital for a fund dedicated to the Company's future activities.

6. Equity-accounted investments and other long-term assets (continued)

Other long-term assets

Summarized below is the breakdown of other long-term assets as of September 30, 2017, and June 30, 2017:

| | September 30, 2017 | June 30, 2017 |
|-------------------------------------------------------------------------------------------|-----------------------|------------------|
| Investment in 15% of Cell C (Proprietary) Limited ("Cell C"), at cost | \$ 147,473 | \$ - |
| Investment in 12% of One MobiKwik Systems Private Limited ("MobiKwik"), at cost | 27,218 | 26,317 |
| Total investments | 174,691 | 26,317 |
| Long-term portion of payments to agents in South Korea amortized over the contract period | 20,413 | 17,290 |
| Policy holder assets under investment contracts (Note 8) | 599 | 627 |
| Reinsurance assets under insurance contracts Note 8) | 182 | 191 |
| Other long-term assets | 5,281 | 5,271 |
| Total other long-term assets | <u>\$ 201,166</u> | <u>\$ 49,696</u> |

On August 2, 2017, the Company, through its subsidiary, Net1 Applied Technologies South Africa Proprietary Limited ("Net1 SA"), purchased 75,000,000 class "A" shares of Cell C Proprietary Limited ("Cell C"), a leading mobile provider in South Africa, for an aggregate purchase price of ZAR 2.0 billion (\$151.0 million) in cash. The Company funded the transaction through a combination of cash and the facilities described in Note 14 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2017. Net1 SA has pledged, among other things, its entire equity interest in Cell C as security for the South African facilities described in Note 10 used to partially fund the acquisition of Cell C.

The Company has signed a subscription agreement with MobiKwik, which is India's largest independent mobile payments network, with over 55 million users and 1.5 million merchants. Pursuant to the subscription agreement, the Company agreed to make an equity investment of up to \$40.0 million in MobiKwik over a 24 month period. The Company made an initial \$15.0 million investment in August 2016 and a further \$10.6 million investment in June 2017, under this subscription agreement. As of June 30, 2017, the Company owned approximately 13.5% of MobiKwik. In August 2017, MobiKwik raised additional funding through the issuance of additional shares to a new shareholder at a 90% premium to the Company's investments and its percentage ownership was diluted to 12.0%. In addition, through a technology agreement, the Company's Virtual Card technology will be integrated across all MobiKwik wallets in order to provide ubiquity across all merchants in India, and as part of the Company's continued strategic relationship, a number of our other products including our digital banking platform, are expected to be deployed by MobiKwik over the next year.

7. Goodwill and intangible assets, net

Goodwill

Summarized below is the movement in the carrying value of goodwill for the three months ended September 30, 2017:

| | Gross value | Accumulated impairment | Carrying value |
|--------------------------------------------|-------------------|---------------------------|-------------------|
| Balance as of June 30, 2017 | \$ 188,833 | \$ - | \$ 188,833 |
| Foreign currency adjustment ⁽¹⁾ | (2,294) | - | (2,294) |
| Balance as of September 30, 2017 | <u>\$ 186,539</u> | <u>\$ -</u> | <u>\$ 186,539</u> |

(1) – Represents the effects of the fluctuations between the South African rand, euro and the Korean won, and the U.S. dollar on the carrying value.

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

| | South African transaction processing | International transaction processing | Financial inclusion and applied technologies | Carrying value |
|--------------------------------------------|-----------------------------------------------|--------------------------------------------|-------------------------------------------------------|-------------------|
| Balance as of June 30, 2017 | \$ 23,131 | \$ 140,570 | \$ 25,132 | \$ 188,833 |
| Foreign currency adjustment ⁽¹⁾ | (866) | (703) | (725) | (2,294) |
| Balance as of September 30, 2017 | <u>\$ 22,265</u> | <u>\$ 139,867</u> | <u>\$ 24,407</u> | <u>\$ 186,539</u> |

(1) – Represents the effects of the fluctuations between the South African rand, euro and the Korean won, and the U.S. dollar on the carrying value.

7. Goodwill and intangible assets, net (continued)

Intangible assets, net

Carrying value and amortization of intangible assets

Summarized below is the carrying value and accumulated amortization of the intangible assets as of September 30, 2017 and June 30, 2017:

| | As of September 30, 2017 | | | As of June 30, 2017 | | |
|------------------------------------------|--------------------------|--------------------------|--------------------|----------------------|--------------------------|--------------------|
| | Gross carrying value | Accumulated amortization | Net carrying value | Gross carrying value | Accumulated amortization | Net carrying value |
| Finite-lived intangible assets: | | | | | | |
| Customer relationships | \$ 98,124 | (\$67,181) | \$ 30,943 | \$ 99,209 | \$ (65,595) | \$ 33,614 |
| Software and unpatented technology | 32,834 | (30,974) | 1,860 | 33,273 | (31,112) | 2,161 |
| FTS patent | 2,825 | (2,825) | - | 2,935 | (2,935) | - |
| Exclusive licenses | 4,506 | (4,506) | - | 4,506 | (4,506) | - |
| Trademarks | 6,863 | (4,884) | 1,979 | 6,972 | (4,759) | 2,213 |
| Total finite-lived intangible assets | 145,152 | (110,370) | 34,782 | 146,895 | (108,907) | 37,988 |
| Indefinite-lived intangible assets: | | | | | | |
| Financial institution license | 802 | - | 802 | 776 | - | 776 |
| Total indefinite-lived intangible assets | 802 | - | 802 | 776 | - | 776 |
| Total intangible assets | \$ 145,954 | \$ (110,370) | \$ 35,584 | \$ 147,671 | \$ (108,907) | \$ 38,764 |

Aggregate amortization expense on the finite-lived intangible assets for the three months ended September 30, 2017 and 2016, was approximately \$2.8 million and \$2.9 million, respectively.

Future estimated annual amortization expense for the next five fiscal years and thereafter, assuming exchange rates that prevailed on September 30, 2017, is presented in the table below. Actual amortization expense in future periods could differ from this estimate as a result of acquisitions, changes in useful lives, exchange rate fluctuations and other relevant factors.

| | | |
|----------------------------------------------------|----|---------------|
| Fiscal 2018 | \$ | 12,173 |
| Fiscal 2019 | | 10,728 |
| Fiscal 2020 | | 10,027 |
| Fiscal 2021 | | 4,350 |
| Fiscal 2022 | | 74 |
| Thereafter | | 301 |
| Total future estimated annual amortization expense | \$ | <u>37,653</u> |

8. Reinsurance assets and policyholder liabilities under insurance and investment contracts

Reinsurance assets and policyholder liabilities under insurance contracts

Summarized below is the movement in reinsurance assets and policyholder liabilities under insurance contracts during the three months ended September 30, 2017:

| | Reinsurance assets ⁽¹⁾ | Insurance contracts ⁽²⁾ |
|--------------------------------------------------------------|-----------------------------------|------------------------------------|
| Balance as of June 30, 2017 | \$ 191 | \$ (1,611) |
| Increase in policyholder benefits under insurance contracts | (556) | (2,502) |
| Claims and policyholders' benefits under insurance contracts | 555 | 2,421 |
| Foreign currency adjustment ⁽³⁾ | (8) | 60 |
| Balance as of September 30, 2017 | \$ <u>182</u> | \$ <u>(1,632)</u> |

(1) Included in other long-term assets.

(2) Included in other long-term liabilities.

(3) Represents the effects of the fluctuations between the ZAR against the U.S. dollar.

8. Reinsurance assets and policyholder liabilities under insurance and investment contracts (continued)

Reinsurance assets and policyholder liabilities under insurance contracts (continued)

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

The Company determines its reserves for policy benefits under its life insurance products using a model which estimates claims incurred that have not been reported at the balance sheet date. This model includes best estimate assumptions of experience plus prescribed margins, as required in the markets in which these products are offered, namely South Africa. The best estimate assumptions include those assumptions related to mortality, morbidity and claim reporting delays, and the main assumptions used to calculate the reserve for policy benefits include (i) mortality and morbidity assumptions reflecting the company's most recent experience and (ii) claim reporting delays reflecting Company specific and industry experience. The values of matured guaranteed endowments were increased by late payment interest (net of the asset management fee and allowance for tax on investment income).

Assets and policyholder liabilities under investment contracts

Summarized below is the movement in assets and policyholder liabilities under investment contracts during the three months ended September 30, 2017:

| | Assets ⁽¹⁾ | Investment contracts ⁽²⁾ |
|----------------------------------------------------------------|-----------------------|-------------------------------------|
| Balance as of June 30, 2017 | \$ 627 | \$ (627) |
| Decrease in policyholder benefits under investment contracts . | (4) | 4 |
| Foreign currency adjustment ⁽³⁾ | (24) | 24 |
| Balance as of September 30, 2017 | <u>\$ 599</u> | <u>\$ (599)</u> |

(1) Included in other long-term assets.

(2) Included in other long-term liabilities.

(3) Represents the effects of the fluctuations between the ZAR against the U.S. dollar.

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

9. Short-term credit facilities

Summarized below are the Company's available short-term facilities and the amounts utilized as of September 30, 2017 and June 30, 2017, all amounts below were translated at the exchange rates applicable as of the date presented:

| | September 30, 2017 | | June 30, 2017 | |
|----------------------------------------------|--------------------|-----------------|------------------|------------------|
| | Available | Utilized | Available | Utilized |
| Europe: | | | | |
| Bank Frick ⁽¹⁾ | \$ 67,958 | \$ 45,737 | \$ 66,579 | \$ 16,579 |
| South Africa: | | | | |
| Nedbank Limited ("Nedbank") | 29,400 | 9,519 | 30,600 | 10,000 |
| Overdraft facility ⁽¹⁾ | 18,300 | - | 19,109 | - |
| Indirect and derivative facilities (Note 18) | <u>\$ 11,100</u> | <u>\$ 9,519</u> | <u>\$ 11,491</u> | <u>\$ 10,000</u> |

(1) Utilized amount included in short-term facilities on the unaudited condensed consolidated balance sheets.

Europe

The Company has obtained EUR 40.0 million (\$47.3 million) and CHF 20 million (\$20.7 million) revolving overdraft facilities from Bank Frick. As of September 30, 2017, the Company had utilized approximately CHF 17.0 million (\$17.6 million) of the CHF 20 million facility and approximately CHF 23.8 million (\$28.1 million) of the EUR 40 million facility. All amounts have been translated at exchange rates applicable as of September 30, 2017. As of June 30, 2017, the Company had utilized approximately CHF 15.9 million (\$16.6 million) of the CHF 20 million facility and had not utilized any of the EUR 40 million facility. All amounts have been translated at exchange rates applicable as of June 30, 2017.

As of September 30, 2017, the interest rate on these facilities was 5.00% . The Company assigned all claims against amounts due from Masterpayment customers, which have been financed from the CHF 20 million facility, plus all secondary rights and preferential rights as collateral for this facility to Bank Frick. Masterpayment was required to open a primary business account with Bank Frick and this account has been pledged to Bank Frick as collateral for the EUR 40 million facility. Net1 also stands as guarantor for both of these facilities.

9. Short-term credit facilities (continued)

Europe (continued)

The initial term of the EUR 40 million facility ends on December 31, 2019 and will automatically be extended for one additional year if not terminated with 12 months written notice. The CHF 20 million facility does not have a fixed term; however, it may be terminated by either party at the end of a calendar month with six months written notice.

