

**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 **March 31, 2009**

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, 4<sup>th</sup> 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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  
(do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES  NO

As of April 30, 2009 (the latest practicable date), 55,673,186 shares of the registrant’s common stock, par value \$0.001 per share, were outstanding.

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## NET 1 UEPS TECHNOLOGIES, INC.

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**Part I. Financial Information**

**Item 1. Financial Statements**

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

	<b>Unaudited March 31, 2009</b>	<b>(A) June 30, 2008</b>
	<u>(In thousands, except share data)</u>	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 121,025	\$ 272,475
Pre-funded social welfare grants receivable	57,891	35,434
Accounts receivable, net of allowances of – March: \$318; June: \$260	40,076	21,797
Finance loans receivable, net of allowances of – March: \$-; June: \$1,007	2,552	4,301
Deferred expenditure on smart cards	-	78
Inventory	6,983	6,052
Deferred income taxes	6,617	5,597
Total current assets	<u>235,144</u>	<u>345,734</u>
OTHER LONG-TERM ASSETS, including available for sale securities	7,096	207
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION OF – March: \$23,264; June: \$24,753	6,139	6,291
EQUITY-ACCOUNTED INVESTMENTS	2,509	2,685
GOODWILL	100,435	76,938
INTANGIBLE ASSETS, NET OF ACCUMULATED AMORTIZATION OF – March: \$23,022; June: \$16,486	71,509	22,216
<b>TOTAL ASSETS</b>	<u><u>422,832</u></u>	<u><u>454,071</u></u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bank overdraft	220	-
Accounts payable	4,221	4,909
Other payables	46,109	57,432
Income taxes payable	15,341	14,162
Total current liabilities	<u>65,891</u>	<u>76,503</u>
DEFERRED INCOME TAXES	33,519	33,474
OTHER LONG-TERM LIABILITIES, including minority interest loans	4,098	3,766
COMMITMENTS AND CONTINGENCIES	-	-
<b>TOTAL LIABILITIES</b>	<u>103,508</u>	<u>113,743</u>
<b>MINORITY INTEREST</b>	<u>2,415</u>	<u>-</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>COMMON STOCK</b>		
Authorized: 200,000,000 with \$0.001 par value; Outstanding shares - March: 55,673,186; June: 53,423,552	59	52
<b>SPECIAL CONVERTIBLE PREFERRED STOCK</b>		
Authorized: 50,000,000 with \$0.001 par value; Issued and outstanding shares - March: -; June: 4,882,429	-	5
<b>B CLASS PREFERENCE SHARES</b>		
Authorized: 330,000,000 with \$0.001 par value; Issued and outstanding shares (net of shares held by Net1) - March: -; June: 35,975,818	-	6
ADDITIONAL PAID-IN-CAPITAL	124,291	119,283
TREASURY SHARES, AT COST: March: 2,726,409; June: 306,269	(32,707)	(7,950)
ACCUMULATED OTHER COMPREHENSIVE LOSS	(109,871)	(37,820)
RETAINED EARNINGS	335,137	266,752
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>316,909</u>	<u>340,328</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 422,832</u>	<u>\$ 454,071</u>

(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**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	(In thousands, except per share data)		(In thousands, except per share data)	
REVENUE	\$ 55,878	\$ 63,066	\$ 185,201	\$ 191,825
EXPENSE				
COST OF GOODS SOLD, IT PROCESSING, SERVICING AND SUPPORT	15,225	16,515	51,636	51,833
SELLING, GENERAL AND ADMINISTRATION	14,772	15,185	48,081	48,915
DEPRECIATION AND AMORTIZATION	4,266	2,716	11,950	8,295
LOSS ON SALE OF MICROLENDING BUSINESS	742	-	742	-
IMPAIRMENT OF GOODWILL	-	-	1,836	-
OPERATING INCOME	20,873	28,650	70,956	82,782
FOREIGN EXCHANGE GAIN RELATED TO SHORT-TERM INVESTMENT	-	-	26,657	-
INTEREST INCOME, net	2,125	3,754	7,590	10,852
INCOME BEFORE INCOME TAXES	22,998	32,404	105,203	93,634
INCOME TAX EXPENSE	8,543	5,156	35,444	27,816
NET INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST AND LOSS FROM EQUITY-ACCOUNTED INVESTMENTS	14,455	27,248	69,759	65,818
MINORITY INTEREST	(185)	-	577	(196)
LOSS FROM EQUITY-ACCOUNTED INVESTMENTS	261	281	797	801
NET INCOME	<u>\$ 14,379</u>	<u>\$ 26,967</u>	<u>\$ 68,385</u>	<u>\$ 65,213</u>
<b>Net income per share</b>				
Basic earnings, in cents – common stock and linked units	26.1	47.2	121.4	114.1
Diluted earnings, in cents – common stock and linked units	26.0	46.7	121.0	113.1