South Africa

The aggregate amount of the Company's short-term South African credit facility with Nedbank Limited ("Nedbank") was ZAR 400 million (\$29.4 million) and consists of (i) a primary amount of up to ZAR 200 million (\$14.7 million, and (ii) a secondary amount of up to ZAR 200 million (\$14.7 million) (all amounts denominated in ZAR and translated at exchange rates applicable as of September 30, 2017). The primary amount comprises an overdraft facility of up to ZAR 50 million (\$3.6 million) and indirect and derivative facilities of up to ZAR 150 million (\$11.1 million), which include letters of guarantee, letters of credit and forward exchange contracts (all amounts denominated in ZAR and translated at exchange rates applicable as of September 30, 2017).

As of September 30, 2017, the interest rate on the overdraft facility was 9.10% . The Company has ceded its investment in Cash Paymaster Services Proprietary Limited ("CPS"), a South African subsidiary, as security for its repayment obligations under the facility. A commitment fee of 0.35% per annum is payable on the monthly unutilized amount of the overdraft portion of the short-term facility. The Company is required to comply with customary non-financial covenants, including, without limitation, covenants that restrict its ability to dispose of or encumber its assets, incur additional indebtedness or engage in certain business combinations.

As of each of September 30, 2017 and June 30, 2017, respectively, the Company had not utilized any of its overdraft facility. As of September 30, 2017, the Company had utilized approximately ZAR 129.1 million (\$9.5 million, translated at exchange rates applicable as of September 30, 2017) of its ZAR 150 million indirect and derivative facilities to obtain foreign exchange contracts from the bank and to enable the bank to issue guarantees, including stand-by letters of credit, in order for the Company to honor its obligations to third parties requiring such guarantees (refer to Note 18). As of June 30, 2017, the Company had utilized approximately ZAR 130.5 million (\$10.0 million, translated at exchange rates applicable as of June 30, 2017) of its ZAR 150 million indirect and derivative facilities.

10. Long-term borrowings

South Africa

The Company's South African long-term facility agreement is described in Note 14 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2017. As of September 30, 2017, \$77.9 million was outstanding under the Company's South African long-term facility agreement, and the carrying amount of the long-term borrowings approximated fair value. The JIBAR rate has been set at 6.99% for the period to December 29, 2017.

On July 26, 2017, the Company utilized ZAR 1.25 billion (approximately \$92.2 million) of its South African long-term facility to partially fund the acquisition of 15% of Cell C. Principal repayments on the facilities are due in eight quarterly installments commencing on September 29, 2017. The next scheduled principal payment of \$13.8 million will be made on December 29, 2017. All amounts translated at exchange rates applicable as of September 30, 2017.

The Company paid a non-refundable deal origination fee of approximately ZAR 6.3 million (\$0.6 million) in August 2017. Interest expense incurred during the three months ended September 30, 2017, was \$1.7 million. During the three months ended September 30, 2017, \$0.1 million of prepaid facility fees were amortized.

South Korea

The South Korean senior secured loan facility is described in Note 14 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2017. As of September 30, 2017, \$16.3 million was outstanding under the Company's South Korean senior secured loan facility, and the carrying amount of the long-term borrowings approximated fair value. The interest rate in effect on September 30, 2017 was 4.51% .

On July 29, 2017, the Company utilized approximately KRW 0.3 billion (\$0.3 million) of its Facility C revolving credit facility under the Company's South African long-term facility agreement to pay interest due on the Company's South Korean senior secured loan facility. The next scheduled principal payment of \$8.7 million (translated at exchange rates applicable as of September 30, 2017) was due on April 29, 2018, however, the Company settled the full outstanding balance, including interest, related to these borrowings on October 20, 2017.

10. Long-term borrowings (continued)

South Korea (continued)

Interest expense incurred during the three months ended September 30, 2017 and 2016 was \$0.2 million and \$0.5 million, respectively. Prepaid facility fees amortized during the three months ended September 30, 2017 and 2016, was \$0.03 million and \$0.04 million, respectively. The unamortized prepaid facility fees of approximately \$0.1 million, as of September 30, 2017, will be expensed during the three and six months ended December 31, 2017.

11. Capital structure

The following table presents reconciliation between the number of shares, net of treasury, presented in the unaudited condensed consolidated statement of changes in equity during the three months ended September 30, 2017 and 2016, respectively, and the number of shares, net of treasury, excluding non-vested equity shares that have not vested during the three months ended September 30, 2017 and 2016, respectively:

| | <u>September 30, 2017</u> | <u>September 30, 2016</u> |
|-------------------------------------------------------------------------------------------|-------------------------------|-------------------------------|
| Number of shares, net of treasury: | | |
| Statement of changes in equity | 56,927,696 | 52,521,345 |
| Less: Non-vested equity shares that have not vested (Note 13) | <u>(1,007,182)</u> | <u>(904,356)</u> |
| Number of shares, net of treasury excluding non-vested equity shares that have not vested | <u>55,920,514</u> | <u>51,616,989</u> |

Common stock repurchases

Executed under share repurchase authorizations

The Company did not repurchase any of its shares during the three months ended September 30, 2017.

In February 2016, the Company's board of directors approved the replenishment of its share repurchase authorization to repurchase up to an aggregate of \$100 million of common stock. The authorization has no expiration date. On June 29, 2016, the Company adopted a Rule 10b5-1 trading plan for the purpose of repurchasing approximately \$50 million of its common stock, which was included within the original share repurchase authorization. During the three months ended September 30, 2016, the Company repurchased 1,328,699 shares for approximately \$12.7 million under its share repurchase authorization.

12. Accumulated other comprehensive loss

The table below presents the change in accumulated other comprehensive (loss) income per component during the three months ended September 30, 2017:

| | <u>Three months ended September 30, 2017</u> | | |
|-----------------------------------------------------------------------------------------|-------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|---------------------|
| | <u>Accumulated foreign currency translation reserve</u> | <u>Accumulated net unrealized income on asset available for sale, net of tax</u> | <u>Total</u> |
| Balance as of June 30, 2017 | \$ (162,569) | \$ 0 | \$ (162,569) |
| Movement in foreign currency translation reserve related to equity accounted investment | (227) | - | (227) |
| Movement in foreign currency translation reserve | <u>(13,769)</u> | - | <u>(13,769)</u> |
| Balance as of September 30, 2017 | <u>\$ (176,565)</u> | <u>\$ 0</u> | <u>\$ (176,565)</u> |

There were no reclassifications from accumulated other comprehensive loss to comprehensive (loss) income during the three months ended September 30, 2017 or 2016.

13. Stock-based compensation

Stock option and restricted stock activity

Options

The following table summarizes stock option activity for the three months ended September 30, 2017 and 2016:

| | Number of shares | Weighted average exercise price (\$) | Weighted average remaining contractual term (in years) | Aggregate intrinsic value (\$'000) | Weighted average grant date fair value (\$) |
|----------------------------------|---------------------|--------------------------------------------------|-----------------------------------------------------------------------|---------------------------------------------|---------------------------------------------------------|
| Outstanding – June 30, 2017 | 846,607 | 13.87 | 3.80 | 486 | |
| Forfeitures | (37,333) | 11.23 | | | |
| Outstanding – September 30, 2017 | <u>809,274</u> | <u>13.99</u> | <u>3.40</u> | <u>468</u> | |
| Outstanding – June 30, 2016 | 2,077,524 | 15.92 | 3.65 | 926 | |
| Expired unexercised | (474,443) | 22.51 | | | |
| Outstanding – September 30, 2016 | <u>1,603,081</u> | <u>13.98</u> | <u>4.50</u> | <u>452</u> | |

No stock options were awarded during the three months ended September 30, 2017 or 2016. During the three months ended September 30, 2017, employees forfeited 37,333 stock options. There were no forfeitures during the three months ended September 30, 2016; however, during the three months ended September 30, 2016, 474,443 stock options awarded in August 2006, expired unexercised.

The following table presents stock options vested and expecting to vest as of September 30, 2017:

| | Number of shares | Weighted average exercise price (\$) | Weighted average remaining contractual term (in years) | Aggregate intrinsic value (\$'000) |
|---------------------------------------------------|---------------------|--------------------------------------------------|-----------------------------------------------------------------------|---------------------------------------------|
| Vested and expecting to vest – September 30, 2017 | 809,274 | 13.99 | 3.40 | 468 |

These options have an exercise price range of \$7.35 to \$24.46.

The following table presents stock options that are exercisable as of September 30, 2017:

| | Number of shares | Weighted average exercise price (\$) | Weighted average remaining contractual term (in years) | Aggregate intrinsic value (\$'000) |
|----------------------------------|---------------------|--------------------------------------------------|-----------------------------------------------------------------------|---------------------------------------------|
| Exercisable – September 30, 2017 | 809,274 | 13.99 | 3.40 | 468 |

During the three months ended September 30, 2017 and 2016, respectively, 105,982 and 154,803 stock options became exercisable. No stock options were exercised during the three months ended September 30, 2017 and 2016. The Company issues new shares to satisfy stock option exercises.

13. Stock-based compensation (continued)

Stock option and restricted stock activity (continued)

Restricted stock (continued)

The following table summarizes restricted stock activity for the three months ended September 30, 2017 and 2016:

| | Number of shares of restricted stock | Weighted average grant date fair value (\$'000) |
|---------------------------------|-----------------------------------------------|----------------------------------------------------------|
| Non-vested – June 30, 2017 | 505,473 | 11,173 |
| Granted – August 2017 | 588,594 | 4,288 |
| Vested – August 2017 | (56,250) | 527 |
| Forfeitures | (30,635) | 358 |
| Non-vested – September 30, 2017 | <u>1,007,182</u> | 9,689 |
| Non-vested – June 30, 2016 | 589,447 | 7,622 |
| Granted – August 2016 | 387,000 | 4,145 |
| Vested – August 2016 | (72,091) | 735 |
| Non-vested – September 30, 2016 | <u>904,356</u> | 11,142 |

The August 2017 grants comprises (i) 326,000 shares of restricted stock awarded to executive officers and employees that are subject to time-based vesting, (ii) 210,000 shares of restricted stock awarded to executive officers that are subject to market and time-based vesting, and (iii) 52,594 shares of restricted stock awarded to non-employee directors. The August 2016 grants comprise 350,000 and 37,000 shares of restricted stock awarded to executive officers and non-employee directors, respectively.

The 326,000 shares of restricted stock will only vest if the recipient is employed by the Company on a full-time basis on August 23, 2020. The 52,594 shares of restricted stock awarded to non-employee directors will only vest if the recipient is a director on August 23, 2018.

Market Conditions - Restricted Stock Granted in August 2017

The 210,000 shares of restricted stock awarded to executive officers in August 2017 are subject to time-based and performance-based (a market condition) vesting conditions and vest in full only on the date, if any, the following conditions are satisfied: (1) the price of the Company's common stock must equal or exceed certain agreed VWAP levels (as described below) during a measurement period commencing on the date that it files its Annual Report on Form 10-K for the fiscal year ended 2020 and ending on December 31, 2020 and (2) the recipient is employed by the Company on a full-time basis when the condition in (1) is met. If either of these conditions is not satisfied, then none of the shares of restricted stock will vest and they will be forfeited. The \$23.00 price target represents an approximate 35% increase, compounded annually, in the price of the Company's common stock on Nasdaq over the \$9.38 closing price on August 23, 2017. The VWAP levels and vesting percentages related to such levels are as follows:

- Below \$15.00 (threshold)—0%
- At or above \$15.00 and below \$19.00—33%
- At or above \$19.00 and below \$23.00—66%
- At or above \$23.00—100%

These 210,000 shares of restricted stock are effectively forward starting knock-in barrier options with multi-strike prices of zero. The fair value of these shares of restricted stock was calculated utilizing a Monte Carlo simulation model which was developed for the purpose of the valuation of these shares. For each simulated share price path, the market share price condition was evaluated to determine whether or not the shares would vest under that simulation. A standard Geometric Brownian motion process was used in the forecasting of the share price instead of a "jump diffusion" model, as the share price volatility was more stable compared to the highly volatile regime of previous years. Therefore, the simulated share price paths capture the idiosyncrasies of the observed Company share price movements.