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>March 31,</u>		<u>March 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(In thousands)		(In thousands)	
<b>Cash flows from operating activities</b>				
Net income	\$ 14,379	\$ 26,967	\$ 68,385	\$ 65,213
Depreciation and amortization	4,266	2,716	11,950	8,295
Impairment of goodwill	-	-	1,836	-
Loss from equity-accounted investments	261	281	797	801
Fair value adjustment related to financial liabilities	201	(14)	815	(256)
Fair value of FAS 133 derivative adjustments	286	(11)	(2,772)	(21)
Unrealized foreign exchange gain related to short-term investment	-	-	(1,015)	-
Interest payable	105	126	336	367
Loss (Profit) on disposal of property, plant and equipment	9	(23)	9	(109)
Loss on sale of microlending business	742	-	742	-
Minority interest	(185)	-	577	(196)
Stock-based compensation charge	1,317	1,108	3,868	2,860
Facility fee amortized	-	-	1,100	-
(Increase) Decrease in accounts receivable, pre-funded social welfare grants receivable and finance loans receivable	(17,329)	15,842	(55,120)	(2,406)
Decrease in deferred expenditure on smart cards	84	236	57	496
(Increase) Decrease in inventory	(1,538)	1,286	(1,244)	(293)
Increase (Decrease) in accounts payable and other payables	2,215	13,177	(15,374)	13,490
Increase in taxes payable	475	7,666	4,659	1,034
(Decrease) Increase in deferred taxes	(182)	(4,182)	(1,601)	574
<b>Net cash provided by operating activities</b>	<u>5,106</u>	<u>65,175</u>	<u>18,005</u>	<u>89,849</u>
<b>Cash flows from investing activities</b>				
Capital expenditures	(413)	(1,004)	(3,696)	(2,880)
Proceeds from disposal of property, plant and equipment	1	24	3	142
Acquisition of available for sale securities	(3,422)	-	(3,422)	-
Acquisition of BGS, net of cash acquired	(1,906)	-	(97,992)	-
Acquisition of shares in equity-accounted investments	(150)	-	(450)	-
<b>Net cash used in investing activities</b>	<u>(5,890)</u>	<u>(980)</u>	<u>(105,557)</u>	<u>(2,738)</u>
<b>Cash flows from financing activities</b>				
Proceeds from issue of share capital, net of share issue expenses	-	25	155	175
Treasury stock acquired	-	-	(24,752)	-
Proceeds from short-term loan facility	-	-	110,000	-
Repayment of short-term loan facility	-	-	(110,000)	-
Payment of facility fee	-	-	(1,100)	-
Proceeds from bank overdrafts	2,401	-	2,496	1,462
Repayment of bank overdraft	(2,252)	(1)	(2,252)	(1,443)
<b>Net cash provided by (used in) financing activities</b>	<u>149</u>	<u>24</u>	<u>(25,453)</u>	<u>194</u>
Effect of exchange rate changes on cash	(2,996)	(29,330)	(38,445)	(23,402)
<b>Net (decrease) increase in cash and cash equivalents</b>	<u>(3,631)</u>	<u>34,889</u>	<u>(151,450)</u>	<u>63,903</u>
<b>Cash and cash equivalents – beginning of period</b>	<u>124,656</u>	<u>200,741</u>	<u>272,475</u>	<u>171,727</u>
<b>Cash and cash equivalents – end of period</b>	<u>\$ 121,025</u>	<u>\$ 235,630</u>	<u>\$ 121,025</u>	<u>\$ 235,630</u>

See Notes to Unaudited Condensed Consolidated Financial Statements

**NET 1 UEPS TECHNOLOGIES, INC.**  
**Notes to the Unaudited Condensed Consolidated Financial Statements**  
**for the Three and Nine Months Ended March 31, 2009 and 2008**  
**(All amounts stated in thousands of United States 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 US generally accepted accounting principles (“GAAP”) and the rules and regulations of the 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 and nine months ended March 31, 2009 and 2008 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, 2008. 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, unless the context otherwise requires. References to Net1 are references solely to Net 1 UEPS Technologies, Inc.

*Translation of foreign currencies*

The primary functional currency of the Company is the South African Rand (“ZAR”) and its reporting currency is the US dollar. The Company also has consolidated entities which have the euro, Russian rouble or Indian rupee as their functional currency. The current rate method is used to translate the financial statements of the Company to US dollar. Under the current rate method, assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average rates for the period. Translation gains and losses are reported in accumulated other comprehensive income in shareholders’ equity.

Foreign exchange transactions are translated at the spot rate ruling at the date of the transaction. Monetary items are translated at the closing spot rate at the balance sheet date. Transactional gains and losses are recognized in income for the period.

*Recent accounting pronouncements adopted*

Effective July 1, 2008, the Company adopted Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standard (“SFAS”) No. 157, *Fair Value Measurements* (“FAS 157”) for financial assets and liabilities, which provides a single definition of fair value, establishes a framework for the measurement of fair value and expands disclosure about the use of fair value to measure assets and liabilities; however, it does not require any new fair value measurements.

FAS 157 establishes a hierarchy for information and valuations used in measuring fair value that is broken down into three levels based on its reliability. Level 1 valuations are based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Level 2 valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Level 3 valuations are based on information that is unobservable and significant to the overall fair value measurement.

In October 2008, the FASB issued FASB Staff Position (“FSP”) No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (“FSP 157-3”) which clarifies the application of FAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FAS 157-3 was effective upon issuance.

The adoption of FAS 157 and FSP 157-3 for financial assets and liabilities has not had a material effect on the Company’s results of operations or financial position.

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

### *Recent accounting pronouncements adopted (continued)*

Effective July 1, 2008, the Company adopted FASB SFAS No.159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("FAS 159"). FAS 159 expands the use of fair value accounting to eligible financial assets and liabilities. The Company evaluated its existing financial instruments and elected not to adopt the fair value option on its financial instruments. However, because the FAS 159 election is based on an instrument-by-instrument election at the time the Company first recognizes an eligible item or enters into an eligible firm commitment, the Company may decide to exercise the option on new items when business reasons support doing so in future. As a result, the adoption of FAS 159 has not had a material effect on the Company's results of operations or financial position.

### *Recent accounting pronouncements not yet adopted as of March 31, 2009*

In December 2007, the FASB issued SFAS No. 141(revised 2007), *Business Combinations* ("FAS 141R"). FAS 141R replaces SFAS No. 141, *Business Combinations* ("FAS 141"). FAS 141R retains the fundamental requirements in FAS 141 that the acquisition method of accounting (defined in FAS 141 as the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. FAS 141R requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed at the acquisition date. FAS 141R also requires acquisition-related costs to be recognized separately from the business combination. FAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently assessing FAS 141R and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("FAS 160"). FAS 160 establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that does not result in deconsolidation. FAS 160 clarifies that all of those transactions are equity transactions if the parent retains its controlling financial interest in the subsidiary. FAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. However, FAS 160 shall be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company is currently assessing FAS 160 and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("FAS 162"). FAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements under US GAAP. FAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*". It is not expected that FAS 162 will change current practice.

In February 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157* ("FSP FAS 157-2") which delays the effective date of FAS 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. Entities are encouraged to adopt FAS 157 for measurements of nonfinancial assets and nonfinancial liabilities in its entirety as long as they have not yet issued financial statements during that year. An entity that chooses to adopt FAS 157 in its entirety must do so for all nonfinancial assets and nonfinancial liabilities within its scope. The Company is currently reviewing the impact of the adoption of FAS No. 157 for all non-financial assets and liabilities on its financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP FAS 142-3"). This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets* ("FAS 142"). The intent of FSP FAS 142-3 is to improve the consistency between the useful life of an intangible asset determined under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FAS 141. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently assessing FSP FAS 142-3 and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.