In scenarios where the shares do not vest, the final vested value at maturity is zero. In scenarios where vesting occurs, the final vested value on maturity is the share price on vesting date. The value of the grant is the average of the discounted vested values. The Company used an expected volatility of 44.0%, an expected life of approximately three years, a risk-free rate ranging between 1.275% to 1.657% and no future dividends in its calculation of the fair value of the restricted stock. The estimated expected volatility was calculated based on the Company's 30 day VWAP share price using the exponentially weighted moving average of returns.

13. Stock-based compensation (continued)

Stock option and restricted stock activity (continued)

Restricted stock (continued)

Performance Conditions - Restricted Stock Granted in August 2016

In August 2016 the Company awarded 350,000 shares of restricted stock to executive officers. In May 2017, the Company agreed to accelerate the vesting of 200,000 of these shares of restricted stock granted to the Company's former Chief Executive Officer. These remaining 150,000 shares continue to be subject to time-based and performance-based vesting conditions. In order for any of the shares to vest, the recipient must remain employed by the Company on a full-time basis on the date that it files its Annual Report on Form 10-K for the fiscal year ended June 30, 2019. If that condition is satisfied, then the shares will vest based on the level of Fundamental EPS the Company achieves for the fiscal year ended June 30, 2019 ("2019 Fundamental EPS"), as follows:

- One-third of the shares will vest if the Company achieves 2019 Fundamental EPS of \$2.60;
- Two-thirds of the shares will vest if the Company achieves 2019 Fundamental EPS of \$2.80; and
- All of the shares will vest if the Company achieves 2019 Fundamental EPS of \$3.00.

At levels of 2019 Fundamental EPS greater than \$2.60 and less than \$3.00, the number of shares that will vest will be determined by linear interpolation relative to 2019 Fundamental EPS of \$2.80. Any shares that do not vest in accordance with the above-described conditions will be forfeited. All shares of restricted stock have been valued utilizing the closing price of shares of the Company's common stock quoted on The Nasdaq Global Select Market on the date of grant.

Performance Conditions - Restricted Stock Granted in August 2015

In August 2015 the Company awarded 301,537 shares of restricted stock to executive officers and employees. These shares of restricted stock are subject to time-based and performance-based vesting conditions. In order for any of the shares to vest, the recipient must remain employed by the Company on a full-time basis on the date that it files its Annual Report on Form 10-K for the fiscal year ended June 30, 2018. If that condition is satisfied, then the shares will vest based on the level of Fundamental EPS the Company achieves for the fiscal year ended June 30, 2018 ("2018 Fundamental EPS"), as follows:

- One-third of the shares will vest if the Company achieves 2018 Fundamental EPS of \$2.88;
- Two-thirds of the shares will vest if the Company achieves 2018 Fundamental EPS of \$3.30; and
- All of the shares will vest if the Company achieves 2018 Fundamental EPS of \$3.76.

At levels of 2018 Fundamental EPS greater than \$2.88 and less than \$3.76, the number of shares that will vest will be determined by linear interpolation relative to 2018 Fundamental EPS of \$3.30. Any shares that do not vest in accordance with the above-described conditions will be forfeited. All shares of restricted stock have been valued utilizing the closing price of shares of the Company's common stock quoted on The Nasdaq Global Select Market on the date of grant. During the three months ended September 30, 2016, the Company reversed the stock-based compensation charge recognized to date related to the 301,537 shares of restricted stock because it believed that it was unlikely that the 2018 Fundamental EPS target would be achieved due to the dilutive impact on the fundamental EPS calculation as a result of issuance of the approximate 10 million shares to the IFC in May 2016.

Vesting of all non-employee director shares issued prior to June 30, 2017

Grants of restricted stock to non-employee directors made during fiscal 2017, as well as those grants made in prior years, originally vested over a three-year period. After the end of fiscal 2017, the Company's board consulted with Pay Governance, an independent compensation consultant, and determined that one-year vesting of restricted stock grants is a more common compensation practice for independent directors and therefore, amended the terms of outstanding awards to vest one-year after grant. As a result of this amendment, 61,995 shares of restricted stock held by the non-employee directors as of June 30, 2017, were fully-vested.

The fair value of restricted stock vesting during the three months ended September 30, 2017 and 2016, respectively, was \$0.5 million and \$0.7 million.

13. Stock-based compensation (continued)

Stock-based compensation charge and unrecognized compensation cost

The Company recorded a stock-based compensation charge (reversal) during the three months ended September 30, 2017 and 2016 of \$0.8 million and (\$1.3 million), respectively, which comprised:

| | <u>Total charge</u> | <u>Allocated to cost of goods sold, IT processing, servicing and support</u> | <u>Allocated to selling, general and administration</u> |
|--------------------------------------------------------------------------|---------------------|------------------------------------------------------------------------------|---------------------------------------------------------|
| Three months ended September 30, 2017 | | | |
| Stock-based compensation charge | \$ 869 | \$ - | \$ 869 |
| Reversal of stock compensation charge related to stock options forfeited | (42) | - | (42) |
| Total – three months ended September 30, 2017 | <u>\$ 827</u> | <u>\$ -</u> | <u>\$ 827</u> |
| Three months ended September 30, 2016 | | | |
| Stock-based compensation charge | \$ 503 | \$ - | \$ 503 |
| Reversal of stock compensation charge related to restricted stock | (1,827) | - | (1,827) |
| Total – three months ended September 30, 2016 | <u>\$ (1,324)</u> | <u>\$ -</u> | <u>\$ (1,324)</u> |

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

As of September 30, 2017, there was no unrecognized compensation cost related to stock options because all stock options granted have vested. As of September 30, 2017, the total unrecognized compensation cost related to restricted stock awards was approximately \$5.1 million, which the Company expects to recognize over approximately two years. This amount excludes the total unrecognized compensation cost as of September 30, 2017, of approximately \$3.9 million, related to restricted stock awards that the Company expects will not vest due to it not achieving the 2018 Fundamental EPS. As of September 30, 2017, the cumulative unrecorded stock-based compensation charge related to these awards of restricted stock that the Company has determined are expected not to vest and has not expensed in its consolidated statement of operations is approximately \$2.9 million (which amount includes the \$1.8 million reversed during the three months ended September 30, 2016).

As of September 30, 2017 and June 30, 2017, the Company recorded a deferred tax asset of approximately \$0.6 million and \$0.9 million, respectively, related to the stock-based compensation charge recognized related to employees of Net1. The Company deducts the difference between the market value on date of exercise by the option recipient and the exercise price from income subject to taxation in the United States.

14. Earnings per share

The Company has issued redeemable common stock which is redeemable at an amount other than fair value. Redemption of a class of common stock at other than fair value increases or decreases the carrying amount of the redeemable common stock and is reflected in basic earnings per share using the two-class method. There were no redemptions of common stock, or adjustments to the carrying value of the redeemable common stock during the three months ended September 30, 2017 or 2016. Accordingly, the two-class method presented below does not include the impact of any redemption. The Company's redeemable common stock is described in Note 15 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2017.

Basic earnings per share include shares of restricted stock that meet the definition of a participating security because these shares are eligible to receive non-forfeitable dividend equivalents at the same rate as common stock. Basic earnings per share have been calculated using the two-class method and basic earnings per share for the three months ended September 30, 2017 and 2016, reflects only undistributed earnings. The computation below of basic earnings per share excludes the net income attributable to shares of unvested restricted stock (participating non-vested restricted stock) from the numerator and excludes the dilutive impact of these unvested shares of restricted stock from the denominator.

Diluted earnings per share have been calculated to give effect to the number of shares of additional common stock that would have been outstanding if the potential dilutive instruments had been issued in each period. Stock options are included in the calculation of diluted earnings per share utilizing the treasury stock method and are not considered to be participating securities, as the stock options do not contain non-forfeitable dividend rights.

14. Earnings per share (continued)

The calculation of diluted earnings per share includes the dilutive effect of a portion of the restricted stock granted to employees in August 2014, November 2014, August 2015, August 2016 and August 2017, as these shares of restricted stock are considered contingently returnable shares for the purposes of the diluted earnings per share calculation and the vesting conditions in respect of a portion of the restricted stock had been satisfied. The vesting conditions for awards made in August 2017, August 2016 and August 2015 are discussed in Note 13 and the vesting conditions for all other awards are discussed in Note 18 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2017.

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

| | Three months ended September 30, | |
|------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------|
| | 2017 | 2016 |
| | (in thousands except percent and per share data) | |
| Numerator: | | |
| Net income attributable to Net1 | \$ 19,483 | \$ 24,632 |
| Undistributed earnings | 19,483 | 24,632 |
| Percent allocated to common shareholders (Calculation 1) | 99% | 99% |
| Numerator for earnings per share: basic and diluted | \$ 19,267 | \$ 24,276 |
| Denominator: | | |
| Denominator for basic earnings per share: weighted-average common shares outstanding | 56,562 | 53,053 |
| Effect of dilutive securities: | | |
| Stock options | 47 | 91 |
| Denominator for diluted earnings per share: adjusted weighted average common shares outstanding and assumed conversion | 56,609 | 53,144 |
| Earnings per share: | | |
| Basic | \$ 0.34 | \$ 0.46 |
| Diluted | \$ 0.34 | \$ 0.46 |
| (Calculation 1) | | |
| Basic weighted-average common shares outstanding (A) | 56,562 | 53,053 |
| Basic weighted-average common shares outstanding and unvested restricted shares expected to vest (B) | 57,196 | 53,832 |
| Percent allocated to common shareholders (A) / (B) | 99% | 99% |

Options to purchase 409,148 shares of the Company's common stock at prices ranging from \$10.59 to \$24.46 per share were outstanding during the three months ended September 30, 2017, but were not included in the computation of diluted earnings per share because the options' exercise price were greater than the average market price of the Company's common stock. The options, which expire at various dates through August 27, 2024, were still outstanding as of September 30, 2017.

15. Supplemental cash flow information

The following table presents supplemental cash flow disclosures for the three months ended September 30, 2017 and 2016:

| | Three months ended September 30, | |
|-----------------------------|---------------------------------------------|-------------|
| | 2017 | 2016 |
| Cash received from interest | \$ 5,286 | \$ 4,285 |
| Cash paid for interest | \$ 2,088 | \$ 1,076 |
| Cash paid for income taxes | \$ 2,036 | \$ 1,503 |

15. Supplemental cash flow information (continued)

Treasury shares, at cost included in the Company's condensed consolidated balance sheet as of June 30, 2016, includes 47,056 shares of the Company's common stock acquired for approximately \$0.5 million which were paid for on July 1, 2016. The liability for this payment was included in accounts payable on the Company's condensed consolidated balance sheet as of June 30, 2016. The payment of approximately \$0.5 million is included in acquisition of treasury stock in the Company's condensed consolidated statement of cash flows for the three months ended September 30, 2016.

16. Operating segments

The Company discloses segment information as reflected in the management information systems reports that its chief operating decision maker uses in making decisions and to report certain entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets or reports material revenues. A description of the Company's operating segments is contained in Note 23 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2017.