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

*Recent accounting pronouncements not yet adopted as of March 31, 2009 (continued)*

In April 2009, the FASB issued FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (“FSP FAS 141R-1”). Under FSP FAS 141R-1 an acquirer is required to recognize at fair value an asset acquired or liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value cannot be determined, the acquirer applies the recognition criteria in SFAS No. 5, *Accounting for Contingencies*, and Interpretation 14 to determine whether the contingency should be recognized as of the acquisition date or after it. Like FAS141R, FSP FAS 141R-1 is effective for business combinations whose acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently assessing FSP FAS 141R-1 and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (“FSP FAS 107-1 and APB 28-1”). FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP FAS 107-1 and APB 28-1 also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 and APB 28-1 shall be effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company expects the adoption of FSP FAS 107-1 and APB 28-1 to result in increased disclosures in its interim period reporting.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (“FSP FAS 115-2 and FAS 124-2”). FSP FAS 115-2 and FAS 124-2 amends the other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 115-2 and FAS 124-2 does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-2 and FAS 124-2 shall be effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company is currently assessing FSP FAS 115-2 and FAS 124-2 and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (“FSP FAS 157-4”). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with FAS 157, when the volume and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 shall be effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The Company is currently assessing FSP FAS 157-4 and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

## 2. Acquisition of BGS

On August 27, 2008, the Company acquired 80.1% of the issued share capital of BGS Smartcard Systems AG (“BGS”), an Austrian private company for a total consideration of \$101.6 million in cash and the issuance of an aggregate of 40,134 shares of Net1 common stock to certain former BGS shareholders. As described in note 10, the Company financed the cash portion of the purchase price with the proceeds of short-term bank financing which was repaid in full on October 16, 2008. For practical purposes the acquisition date has been set as August 31, 2008.

BGS provides smart card-based payment systems to banks, enterprises and government authorities in Russia, Ukraine, Uzbekistan, India and Oman. BGS’ system, Dual Universal Electronic Transactions (“DUET”), was developed by BGS as a derivative of the first version of our Universal Electronic Payment System (“UEPS”) technology that the Company licensed to BGS in 1993. BGS’ largest customer is Sberbank, the largest financial institution in Russia, which owns the remaining 19.9% of BGS. The Company acquired BGS because it fits in well with the Company’s strategy to grow in developing economies. BGS’ operations are highly seasonal, with its second and fourth quarters typically being its most profitable and its first and third quarters generally the weakest.

## 2. Acquisition of BGS (continued)

The following table sets forth the components of the purchase price for the BGS acquisition using exchange rates applicable as of August 31, 2008:

Cash paid at closing to former BGS shareholders	\$	101,611
Cash paid to former BGS shareholders on March 31, 2009		1,906
40,134 shares of Net1 common stock valued at \$24.46 per share issued to certain former BGS shareholders		982
Estimated costs directly related to the acquisition		2,915
Total purchase price	\$	<u>107,414</u>

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

Cash and cash equivalents	\$	6,283
Accounts receivable, net		3,218
Inventory		740
Property, plant and equipment		350
Intangible assets (see Note 9)		68,859
Trade and other payables		(7,181)
Other long-term liabilities		(631)
Deferred tax assets		10,657
Deferred tax liabilities (see Note 9)		(17,214)
Minority interests		(1,838)
Goodwill (see Note 9)		44,171
Total purchase price	\$	<u>107,414</u>

The preliminary purchase price allocation was based on management estimates as of March 31, 2009, and may be adjusted up to one year following the closing of the transaction. The purchase price allocation has not been finalized as management is still in the process of performing its detailed analysis of assets and liabilities and contingencies acquired.