The reconciliation of the reportable segments revenue to revenue from external customers for the three months ended September 30, 2017 and 2016, is as follows:

| | Revenue | | |
|-----------------------------------------------------|--------------------|------------------|-------------------------|
| | Reportable Segment | Inter-segment | From external customers |
| South African transaction processing | \$ 66,437 | \$ 6,145 | \$ 60,292 |
| International transaction processing | 46,022 | - | 46,022 |
| Financial inclusion and applied technologies | 54,313 | 8,069 | 46,244 |
| Total for the three months ended September 30, 2017 | <u>\$ 166,772</u> | <u>\$ 14,214</u> | <u>\$ 152,558</u> |
| South African transaction processing | \$ 57,568 | \$ 5,401 | \$ 52,167 |
| International transaction processing | 46,190 | - | 46,190 |
| Financial inclusion and applied technologies | 63,542 | 6,266 | 57,276 |
| Total for the three months ended September 30, 2016 | <u>\$ 167,300</u> | <u>\$ 11,667</u> | <u>\$ 155,633</u> |

The Company does not allocate interest income, interest expense or income tax expense to its reportable segments. The Company evaluates segment performance based on segment operating income before acquisition-related intangible asset amortization which represents operating income before acquisition-related intangible asset amortization and allocation of expenses allocated to Corporate/Eliminations, all under GAAP. The reconciliation of the reportable segments measure of profit or loss to income before income taxes for the three months ended September 30, 2017 and 2016, is as follows:

| | Three months ended September 30, | |
|-----------------------------------------------|-------------------------------------|------------------|
| | 2017 | 2016 |
| Reportable segments measure of profit or loss | \$ 31,568 | \$ 34,548 |
| Operating income: Corporate/Eliminations | (6,562) | (2,367) |
| Interest income | 5,044 | 4,304 |
| Interest expense | (2,121) | (796) |
| Income before income taxes | <u>\$ 27,929</u> | <u>\$ 35,689</u> |

The following tables summarize segment information that is prepared in accordance with GAAP for the three months ended September 30, 2017 and 2016:

| | Three months ended September 30, | |
|----------------------------------------------|-------------------------------------|-------------------|
| | 2017 | 2016 |
| Revenues | | |
| South African transaction processing | \$ 66,437 | \$ 57,568 |
| International transaction processing | 46,022 | 46,190 |
| Financial inclusion and applied technologies | 54,313 | 63,542 |
| Total | <u>\$ 166,772</u> | <u>\$ 167,300</u> |

16. Operating segments (continued)

| | Three months ended September, | |
|----------------------------------------------|----------------------------------|-----------|
| | 2017 | 2016 |
| Operating income (loss) | | |
| South African transaction processing | \$ 12,332 | \$ 13,548 |
| International transaction processing | 5,316 | 5,817 |
| Financial inclusion and applied technologies | 13,920 | 15,183 |
| Subtotal: Operating segments | 31,568 | 34,548 |
| Corporate/Eliminations | (6,562) | (2,367) |
| Total | 25,006 | 32,181 |
| Depreciation and amortization | | |
| South African transaction processing | 1,153 | 1,157 |
| International transaction processing | 4,632 | 5,836 |
| Financial inclusion and applied technologies | 355 | 337 |
| Subtotal: Operating segments | 6,140 | 7,330 |
| Corporate/Eliminations | 2,826 | 2,874 |
| Total | 8,966 | 10,204 |
| Expenditures for long-lived assets | | |
| South African transaction processing | 477 | 407 |
| International transaction processing | 906 | 2,799 |
| Financial inclusion and applied technologies | 90 | 217 |
| Subtotal: Operating segments | 1,473 | 3,423 |
| Corporate/Eliminations | - | - |
| Total | \$ 1,473 | \$ 3,423 |

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

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

17. Income tax

Income tax in interim periods

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

For the three months ended September 30, 2017, the tax charge was calculated using the expected effective tax rate for the year. The Company's effective tax rate for the three months ended September 30, 2017, was 36.8% and was higher than the South African statutory rate as a result of non-deductible expenses, including transaction-related expenditure and non-deductible interest on our South African long-term facility.

For the three months ended September 30, 2016, the tax charge was calculated using the expected effective tax rate for the year. The Company's effective tax rate for the three months ended September 30, 2016, was 31.1% and was higher than the South African statutory rate as a result of additional taxes payable resulting from the finalization of a tax review in South Korea, non-deductible expenses and the tax impact attributable to distributions from our South African subsidiary.

Uncertain tax positions

There were no significant changes during the three months ended September 30, 2017. As of September 30, 2017, the Company had accrued interest related to uncertain tax positions of approximately \$0.1 million on its balance sheet.

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

17. Income tax (continued)

Uncertain tax positions (continued)

As of September 30, 2017 and June 30, 2017, the Company had unrecognized tax benefits of \$0.5 million and \$0.5 million, respectively, all of which would impact the Company's effective tax rate. The Company files income tax returns mainly in South Africa, South Korea, Germany, Hong Kong, India, the United Kingdom, Botswana and in the U.S. federal jurisdiction. As of September 30, 2017, the Company's South African subsidiaries are no longer subject to income tax examination by the South African Revenue Service for periods before June 30, 2013. The Company is subject to income tax in other jurisdictions outside South Africa, none of which are individually material to its financial position, statement of cash flows, or results of operations.

18. Commitments and contingencies

Guarantees

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

Nedbank has issued guarantees to these third parties amounting to ZAR 129.1 million (\$9.5 million, translated at exchange rates applicable as of September 30, 2017) and thereby utilizing part of the Company's short-term facility. The Company in turn has provided nonrecourse, unsecured counter-guarantees to Nedbank for ZAR 129.1 million (\$9.5 million, translated at exchange rates applicable as of September 30, 2017). The Company pays commission of between 0.4% per annum to 2.0% per annum of the face value of these guarantees and does not recover any of the commission from third parties.

The Company has not recognized any obligation related to these counter-guarantees in its consolidated balance sheet as of September 30, 2017. The maximum potential amount that the Company could pay under these guarantees is ZAR 129.1 million (\$9.5 million, translated at exchange rates applicable as of September 30, 2017). The guarantees have reduced the amount available for borrowings under the Company's short-term credit facility described in Note 9.

As described in Note 9, Net1 has specifically provided guarantees to Bank Frick related to the EUR 40.0 million (\$47.3 million) and CHF 20 million (\$20.7 million) revolving overdraft facilities provided to Masterpayment. As of September 30, 2017, Masterpayment had utilized approximately \$28.1 million of the EUR 40.0 million facility and \$17.6 million of the CHF 20 million facility and these obligations are recorded as short-term facilities in the Company's consolidated balance sheet. The maximum potential amount that the Company could pay under the guarantees to Bank Frick was \$45.7 million.

Contingencies

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

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

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

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended June 30, 2017, and the unaudited condensed consolidated financial statements and the accompanying notes included in this Form 10-Q.

Forward-looking statements

Some of the statements in this Form 10-Q constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, implied or inferred by these forward-looking statements. Such factors include, among other things, those listed under Item 1A.—“Risk Factors” and elsewhere in our Annual Report on Form 10-K for the year ended June 30, 2017. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “would,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of such terms and other comparable terminology.

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

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

Recent Developments

SASSA Update

Our current contract with SASSA is scheduled to expire on March 31, 2018. In accordance with the Constitutional Court's order to file quarterly progress reports, SASSA filed its second progress report with the court on September 15, 2017 and the expert panel appointed by the court filed its first progress report with the court on September 14, 2017. We have provided the expert panel with all the information required from us and we also met with the panel subsequent to the filing of its first report.

SASSA's second progress report indicated that it is considering the appointment of the South African Post Office, or SAPO, to assist with certain aspects of the grant payment process, in accordance with a waiver obtained from the National Treasury of South Africa to contract directly with another organ of state without the need for a tender process, and that tenders will be issued for the grant payment components that cannot be delivered by SAPO. SASSA has issued no such tenders.

The expert panel's first report expressed reservations regarding SASSA's ability to complete a process to take over the payment of social grants on April 1, 2018 and contained several recommendations. The Constitutional Court has not issued any orders pursuant to the filing of the expert panel's first progress report.

According to the Department of Social Development's website, following a limited due diligence review conducted by the South African Council for Scientific and Industrial Research, or CSIR") SASSA extended a formal offer to SAPO to develop an integrated grant payment solution, which is one of the four components identified by SASSA that comprise the grant payment process. On October 20, 2017, SAPO informed SASSA that it could not accept the offer on the basis that the four components identified by SASSA could not be separated, and requested SASSA to reconsider its original offer.

On October 31, 2017, SASSA and SAPO were called to a joint meeting of the South African Parliament's Portfolio Committee on Social Development and Standing Committee on Public Accounts ("joint committee") to provide a progress report. SASSA and SAPO indicated that they had not reached an agreement. SASSA and SAPO were requested to find a solution and report back to the joint committee on November 1, 2017. At that meeting, SASSA and SAPO reported that an agreement had not been reached. The joint committee requested that the National Treasury perform a review of the current procurement process initiated by SASSA and that an Interministerial Committee that was established in March 2017 should provide guidance on the way forward. On November 8, 2017, the Interministerial Committee reported to a joint committee meeting that a cooperation agreement between SASSA and SAPO will be signed by November 17, 2017.

We continue to deliver our grant payment solution in accordance with our current agreement and we have paid all 10.7 million social grant recipients, without interruption, every month since our contract was extended in March 2017. We will continue to cooperate with SASSA, the expert panel and any other delegated government entity to assist them in finding a solution and ensuring a smooth handover to any entity legally appointed to render the grant payment service.

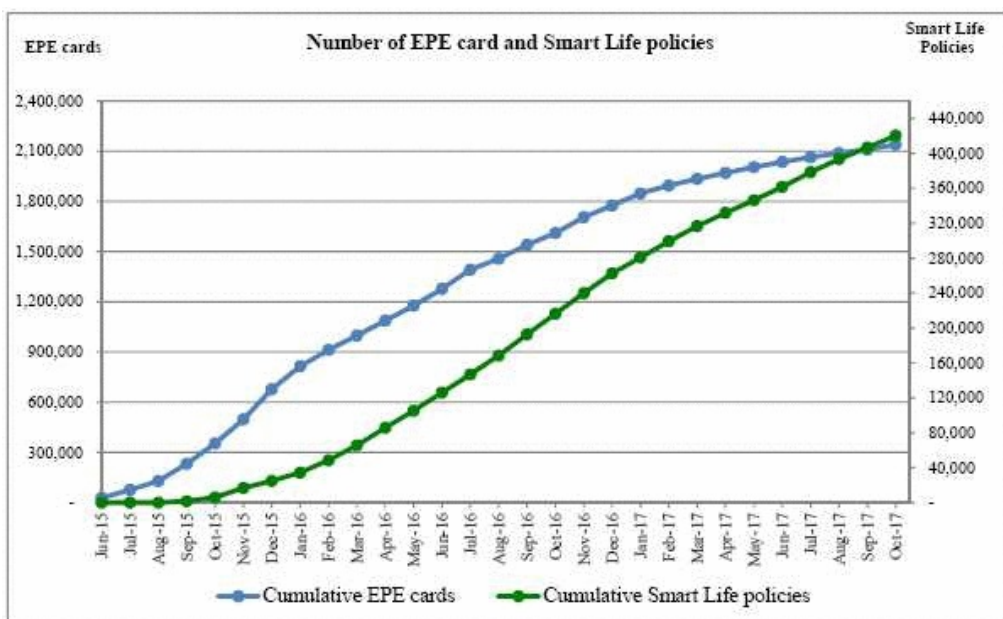
Progress of financial inclusion initiatives in South Africa

In June 2015, we began the rollout of EPE, our business-to-consumer, or B2C, offering in South Africa. At October 31, 2017, we had more than 2.14 million active EPE accounts, compared to 2.0 million at July 31, 2017. EPE is a fully transactional, low cost account created to serve the needs of South Africa’s unbanked and under-banked population, most of whom are social grant recipients. The EPE account offers customers a comprehensive suite of financial and various financial inclusion services, such as prepaid products, in an economical, convenient and secure solution. EPE provides account holders with a UEPS-EMV debit MasterCard, mobile and internet banking services, ATM and POS services, as well as loans, insurance and other financial products and value-added services. However, SASSA and a non-profit organization continue to challenge the ability of beneficiaries to freely transact with the grants that they receive as described under “Item 1—Legal Proceedings.”

In order for us to address the sizeable opportunity for EPE and related financial inclusion services in South Africa, in fiscal 2016, we started to expand our brick-and-mortar financial services branch infrastructure, which supplements our nationwide distribution, with a UEPS/EMV-enabled ATM network, and hired a dedicated sales force. At October 31, 2017, we had 146 branches (July 31, 2017: 149), 1,008 ATMs (July 31, 2017: 980), and 1,925 (July 31, 2017: 1,822) dedicated employees.

During the four months since July 1, 2017, we sold approximately 59,000 new policies related to our simple, low-cost life insurance products, in addition to the free basic life insurance policy provided with every EPE account opened.

The graph below presents the growth of the number of EPE cards and Smart Life policies:



Strategic investments

Investments in Cell C Proprietary Limited and DNI-4PL Contracts Proprietary Limited

On August 2, 2017, we purchased 15% of Cell C, for an aggregate purchase price of ZAR 2.0 billion (\$151.0 million) in cash. Cell C is one of the three major licensed mobile operators in South Africa with approximately 16 million active subscribers. We funded the transaction through a combination of cash and credit facilities.

On July 27, 2017, we subscribed for 44,999,999 ordinary A shares in DNI, representing a 45% voting and economic interest in DNI, for a subscription price of ZAR 945.0 million (\$72.0 million) in cash. Under the terms of our agreements with DNI, we are required to pay to DNI an additional amount of up to ZAR 360 million (\$26.5 million, translated at the foreign exchange rates applicable as of September 30, 2017), in cash, subject to the achievement of certain performance targets by DNI.

The investments in Cell C and DNI are consistent with our approach of leveraging our significant and established infrastructures, and pursuing strategic acquisition opportunities or partnerships to gain access to new markets or complementary products. We identified the need to offer customers a truly bespoke, affordable and comprehensive package that will go beyond basic telephony. An integrated mobile-based digital product will therefore likely differentiate the offerings of all the relevant stakeholders in this transaction including Net1. The Cell C and DNI investments allow us to address the needs of the broader South African population through ownership in the value chain including the network, payment, product, distribution and hardware. We have pledged, among other things, our entire equity interests in Cell C and DNI as security for the South African facilities used to partially fund the acquisition of Cell C, refer also Note 10 to our unaudited condensed consolidated financial statements.

Investment in Bank Frick

On October 2, 2017, we acquired a 30% interest in Bank Frick & Co AG, a fully licensed bank based in Balzers, Liechtenstein, from the Kuno Frick Family Foundation for approximately CHF 39.8 million (\$40.8 million translated at exchange rates applicable as of September 30, 2017). Following the successful completion of this investment, we have a two-year option to acquire an additional 35% interest in Bank Frick.

Bank Frick provides a complete suite of banking services, with one of its key strategic pillars being the provision of payment services and funding of financial technology opportunities. Bank Frick holds acquiring licenses from both Visa and MasterCard and operates a branch in London. We have jointly identified several funding opportunities, including for our working capital finance, card issuing and acquiring, remittance and transaction processing activities. The investment in Bank Frick has the potential to provide us with a stable, long term and strategic relationship with a fully licensed bank. We have agreed that approximately \$30 million of the Bank Frick's free equity will be utilized as seed capital for a fund dedicated to our future activities.

Critical Accounting Policies

Our unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions about future events that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities. As future events and their effects cannot be determined with absolute certainty, the determination of estimates requires management's judgment based on a variety of assumptions and other determinants such as historical experience, current and expected market conditions and certain scientific evaluation techniques.

Critical accounting policies are those that reflect significant judgments or uncertainties, and potentially may result in materially different results under different assumptions and conditions. Management has identified the following critical accounting policies that are described in more detail in our Annual Report on Form 10-K for the year ended June 30, 2017:

- Business combinations and the recoverability of goodwill;
- Intangible assets acquired through acquisitions;
- Deferred taxation;
- Stock-based compensation; and
- Accounts receivable and allowance for doubtful accounts receivable.

Recent accounting pronouncements adopted

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

Recent accounting pronouncements not yet adopted as of September 30, 2017

Refer to Note 1 to our unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of September 30, 2017, including the expected dates of adoption and effects on our financial condition, results of operations and cash flows.

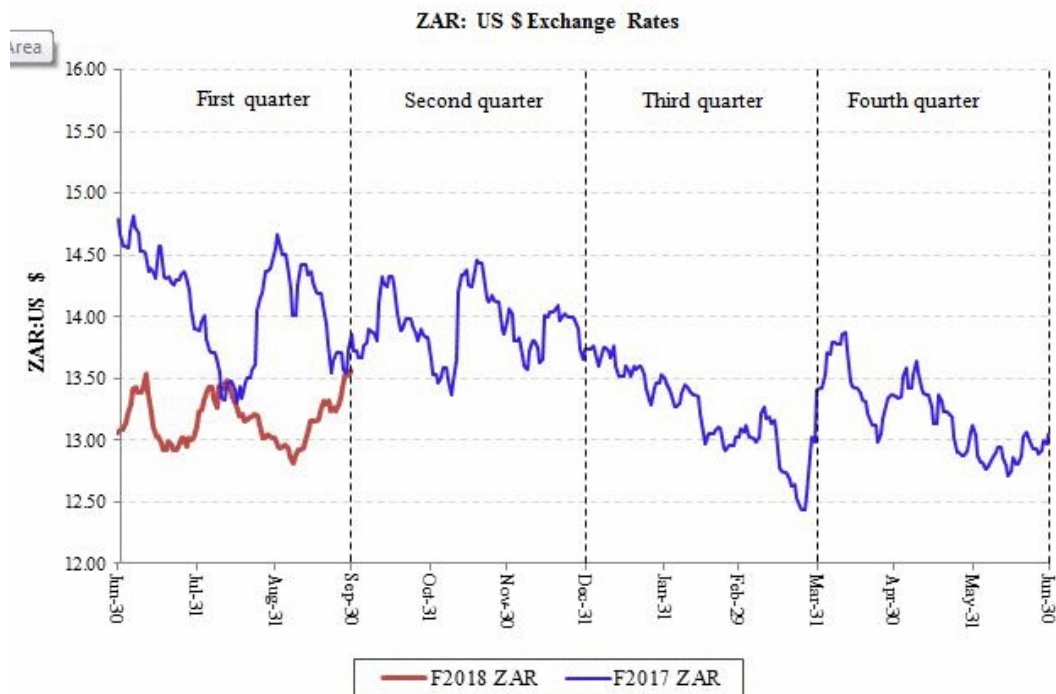
Currency Exchange Rate Information

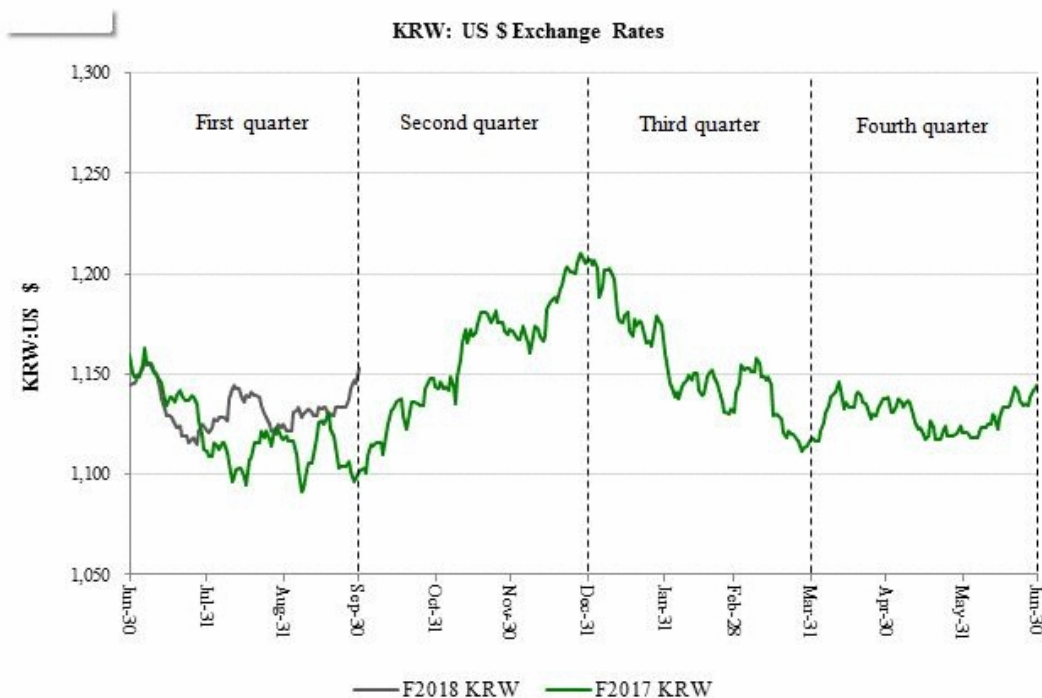
Actual exchange rates

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

Table 1

| | Three months ended September 30, | | Year ended June 30, |
|-------------------------------------|-------------------------------------|---------|------------------------|
| | 2017 | 2016 | 2017 |
| ZAR : \$ average exchange rate | 13.1731 | 14.0890 | 13.6147 |
| Highest ZAR : \$ rate during period | 13.5643 | 14.8114 | 14.8114 |
| Lowest ZAR : \$ rate during period | 12.8160 | 13.3000 | 12.4379 |
| Rate at end of period | 13.5618 | 13.8630 | 13.0535 |
| KRW : \$ average exchange rate | 1,133 | 1,121 | 1,141 |
| Highest KRW : \$ rate during period | 1,156 | 1,163 | 1,210 |
| Lowest KRW : \$ rate during period | 1,115 | 1,092 | 1,092 |
| Rate at end of period | 1,152 | 1,102 | 1,144 |





Translation exchange rates for financial reporting purposes

We are required to translate our results of operations from ZAR and KRW to U.S. dollars on a monthly basis. Thus, the average rates used to translate this data for the three months ended September 30, 2017 and 2016, vary slightly from the averages shown in the table above. The translation rates we use in presenting our results of operations are the rates shown in the following table:

Table 2

| | Three months ended September 30, | | Year ended June 30, |
|---------------------------------------|---------------------------------------------|-------------|--------------------------------|
| | 2017 | 2016 | 2017 |
| Income and expense items: \$1 = ZAR . | 13.1691 | 14.1048 | 13.6182 |
| Income and expense items: \$1 = KRW | 1,133 | 1,127 | 1,146 |
| Balance sheet items: \$1 = ZAR | 13.5618 | 13.8630 | 13.0535 |
| Balance sheet items: \$1 = KRW | 1,152 | 1,102 | 1,144 |

Results of operations

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

Fiscal 2018 includes the results of Pros Software and C4U Malta and fiscal 2017 does not include these entities.

Our operating segment revenue presented in “—Results of operations by operating segment” represents total revenue per operating segment before inter-segment eliminations. Reconciliation between total operating segment revenue and revenue presented in our unaudited condensed consolidated financial statements is included in Note 16 to those statements.