The results of BGS' operations are reflected in the Company's financial statements from September 1, 2008. The following pro forma consolidated results of operations have been prepared as if the acquisition of BGS had occurred on July 1, 2008 and 2007, respectively:

	Three months ended March 31,		Nine months ended March 31,	
	Actual 2009	Pro forma 2008	Pro forma 2009	Pro forma 2008
Revenue <sup>(1)</sup>	\$ 55,878	\$ 66,602	\$ 187,604	\$ 210,632
Net income from continuing operations before minority interest and loss from equity-accounted investments <sup>(1)</sup>	\$ 14,455	\$ 23,794	\$ 63,843	\$ 59,019
Net income <sup>(1)</sup>	\$ 14,379	\$ 23,530	\$ 62,474	\$ 57,400
Earnings per share – basic (in cents)	\$ 26.1	\$ 41.1	\$ 110.9	\$ 100.4
Earnings per share – diluted (in cents)	\$ 26.0	\$ 40.8	\$ 110.5	\$ 99.5
Weighted-average number of outstanding shares of common stock and linked units used to calculate basic earnings per share	55,074,930	57,181,363	56,344,262	57,169,392
Weighted-average number of outstanding shares of common stock and linked units used to calculate diluted earnings per share	55,200,180	57,724,668	56,537,451	57,683,562

(1) Revenue, net income from continuing operations before minority interest and loss from equity-accounted investments and net income have been translated from the functional currencies, primarily ZAR and euro ("€"), to US dollar, using the average exchange rate applicable for the period. The average US dollar/ ZAR exchange rate for the three and nine months ended March 31, 2009 and 2008, was \$1:9.9584; \$1:7.5459; \$1:9.2287 and \$1:7.1516, respectively. The average US dollar/ € exchange rate for the three and nine months ended March 31, 2009 and 2008, was \$1:0.7654; \$1:0.6683; \$1:0.7298 and \$1:0.6958, respectively. The significant fluctuation in the US dollar/ ZAR exchange rates has negatively impacted the Company's reported results.

## 2. Acquisition of BGS (continued)

The unaudited pro forma financial information above reflects the following pro forma adjustments applied using the principles of Article 11 of Regulation S-X under the Securities Exchange Act of 1934:

a) An adjustment to reduce interest income on the Company's cash reserves for the three months ended March 31, 2008 and the nine months ended March 31, 2009 and 2008, as a result of the payment of the cash portion of the purchase price of \$107.4 million, at an assumed pre-tax South African interest rate of 10.7%, 10.8% and 10.7% respectively. This adjustment also assumes that the cash had been paid out 50 days after the beginning of the period presented, rather than at the beginning of the period, because the Company financed the cash portion of the purchase price with the proceeds of a loan facility that was repaid in full 50 days after closing of the acquisition, and thus, continued to earn interest on these cash reserves for the first 50 days of the period until the loan was repaid in full. The adjustment has been tax-effected using a fully-distributed rate for the three months ended March 31, 2008 and the nine months ended March 31, 2009 and 2008, of 35.45%, 34.55% and 35.45%, respectively;

b) An adjustment to decrease interest income, net for the three months ended March 31, 2008 and the nine months ended March 31, 2009 and 2008, for the interest on the short-term facility of \$0.3 million, \$0.8 million and \$0.8 million and the facility fee of \$0.4 million, \$1.1 million and \$1.1 million, respectively. The interest and facility fee are not deductible for taxation purposes;

c) An adjustment to increase amortization expense based on the estimated fair value of the identifiable intangible asset from the purchase price allocation, which are being amortized over its estimated useful life of seven years, of approximately \$2.5 million, \$6.9 million and \$7.2 million for the three months ended March 31, 2008 and the nine months ended March 31, 2009 and 2008, as well as the related adjustment to deferred tax of \$0.6 million, \$1.7 million and \$1.8 million, respectively.

## 3. Costs related to JSE listing

The Company completed its inward listing, a secondary listing, on the JSE Limited ("JSE") in South Africa on October 8, 2008. The Company did not issue any additional shares in connection with the listing, however, the listing did result in a trigger event which converted all of the Company's special convertible preferred stock to common stock (see note 11). The Company's selling, general and administration expense includes the costs incurred related to the listing on the JSE.