We analyze our business and operations in terms of three inter-related but independent operating segments: (1) South African transaction processing, (2) International transaction processing and (3) Financial inclusion and applied technologies. In addition, corporate and corporate office activities that are impracticable to ascribe directly to any of the other operating segments, as well as any inter-segment eliminations, are included in corporate/eliminations.

First quarter of fiscal 2018 compared to first quarter of fiscal 2017

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

- **Favorable impact from the weakening of the U.S. dollar against South African Rand:** The U.S. dollar depreciated by 6% against the ZAR during the first quarter of fiscal 2018, which positively impacted our reported results;
- **Growth in insurance businesses:** We continued to experience volume growth and operating efficiencies in our insurance businesses during the first quarter of fiscal 2018, which has resulted in an improved contribution to our financial inclusion revenue and operating income;
- **Ongoing contributions from EasyPay Everywhere:** EPE revenue and operating income growth was driven primarily by ongoing EPE adoption as we further expanded our customer base utilizing our ATM infrastructure;
- **Higher equity accounted earnings related to DNI:** The acquisition of 45% of DNI has positively impacted our reported results by approximately \$1.4 million, before amortization of intangible assets, net of deferred taxes;
- **Adverse impact on interest income from utilization of surplus cash to invest in Cell C and DNI:** Our interest income was adversely impacted by approximately \$1.2 million, before the impact of any taxes, as a result of our utilization of approximately ZAR 1.4 billion and \$23.0 million, respectively, of our surplus cash reserves to partially fund our investments in Cell C and DNI;
- **Higher interest expense resulting from South African facility:** Our interest expense increased due to the South African lending facility we obtained in August 2017, to partially fund our 15% investment in Cell C;
- **Masterpayment expansion costs:** Masterpayment has incurred additional employment costs as it grows its staff complement to execute its expansion plan into new markets;
- **Lower prepaid sales and ad hoc terminal sales:** The number of transacting users purchasing prepaid products through our mobile channel decreased due to security features introduced in fiscal 2017. In addition, our results were adversely impacted by few ad hoc terminal sales; and
- **Higher transaction-related costs in fiscal 2018:** We incurred \$1.5 million in transaction-related costs pertaining to various acquisition and investment initiatives pursued during the first quarter of fiscal 2018.

Consolidated overall results of operations

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

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

| | In U.S. Dollars (U.S. GAAP) | | | |
|--------------------------------------------------------------|-----------------------------------------|----------------|---------------|----------|
| | Three months ended September 30, | | | |
| | 2017 | 2016 | \$ | % |
| | \$ '000 | \$ '000 | change | |
| Revenue | 152,558 | 155,633 | | (2%) |
| Cost of goods sold, IT processing, servicing and support | 74,652 | 74,780 | | (0%) |
| Selling, general and administration | 43,934 | 38,468 | | 14% |
| Depreciation and amortization | 8,966 | 10,204 | | (12%) |
| Operating income | 25,006 | 32,181 | | (22%) |
| Interest income | 5,044 | 4,304 | | 17% |
| Interest expense | 2,121 | 796 | | 166% |
| Income before income tax expense | 27,929 | 35,689 | | (22%) |
| Income tax expense | 10,277 | 11,103 | | (7%) |
| Net income before earnings from equity-accounted investments | 17,652 | 24,586 | | (28%) |
| Earnings from equity-accounted investments | 2,075 | 659 | | 215% |
| Net income | 19,727 | 25,245 | | (22%) |
| Less net income attributable to non-controlling interest | 244 | 613 | | (60%) |
| Net income attributable to us | 19,483 | 24,632 | | (21%) |

Table 4

| | In South African Rand (U.S. GAAP) | | |
|--------------------------------------------------------------|--------------------------------------|---------------------|-----------------|
| | Three months ended September 30, | | |
| | 2017 ZAR '000 | 2016 ZAR '000 | ZAR % change |
| Revenue | 2,011,951 | 2,195,171 | (8%) |
| Cost of goods sold, IT processing, servicing and support | 984,518 | 1,054,755 | (7%) |
| Selling, general and administration | 579,406 | 542,583 | 7% |
| Depreciation and amortization | 118,245 | 143,926 | (18%) |
| Operating income | 329,782 | 453,907 | (27%) |
| Interest income | 66,521 | 60,707 | 10% |
| Interest expense | 27,972 | 11,227 | 149% |
| Income before income tax expense | 368,331 | 503,387 | (27%) |
| Income tax expense | 135,534 | 156,606 | (13%) |
| Net income before earnings from equity-accounted investments | 232,797 | 346,781 | (33%) |
| Earnings from equity-accounted investments | 27,365 | 9,295 | 194% |
| Net income | 260,162 | 356,076 | (27%) |
| Less net income attributable to non-controlling interest | 3,218 | 8,646 | (63%) |
| Net income attributable to us | 256,944 | 347,430 | (26%) |

The decrease in revenue was primarily due to lower prepaid airtime sales, fewer ad hoc terminal sales, and a lower contribution from KSNET due to regulatory changes in South Korea, which was partially offset by an improved contribution from Masterpayment and Transact 24, more fees generated from our EPE and ATM offerings, improved insurance activities, and an increase in the number of SASSA UEPS/EMV beneficiaries paid.

In ZAR, the decrease in cost of goods sold, IT processing, servicing and support was primarily due to fewer prepaid airtime and ad hoc terminal sales, which was partially offset by increases in goods and services purchased from third parties, higher expenses incurred due to increased usage of the South African National Payment System by beneficiaries, expenses incurred to operate our EPE and ATM offerings, and higher Masterpayment employment costs related to the first quarter of fiscal 2018.

Our selling, general and administration expense increased primarily due to the impact of October 2016 annual salary increases for our South African employees, as well as increases in goods and services purchased from third parties. Our fiscal 2018 expense also includes transaction-related expenditures of \$1.5 million, compared to \$0.2 million in the prior year. Fiscal 2017 includes \$1.8 million related to the reversal of stock-based compensation charges related to awards of restricted stock with performance conditions which we believe will not be achieved.

Our operating income margin for first quarter of fiscal 2018 and 2017 was 16% and 21% respectively. We discuss the components of operating income margin under “—Results of operations by operating segment.” The decrease was primarily attributable to higher cost of goods sold, IT processing, servicing and support relative to the reduction in revenue, higher transaction-related expenditure and the reversal of stock-based compensation charges referred to above.

Depreciation and amortization decreased primarily due to lower overall depreciation as a result of additional tangible assets becoming fully depreciated, partially offset by an increase in depreciation related to more ATMs in South Africa.

Interest on surplus cash increased to \$5.0 million (ZAR 66.5 million) from \$4.3 million (ZAR 60.7 million), due primarily to the interest earned on the loan to Finbond, partially offset by lower average daily ZAR cash balances.

Interest expense increased to \$2.1 million (ZAR 28.0 million) from \$0.8 million (ZAR 11.2 million), due primarily to interest on the South African facility we obtained to partially fund our investment in Cell C, somewhat offset by lower average long-term debt balance on our South Korean debt and a lower interest rate.

Fiscal 2018 tax expense was \$10.3 million (ZAR 135.5 million) compared to \$11.1 million (ZAR 156.6 million) in fiscal 2017. Our effective tax rate for fiscal 2018, was 36.8% and was higher than the South African statutory rate as a result of non-deductible expenses (including transaction-related expenses and non-deductible interest on our South African long-term facility). Our effective tax rate for fiscal 2017, was 31.1% and was higher than the South African statutory rate as a result of non-deductible expenses and the tax impact attributable to distributions from our South African subsidiary.

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

Table 5

| | Three months ended September 30, | | |
|--------------------------------------------------------|----------------------------------|---------|--------|
| | 2017 | 2016 | \$ % |
| | \$ '000 | \$ '000 | change |
| DNI | 865 | - | nm |
| Share of net income | 1,408 | - | nm |
| Amortization of intangible assets, net of deferred tax | (543) | - | nm |
| Finbond | 1,101 | 930 | 18% |
| Other | 109 | (271) | nm |
| Earnings from equity accounted investments | 2,075 | 659 | 297% |

Results of operations by operating segment

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

Table 6

| Operating Segment | In U.S. Dollars (U.S. GAAP) | | | | |
|----------------------------------------------|----------------------------------|-------------|----------------|-------------|--------------|
| | Three months ended September 30, | | | | |
| | 2017 | % of | 2016 | % of | % |
| | \$ '000 | total | \$ '000 | total | change |
| Revenue: | | | | | |
| South African transaction processing | 66,437 | 44% | 57,568 | 37% | 15% |
| International transaction processing | 46,022 | 30% | 46,190 | 30% | - |
| Financial inclusion and applied technologies | 54,313 | 36% | 63,542 | 41% | (15%) |
| Subtotal: Operating segments | 166,772 | 110% | 167,300 | 108% | - |
| Intersegment eliminations | (14,214) | (10%) | (11,667) | (8%) | 22% |
| Consolidated revenue | 152,558 | 100% | 155,633 | 100% | (2%) |
| Operating income (loss): | | | | | |
| South African transaction processing | 12,332 | 49% | 13,548 | 42% | (9%) |
| International transaction processing | 5,316 | 21% | 5,817 | 18% | (9%) |
| Financial inclusion and applied technologies | 13,920 | 56% | 15,183 | 47% | (8%) |
| Subtotal: Operating segments | 31,568 | 126% | 34,548 | 107% | (9%) |
| Corporate/Eliminations | (6,562) | (26%) | (2,367) | (7%) | 177% |
| Consolidated operating income | 25,006 | 100% | 32,181 | 100% | (22%) |

Table 7

| Operating Segment | In South African Rand (U.S. GAAP) | | | | |
|----------------------------------------------|-----------------------------------|-------------|------------------|-------------|--------------|
| | Three months ended September 30, | | | | |
| | 2017 | % of | 2016 | % of | % |
| | ZAR '000 | total | ZAR '000 | total | change |
| Revenue: | | | | | |
| South African transaction processing | 876,178 | 44% | 811,985 | 37% | 8% |
| International transaction processing | 606,943 | 30% | 651,501 | 30% | (7%) |
| Financial inclusion and applied technologies | 716,285 | 36% | 896,247 | 41% | (20%) |
| Subtotal: Operating segments | 2,199,406 | 110% | 2,359,733 | 108% | (7%) |
| Intersegment eliminations | (187,455) | (10%) | (164,562) | (8%) | 14% |
| Consolidated revenue | 2,011,951 | 100% | 2,195,171 | 100% | (8%) |
| Operating income (loss): | | | | | |
| South African transaction processing | 162,636 | 49% | 191,092 | 42% | (15%) |
| International transaction processing | 70,108 | 21% | 82,048 | 18% | (15%) |
| Financial inclusion and applied technologies | 183,578 | 56% | 214,153 | 47% | (14%) |
| Subtotal: Operating segments | 416,322 | 126% | 487,293 | 107% | (15%) |
| Corporate/Eliminations | (86,540) | (26%) | (33,386) | (7%) | 159% |
| Consolidated operating income | 329,782 | 100% | 453,907 | 100% | (27%) |

South African transaction processing

The increase in segment revenue was primarily due to higher EPE transaction revenue as a result of increased usage of our ATMs, increased inter-segment transaction processing activities and a modest increase in the number of social welfare grants distributed. Operating income decreased primarily due to an increase in inter-segment charges, the impact of annual salary increases granted to our South African employees in October 2016 and increases in goods and services purchased from third parties, partially offset by higher EPE transaction revenue as a result of increased usage of our ATMs, increased inter-segment transaction processing activities and a modest increase in the number of social welfare grants distributed.

Our operating income margin for the first quarter of fiscal 2018 and 2017 was 19% and 24%, respectively. Our fiscal 2018 margin was adversely impacted by the annual salary increases granted to our South African employees in October 2016 and increases in goods and services purchased from third parties.

International transaction-based activities

Segment revenue was moderately lower during the first quarter of fiscal 2018, primarily due to ongoing impact of regulatory changes in South Korea on KSNET's revenue, largely offset by increased contributions from Masterpayment and Transact24. Operating income during the first quarter of fiscal 2018 was lower due to a decrease in revenue at KSNET, losses incurred by Masterpayment as it grows its staff complement to execute its expansion plan into new markets, and ongoing operating costs in India, which was partially offset by a positive contribution by T24.

Operating income margin for the first quarter of fiscal 2018 and 2017 was 12% and 13%, respectively.

Financial inclusion and applied technologies

Financial inclusion and applied technologies revenue decreased primarily due to fewer prepaid airtime and other value added services sales, as well as lower ad hoc terminal sales, partially offset by increased volumes in our insurance businesses, and an increase in inter-segment revenues.

Operating income margin for the Financial inclusion and applied technologies segment was 26% and 24% during the first quarter of fiscal 2018 and 2017, respectively, and has increased primarily due to fewer low margin prepaid product sales, improved revenues from our insurance businesses and an increase in inter-segment revenues, offset by fewer ad hoc terminal and annual salary increases granted to our South African employees.

Corporate/Eliminations

Our corporate expenses generally include acquisition-related intangible asset amortization; expenses incurred related to acquisitions and investments pursued; expenditure related to compliance with Sarbanes-Oxley Act of 2002; non-employee directors' fees; employee and executive bonuses; stock-based compensation; legal fees; audit fees; directors and officers insurance premiums; telecommunications expenses; property-related expenditures including utilities, rental, security and maintenance; and elimination entries.

Our corporate expenses have increased primarily due to higher transaction-related expenditures and modest increases in U.S. dollar denominated goods and services purchased from third parties and directors' fees. Our corporate expenses for the first quarter of fiscal 2017, includes the reversal of \$1.8 million of stock-based compensation charges.

Liquidity and Capital Resources

At September 30, 2017, our cash and cash equivalents were \$138.4 million and comprised mainly KRW-denominated balances of KRW 52.6 billion (\$45.7 million), CHF-denominated balances of CHF 40.5 million (\$41.5 million), ZAR-denominated balances of ZAR 501.2 million (\$37.0 million), U.S. dollar-denominated balances of \$6.9 million, and other currency deposits, primarily euros, of \$7.3 million, all amounts translated at exchange rates applicable as of September 30, 2017. The decrease in our cash balances from June 30, 2017, was primarily due to our investments in DNI and Cell C, a scheduled repayment of our South African long-term debt, and capital expenditures, which was partially offset by cash generated by most of our core businesses. We converted some of our USD reserves to CHF in late September 2017 in order to settle the investment consideration related to the Bank Frick transaction in early October 2017.

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

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

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

We have a short-term South African credit facility with Nedbank of ZAR 400 million (\$29.4 million), which consists of (i) a primary amount of up to ZAR 200 million, and (ii) a secondary amount of up to ZAR 200 million. The primary amounts comprise an overdraft facility of up to ZAR 50 million and indirect and derivative facilities of up to ZAR 150 million, which include letters of guarantee, letters of credit and forward exchange contracts.

As of September 30, 2017, we had used none of the overdraft and ZAR 129.1 million (\$9.5 million, translated at exchange rates applicable as of September 30, 2017) of the indirect and derivative facilities to obtain foreign exchange contracts and to support guarantees issued by Nedbank to various third parties on our behalf.

We obtained EUR 40.0 million (\$47.3 million) and CHF 20 million (\$20.7 million) revolving overdraft facilities from Bank Frick. As of September 30, 2017, we had utilized approximately CHF 23.8 million (\$28.1 million) of the EUR 40 million facility and CHF 17.0 million (\$17.6 million) of the CHF 20 million facility. As of September 30, 2017, the interest rate on each of these facilities was 5.00%. We have assigned all claims against amounts due from Masterpayment customers, which have been financed from the CHF 20 million facility, plus all secondary rights and preferential rights as collateral for this facility to Bank Frick. Our Masterpayment subsidiary was required to open a primary business account with Bank Frick, and this account has been pledged to Bank Frick as collateral for the EUR 40 million facility. The initial term of the EUR 40 million facility ends on December 31, 2019, but it will automatically be extended for one year if it is not terminated with 12 months written notice. The CHF 20 million facility does not have a fixed term; however, it may be terminated by either party with six months written notice at the end of a calendar month. Refer to Note 12 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended June 30, 2017, for additional information related to our short-term facilities and Note 9 to our unaudited condensed consolidated financial statements for the three months ended September 30, 2017, for additional information related to our short-term facilities.

As of September 30, 2017, we had outstanding long-term debt of ZAR 1.1 billion (approximately \$77.9 million translated at exchange rates applicable as of September 30, 2017) under our loan South African facilities. Interest due on the facility is based on the Johannesburg Interbank Agreed Rate, or JIBAR, in effect from time to time plus a margin of 2.25% for the Facility A loan, 3.5% for the Facility B loan and 2.25% for the Facility C loan. The JIBAR rate has been set at 6.99% for the period to December 29, 2017. Principal repayments on the Facility A and Facility B loans are due in eight equal quarterly installments, beginning on September 30, 2017. Principal repayment on the Facility C loan is to be determined by the Lenders based on the date of the repayment of any borrowings under the Facility A loan. Voluntary prepayments are permitted without early repayment fees or penalties.

As of September 30, 2017, we had outstanding long-term debt of KRW 18.8 billion (approximately \$16.3 million translated at exchange rates applicable as of September 30, 2017) under credit facilities with a group of South Korean banks. The loans bear interest at the South Korean CD rate in effect from time to time (1.41% as of September 30, 2017) plus a margin of 3.10% for one of the term loan facilities and the revolver. Scheduled remaining repayments of the term loans and loan under the revolving credit facility are as follows: April 2018 (KRW 10 billion) and October 2018 (all outstanding loans under our revolving credit facility). We settled the full outstanding balance, including interest, related to these borrowings on October 20, 2017. Refer to Note 14 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended June 30, 2017, and Note 10 to our unaudited condensed consolidated financial statements for the three months ended September 30, 2017, for additional information related to our long-term borrowings.

Cash flows from operating activities

First quarter

Net cash used in operating activities for the first quarter of fiscal 2018 was \$0.8 million (ZAR 10.4 million) compared to cash provided by operating activities of \$53.5 million (ZAR 755.2 million) for the first quarter of fiscal 2017. Excluding the impact of interest received, interest paid under our Korean and South Africa debt and taxes presented in the table below, the decrease relates primarily to the growth of Masterpayment's working capital finance offering and weaker trading activity during fiscal 2018 compared to 2017.

During the first quarter of fiscal 2018, we paid South African tax of \$1.9 million (ZAR 25.2 million) related to our 2017 tax year in South Africa. During the first quarter of fiscal 2017, we made an additional tax payment of \$1.2 million (ZAR 16.7 million) related to our 2016 tax year in South Africa and received a refund of approximately \$1.2 million (ZAR 16.6 million) related to taxes overpaid in previous tax years in South Africa. We paid dividend withholding taxes of \$1.5 million (ZAR 21.3 million) during the first quarter of fiscal 2017.

Taxes paid during the first quarter of fiscal 2017 and 2016 were as follows:

Table 8

| | Three months ended September 30, | | | |
|--------------------------------------|-----------------------------------------|--------------|---------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| | \$ | \$ | ZAR | ZAR |
| | '000 | '000 | '000 | '000 |
| Taxation paid related to prior years | 1,919 | 1,186 | 25,227 | 16,708 |
| Taxation refunds received | - | (1,203) | - | (16,563) |
| Dividend withholding taxation | - | 1,471 | - | 21,300 |
| Total South African taxes paid | 1,919 | 1,454 | 25,227 | 21,445 |
| Foreign taxes paid | 117 | 49 | 1,538 | 691 |
| Total tax paid | 2,036 | 1,503 | 26,765 | 22,136 |

Cash flows from investing activities

First quarter

Cash used in investing activities for the first quarter of fiscal 2018 includes capital expenditure of \$1.5 million (ZAR 19.4 million), primarily for the acquisition of payment processing terminals in Korea. We also paid approximately \$72.0 million (ZAR 945.0 million) for a 45% interest in DNI and \$151.0 million (ZAR 2.0 billion) for a 15% interest in Cell C.

Cash used in investing activities for the first quarter of fiscal 2017 includes capital expenditure of \$3.4 million (ZAR 48.3 million), primarily for the acquisition of payment processing terminals in Korea. Our Korean capital expenditures have declined due to regulatory changes in South Korea which now prohibit the provision of payment equipment to the majority of merchants. We also paid approximately \$15.3 million for a 7.5% interest in MobiKwik.

Cash flows from financing activities

First quarter

During the first quarter of fiscal 2018, we utilized approximately \$94.3 million (ZAR 1.25 billion) of our South African facility to part-fund our investment in Cell C and utilized approximately \$0.3 million of our Korean facility to pay a portion of our quarterly interest due. We also made a scheduled South African debt facility payment of \$14.3 million (ZAR 187.5 million).

During the first quarter of fiscal 2017, we paid approximately \$31.6 million to repurchase 3,137,609 shares of our common stock and also paid \$0.5 million, on July 1, 2016, related to settlement of amounts outstanding related to the repurchases at the end of June 2016. We also made a \$26.7 million unscheduled repayment of our Korean debt and utilized approximately \$0.5 million of our Korean facility to pay a portion of our quarterly interest due. In addition, we paid a dividend of approximately \$0.6 million to certain of our non-controlling interests.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Capital Expenditures

We expect capital spending for the second quarter of fiscal 2018 to primarily include the acquisition of payment terminals for the expansion of our operations in Korea and expansion of our ATM infrastructure and branch network in South Africa.

Our historical capital expenditures for the first quarter of fiscal 2018 and 2017 are discussed under “—Liquidity and Capital Resources—Cash flows from investing activities.” All of our capital expenditures for the past three fiscal years were funded through internally generated funds. We had outstanding capital commitments as of September 30, 2017, of \$0.9 million related mainly to the procurement of ATMs. We expect to fund these expenditures through internally generated funds.