The table below presents the costs incurred in connection with the Company's listing on the JSE during the nine months ended March 31, 2009 (no costs were incurred in the three months ended March 31, 2009):

	<b>Nine months ended March 31, 2009</b>
Advisory fee to sponsor	\$ 122
Legal fees	174
Regulatory and filing fees	93
Printing	47
Accounting fees	27
Other	32
Total costs related to JSE listing	<u>\$ 495</u>

## 4. Foreign exchange gain related to short-term investment

The Company entered into an asset swap arrangement (in the form of a \$110 million 32-day call account instrument) in order to facilitate the short-term loan facility described in note 10, however this asset swap arrangement was not linked to the loan facility and did not require redemption on the same date as the repayment of the loan facility. The Company earned interest at a rate of one month US dollar London Interbank Offered Rate ("LIBOR") plus 0.25% on this instrument. The Company gave a call notice to the obligor on September 10, 2008, and the capital of \$110 million (or ZAR 1,100.7 million) and interest on this instrument was repaid on October 16, 2008. The Company has realized a foreign exchange gain of approximately \$26.7 million for the nine months ended March 31, 2009. The foreign exchange gain was realized during the second quarter of fiscal 2009.

## 5. Pre-funded social welfare grants receivable

The pre-funded social welfare grants receivable represents the amounts due from provincial governments, as the Company pre-funds social welfare grant payments on behalf of the government in these provinces and pre-funding provided to certain merchants participating in its merchant acquiring system. The pre-funded amounts are typically reimbursed to the Company within two weeks after the disbursement of the grants. The grant payment service normally commences during the week before the start of a calendar month at government pay points and merchant locations. The April 2009 payment service commenced during the last two days of March 2009 and was offered at merchant locations only.

In March 2009, the Company signed a contract with the South Africa Social Security Agency ("SASSA") which included, amongst other conditions, that the Company would discontinue pre-funding social welfare grants from May 2009 in the two provinces in which the Company provided this service, namely, the KwaZulu-Natal and Eastern Cape provinces. The Company will continue to pre-fund certain merchants participating in its merchant acquiring system and the Company expects to continue the practice of pre-funding these merchants in the last few days of every month.

## 6. Deferred expenditure on smart cards

The deferred expenditure on smart cards represents amounts paid for smart cards used in the administration and distribution of grants to beneficiaries. These expenditures are deferred and written off over the period of the contract with the provincial government.

## 7. Inventory

The Company's inventory comprised the following categories as of March 31, 2009 and June 30, 2008.

	<u>March 31,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>
Raw materials	\$ 321	\$ 111
Finished goods	6,662	5,941
	<u>\$ 6,983</u>	<u>\$ 6,052</u>

## 8. Financial instruments and equity-accounted investments

### *Financial instruments*

The Company adopted FAS 157 on July 1, 2008 for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in its financial statements on a recurring basis (at least annually). FAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

FAS 157 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including the Company's own credit risk.

In addition to defining fair value, FAS 157 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety.

These levels are:

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

## 8. Financial Instruments and equity-accounted investments (continued)

### *Financial instruments (continued)*

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

#### *Investments in common stock*

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

The Company's Level 3 asset represents an investment in the common stock of Finbond Property Finance Limited ("Finbond"). The Company acquired 43,495,150 shares for cash in Finbond for \$3.4 million and received 41,137,375 shares, as consideration for the sale of its traditional microlending business. The Company's ownership interest in Finbond, as of March 31, 2009 is approximately 20%. The Company has no rights to participate in the financial, operating, or governance decisions made by Finbond. The Company also has no participation on Finbond's board of directors whether through contractual agreement or otherwise. Consequently, the Company has concluded that it does not have significant influence over Finbond and therefore equity accounting is not appropriate.

Finbond's shares are traded on the JSE, and consequently are within the scope of FAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*; the Company has designated such shares as available for sale investments. Pursuant to FSP 157-3, however, the Company has concluded that the market for Finbond shares is not active and consequently has employed alternative valuation techniques in order to determine the fair value of such stock. Currently, the operations of Finbond include primarily mortgage brokering services and microlending. The Company believes that the best indicator of fair value of Finbond is its published net asset value and has used this value to determine the fair value.

#### *Derivative transactions - Foreign exchange contracts*

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

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of March 31, 2009:

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets</b>				
Investment in common stock (available for sale assets included in OTHER LONG-TERM ASSETS)	-	-	\$ 6,966	\$ 6,966
Total assets at fair value	-	-	\$ 6,966	\$ 6,966
<b>Liabilities</b>				
Foreign exchange contracts	-	\$ 3	-	\$ 3
Total liabilities at fair value	-	\$ 3	-	\$ 3

## 8. Financial Instruments and equity-accounted investments (continued)

### *Financial instruments (continued)*

#### *Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

The Company measures its equity-accounted investments at fair value on a nonrecurring basis. The Company has no liabilities that are measured at fair value on a nonrecurring basis. These equity-accounted investments are recognized at fair value when they are deemed to be other-than-temporarily impaired.

In accordance with the provisions of APB No. 18, *The Equity Method of Accounting for Investments in Common Stock*, the Company reviews the carrying values of its investments 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 investments are determined based on valuation techniques using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost of the investment exceeds its fair value and the excess is determined to be other-than-temporary. The Company determined that there was not a decline in the fair value below cost of the equity-accounted investments during the reporting periods presented herein, and therefore has not recorded an impairment charge during the three and nine months ended March 31, 2009.

### *Equity-accounted investments*

The percentage ownership and functional currency of the Company's equity-accounted investments is presented in the table below:

<b>Equity-accounted investment</b>	<b>% Owned by Net1</b>	<b>Functional currency of the equity-accounted investment</b>
SmartSwitch Namibia (Pty) Ltd ("SmartSwitch Namibia")	50%	Namibia Dollar
SmartSwitch Botswana (Pty) Ltd ("SmartSwitch Botswana")	50%	Botswana Pula
VTU De Colombia S.A. ("VTU Colombia")	50%	Colombian Peso
Vietnam Payment Technologies Joint Stock Company ("VinaPay")	30%	Vietnamese Dong

In October 2008, SmartSwitch Namibia converted approximately \$1.6 million of its total loan funding to equity. The Company's current shareholding remains at 50%. As a result, the Company's loan funding has decreased by \$0.8 million and its interest in SmartSwitch Namibia's equity has increased by \$0.8 million.

In August 2008, the Company acquired additional shares in VinaPay for approximately \$0.3 million. The Company's current shareholding remains at 30%. These funds will be used to fund operating activities.

During the nine months ended December 31, 2008, the Company acquired additional shares in VTU Colombia for approximately \$0.3 million and extended additional loans of \$0.2 million. The Company's current shareholding remains at 50%. These funds will be used to fund operating activities.

The functional currency of the Company's equity-accounted investments is not the US dollar and thus the equity-accounted investments are restated at the period end US dollar/foreign currency exchange rate with an entry against accumulated other comprehensive loss.

## 8. Financial Instruments and equity-accounted investments (continued)

### Equity-accounted investments (continued)

Summarized below is the Company's interest in equity-accounted investments as of June 30, 2008 and March 31, 2009:

	Equity	Loans	Loss	Elimination	Total
Balance as of June 30, 2008	\$ 1,984	\$ 3,312	\$ (2,295)	\$ (316)	\$ 2,685
Share capital acquired	1,423	(673)	-	-	750
Share capital acquired– VinaPay	300				300
Share capital acquired– VTU Colombia	300	150			450
Loan converted to equity – SmartSwitch Namibia	823	(823)			-
(Loss) Earnings from equity-accounted investments	-	-	(1,104)	307	(797)
(Loss) Earnings from equity-accounted investment – SmartSwitch Namibia <sup>(1)</sup>	-	-	(130)	130	-
(Loss) Earnings from equity-accounted investment – SmartSwitch Botswana <sup>(1)</sup>	-	-	(223)	177	(46)
Loss from equity-accounted investment – VTU Colombia	-	-	(645)	-	(645)
Loss from equity-accounted investment – VinaPay	-	-	(106)	-	(106)
Foreign currency adjustment <sup>(2)</sup>	(393)	(440)	554	150	(129)
Balance as of March 31, 2009	\$ 3,014	\$ 2,199	\$ (2,845)	\$ 141	\$ 2,509

(1) – includes the recognition of realized net income as described below.