Contingent Liabilities, Commitments and Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2017:

Table 9

Payments due by Period, as of September 30, 2017 (in \$ '000s)

| | <u>Total</u> | <u>Less than 1 year</u> | <u>1-3 years</u> | <u>3-5 years</u> | <u>More than 5 years</u> |
|-------------------------------------------------|----------------|---------------------------------|----------------------|----------------------|----------------------------------|
| South African long-term debt obligations (A) | 85,488 | 56,454 | 29,034 | - | - |
| South Korean long-term debt obligations (B) | 17,020 | 9,460 | 7,560 | - | - |
| Acquisition of Bank Frick (C) | 40,794 | 40,794 | - | - | - |
| Contingent amount related to DNI investment (D) | 26,545 | 26,545 | - | - | - |
| Short-term credit facilities | 45,737 | 45,737 | - | - | - |
| Acquisition of 8.625% notes in Cell C (E) | 9,000 | 9,000 | - | - | - |
| Operating lease obligations | 6,463 | 4,594 | 1,551 | 318 | - |
| Purchase obligations | 3,467 | 3,467 | - | - | - |
| Capital commitments | 901 | 901 | - | - | - |
| Other long-term obligations (F)(G) | 2,965 | - | - | - | 2,965 |
| Total | 238,380 | 196,952 | 38,145 | 318 | 2,965 |

- (A) – Includes \$78.3 million of long-term debt and interest payable at the rate applicable on September 30, 2017, under our South Africa debt facility.
- (B) – Includes \$16.1 million of long-term debt and interest payable at the rate applicable on September 30, 2017, under our South Korean debt facility.
- (C) – Under the DNI transaction agreements, we are obliged to pay to DNI an additional amount not exceeding ZAR 360 million (\$26.5 million translated at exchange rates applicable as of September 30, 2017) in cash, subject to DNI achieving certain performance targets.
- (D) – On October 2, 2017, we purchased 30% of Bank Frick for an aggregate purchase price of approximately CHF 39.8 million (\$40.1 million translated at exchange rates applicable as of September 30, 2017) (refer also Note 6 to our unaudited condensed consolidated financial statements).
- (E) – We have agreed to purchase a Cell C issued USD-denominated 8.625% note that matures in 2022 for \$9 million.
- (F) – Includes policyholder liabilities of \$2.2 million related to our insurance business.
- (G) – We have excluded a cross-guarantees in the aggregate amount of \$9.6 million issued as of September 30, 2017, to Nedbank to secure guarantees it has issued to third parties on our behalf as the amounts that will be settled in cash are not known and the timing of any payments is uncertain. We have also excluded contractual commitments to invest approximately \$15 million in MobiKwik, subject to the achievement of certain contractual conditions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

The following table illustrates the effect on our annual expected interest charge, translated at exchange rates applicable as of September 30, 2017, as a result of changes in JIBAR and the South Korean CD rates. The effect of a hypothetical 1% (i.e. 100 basis points) increase and a 1% decrease in each of JIBAR and the South Korean CD rates as of September 30, 2017, are shown. The selected 1% hypothetical change does not reflect what could be considered the best or worst case scenarios.

| | As of September 30, 2017 | | |
|---------------------------------------------------|-------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| | Annual expected interest charge (\$ '000) | Hypothetical change in JIBAR or South Korean CD rate, as appropriate | Estimated annual expected interest charge after hypothetical change in JIBAR or South Korean CD rate, as appropriate (\$ '000) |
| Interest on South Africa long-term debt (JIBAR) | 7,631 | 1% (1%) | 8,414 6,847 |
| Interest on South Korean long-term debt (CD rate) | 736 | 1% (1%) | 899 573 |

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of September 30, 2017. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, the chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2017.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

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 limit direct deductions from social grants paid to beneficiaries. 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 right of beneficiaries to transact freely after the money is deposited into their bank accounts.

We brought the application for a declaratory order because SASSA seeks to lend a broader interpretation to the meaning of the term “deductions” to incorporate any debit orders, EFT debits, purchase transactions, or fund transfers that are effected after the transfer of social grants to beneficiaries’ bank accounts. If SASSA’s interpretation were to prevail, debit transactions could no longer be used as a method for beneficiaries to make payments for financial services such as insurance premiums, loan re-payments, electricity and other purchases, money transfers or any other electronic payments. We believe that forcing beneficiaries to pay for these products or services in cash would be a major setback to the national objective of financial inclusiveness, introduce financial and security risks for beneficiaries and result in significant price increases for these products and services.

We further believe that SASSA’s interpretation of the Social Assistance Act and the Regulations is erroneous for a number of reasons including, but not limited to, our belief that such an interpretation violates beneficiaries’ constitutional rights by limiting their fundamental right to enter into contracts and that such interpretation impermissibly encroaches on the jurisdiction and powers of the SARB and the Payments Association of South Africa, which regulate the national payment system. SASSA’s interpretation effectively prohibits the social welfare recipient community from enjoying the benefits of a convenient, low-cost, reliable and ubiquitous payment system that enables the recipients to procure financial services at highly competitive rates.

We were joined in our application by several other industry participants, and the SARB also filed a responding affidavit.

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 scheduled a hearing on our application for a declaratory order for October 17 and 18, 2016. In its order, 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 dispute, 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.

The matter was heard on October 17 and 18, 2016 and on May 9, 2017, the Pretoria High Court 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. The order clarifies 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 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 will be taken and that we can consider the case closed.

On June 20, 2017, the Pretoria High Court refused the applicants, including the Minister of Social Development, SASSA and Black Sash, application 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, each of SASSA and the Black Sash served applications petitioning the South African Supreme Court of Appeal, or the Supreme Court, to grant them leave to appeal to either the Supreme Court or to a full bench of the Pretoria High Court.

On September 29, 2017, the Supreme Court referred the petitions to oral argument. The Supreme Court will provide a hearing date after the record of appeal has been filed. SASSA and the Black Sash have three months from the date of the order to deliver the record of appeal.

We believe that SASSA and the Black Sash's claim is without merit, and we intend to defending it vigorously. However, we cannot predict how the courts will rule on the matter.

Challenge to Payment by SASSA of Additional Implementation Costs

In March 2015, Corruption Watch, a South African non-profit civil society organization, commenced a legal proceeding in the High Court of South Africa seeking an order by the Court to review and set aside the decision of SASSA's Chief Executive Officer to approve the payment to us of ZAR 317 million (approximately ZAR 277 million, excluding VAT) and directing us to repay the aforesaid amount. Corruption Watch claims that there was no lawful basis for the decision to make the payment to us, and that the decision was unreasonable and irrational and did not comply with South African legislation. We are named as a respondent in this legal proceeding.

As we previously disclosed, in June 2014, we received approximately ZAR 277 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 we biometrically register all social grant beneficiaries (including child grant beneficiaries) and collect additional information for each child grant recipient. We agreed to SASSA's request, and as a result we performed approximately 11 million additional registrations beyond those that we tendered to register for the quoted service fee. Accordingly, we claimed a cost recovery from SASSA, supported by a factual findings certificate from an independent auditing firm. SASSA agreed to pay us the ZAR 277 million as full settlement of the additional costs we incurred.

Corruption Watch applied for a hearing date and it was initially set down for hearing during the week commencing November 6, 2017. However, the hearing has now been moved to February 22, 2018, as a result of certain scheduling conflicts.

We believe that Corruption Watch's claim is without merit, and we are defending it vigorously. However, we cannot predict how the Court will rule on the matter.

Item 6. Exhibits

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

| Exhibit No. | Description of Exhibit | Included Herewith | Incorporated by Reference Herein | | |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------------------|---------|---------------|
| | | | Form | Exhibit | Filing Date |
| 10.71 | Common Terms Agreement, dated July 21, 2017, among Net1 Applied Technologies South Africa Proprietary Limited, Net 1 UEPS Technologies, Inc., the parties listed in Part I of Schedule 1 thereto, as the original guarantors, FirstRand Bank Limited (acting through its Rand Merchant Bank division), as an arranger, Nedbank Limited (acting through its Corporate and Investment Banking division), as an arranger, the parties listed in Part II of Schedule 1 thereto, as the original lenders, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent. | | 8-K | 10.70 | July 26, 2017 |
| 10.72 | Senior Facility A Agreement, dated July 21, 2017, among Net1 Applied Technologies South Africa Proprietary Limited, FirstRand Bank Limited (acting through its Rand Merchant Bank division) and Nedbank Limited (acting through its Corporate and Investment Banking division), as lenders, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent. | | 8-K | 10.71 | July 26, 2017 |
| 10.73 | Senior Facility B Agreement, dated July 21, 2017, among Net1 Applied Technologies South Africa Proprietary Limited, FirstRand Bank Limited (acting through its Rand Merchant Bank division) and Nedbank Limited (acting through its Corporate and Investment Banking division), as lenders, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent. | | 8-K | 10.72 | July 26, 2017 |
| 10.74 | Senior Facility C Agreement, dated July 21, 2017, among Net1 Applied Technologies South Africa Proprietary Limited, FirstRand Bank Limited (acting through its Rand Merchant Bank division) and Nedbank Limited (acting through its Corporate and Investment Banking division), as lenders, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent. | | 8-K | 10.73 | July 26, 2017 |
| 10.75 | Subordination Agreement, dated July 21, 2017, among Net1 Applied Technologies South Africa Proprietary Limited, Net 1 UEPS Technologies, Inc., the parties listed in Schedule 1 thereto, as subordinated creditors, the parties listed in Schedule 2 thereto, as intergroup debtors, the parties listed in Schedule 3 thereto, as senior creditors, and FirstRand Bank Limited (acting through its Rand Merchant Bank division), as agent. | | 8-K | 10.74 | July 26, 2017 |

| | | | | |
|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|-------|---------------|
| 10.76 | Security Cession & Pledge, dated July 21, 2017, by Net1 Applied Technologies South Africa Proprietary Limited in favor of FirstRand Bank Limited (acting through its Rand Merchant Bank division), as a secured creditor, Nedbank Limited (acting through its Corporate and Investment Banking division), as a secured creditor, and each of the other Secured Creditors (as defined therein). | 8-K | 10.75 | July 26, 2017 |
| 10.77 | Letter, dated July 26, 2017, to Net1 Applied Technologies South Africa Proprietary Limited from FirstRand Bank Limited (acting through its Rand Merchant Bank division), in its capacity as arranger, original senior lender and facility agent, and Nedbank Limited (acting through its Corporate and Investment Banking division), in its capacity as arranger and original senior lender. | 8-K | 10.76 | July 29, 2017 |
| 10.78 | Master Implementation and Funds Flow Agreement, dated July 25, 2017, among Net1 Applied Technologies South Africa Proprietary Limited and the other parties listed in Schedule 1 thereto. | 8-K | 10.77 | July 31, 2017 |
| 31.1 | Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act | | | X |
| 31.2 | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act | | | X |
| 32 | Certification pursuant to 18 USC Section 1350 | | | X |
| 101.INS | XBRL Instance Document | | | X |
| 101.SCH | XBRL Taxonomy Extension Schema | | | X |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase | | | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase | | | X |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase | | | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | | | X |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 9, 2017.

NET 1 UEPS TECHNOLOGIES, INC.

By: /s/ Herman G. Kotzé

Herman G. Kotzé

Chief Executive Officer, Chief Financial Officer, Treasurer and Secretary, Director

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULES 13A-14(A) AND 15D-14(A)
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Herman G. Kotzé, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Net 1 UEPS Technologies, Inc. ("Net1") for the quarter ended September 30, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Net1 as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Net1 and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Net1, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of Net1's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in Net1's internal control over financial reporting that occurred during Net1's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, Net1's internal control over financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Net1's auditors and the Audit Committee of Net1's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Net1's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Net1's internal control over financial reporting.

Date: November 9, 2017

/s/ Herman G. Kotzé
Herman G. Kotzé
Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULES 13A-14(A) AND 15D-14(A)
UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Herman G. Kotzé, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Net 1 UEPS Technologies, Inc. ("Net1") for the quarter ended September 30, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Net1 as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Net1 and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Net1, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of Net1's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in Net1's internal control over financial reporting that occurred during Net1's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, Net1's internal control over financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Net1's auditors and the Audit Committee of Net1's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Net1's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Net1's internal control over financial reporting.

Date: November 9, 2017

/s/ Herman G. Kotzé
Herman G. Kotzé
Chief Financial Officer

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Net 1 UEPS Technologies, Inc. ("Net1") on Form 10-Q for the quarter ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Herman Kotzé, Chief Executive Officer, Chief Financial Officer, Treasurer and Secretary, of Net1, certifies, pursuant to 18 U.S.C. § 1350, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Net1.

Date: November 9, 2017

/s/ Herman Kotzé
Name: Herman Kotzé
Chief Executive Officer, Chief Financial
Officer, Treasurer and Secretary