(2) – the foreign currency adjustment represents the effects of the combined net fluctuations between the functional currency of the equity-accounted investments and the US dollar.

Summarized below is the Company's equity-accounted (loss) earnings for the three months ended March 31, 2009:

	Loss	Elimination	Total
(Loss) Earnings from equity-accounted investments	\$ (342)	\$ 81	\$ (261)
SmartSwitch Namibia	(25)	28	3
SmartSwitch Botswana	(69)	53	(16)
VTU Colombia	(201)	-	(201)
VinaPay	\$ (47)	-	\$ (47)

The Company is required to eliminate its percentage of the net income generated from sales to its equity-accounted investments. The revenue generated and associated costs related to these sales are included in the line item captions above net income from continuing operations before minority interest and loss from equity-accounted investments in the unaudited condensed consolidated statement of operations for the three and nine months ended March 31, 2009 and 2008. The realized amount related to the elimination is included in the loss from equity-accounted investments line in the unaudited condensed consolidated statement of operations for the three and nine months ended March 31, 2009 and 2008. The Company will recognize this net income from these sales during the period in which the hardware and software it has sold to its equity-accounted investments are utilized in its operations, or has been sold to third party customers, as the case may be.

## 9. Goodwill and intangible assets

On August 27, 2008, the Company acquired 80.1% of the issued share capital of BGS, for a total consideration of \$101.6 million in cash and the issuance of an aggregate of 40,134 shares of Net1 common stock to certain former BGS shareholders. As described in note 10, the Company financed the cash portion of the purchase price with the proceeds of short-term bank financing which was repaid in full on October 16, 2008. For practical purposes the acquisition date has been set as August 31, 2008. The goodwill associated with the acquisition of BGS represents the excess of cost over the fair value of acquired net assets. A portion of the goodwill is tax deductible. See note 2 for the allocation of the purchase price to the fair value of acquired net assets.

### Goodwill

The goodwill associated with the acquisition of BGS has been allocated to the Company's hardware, software and related technology sales segment on August 31, 2008 (see note 2).

Summarized below is the movement in carrying value of goodwill for the nine months ended March 31, 2009.

	<b>Carrying value</b>
Balance as of July 1, 2008	\$ 76,938
Acquisition of BGS as of August 31, 2008	44,171
Impairment of goodwill	(1,836)
Financial services segment - sale of traditional microlending business	(1,759)
Foreign currency adjustment <sup>(1)</sup>	(17,079)
Balance as of March 31, 2009	<u>\$ 100,435</u>

(1) – the foreign currency adjustment represents the effects of the fluctuations between the South African rand and the euro against the US dollar on the carrying value of goodwill.

The Company recognized an impairment loss of approximately \$1.8 million on goodwill allocated to the Financial services segment during the second quarter of fiscal 2009 as a result of the deteriorating trading conditions of this segment, the Company's management's strategic decision not to grow this business and the offer received for the traditional microlending business in January 2009. On March 1, 2009, the Company sold all traditional microfinance loans receivables and goodwill and received shares in Finbond as consideration.

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

	<b>As of March 31, 2009</b>	<b>As of June 30, 2008</b>
Transaction-based activities	\$ 28,674	\$ 34,997
Smart card accounts	-	-
Financial services	-	4,455
Hardware, software and related technology sales	71,761	37,486
Total	<u>\$ 100,435</u>	<u>\$ 76,938</u>

### Intangible assets

Summarized below is the fair value of the intangible asset acquired, translated at the exchange rate applicable as of August 31, 2008, and the weighted-average amortization period of the intangible asset:

	<b>Fair value as of August 31, 2008</b>	<b>Weighted- Average Amortization period (in years)</b>
Finite-lived intangible asset:		
Customer relationships	\$ 68,859	7

A deferred tax liability of \$17.2 million, at exchange rates applicable as of August 31, 2008, was recognized at the Austrian statutory tax rate of 25% on August 31, 2008, related to the intangible asset acquired.



## 9. Goodwill and intangible assets (continued)

### Intangible assets (continued)

Summarized below is the carrying value and accumulated amortization of the intangible assets as of March 31, 2009 and June 30, 2008:

	As of March 31, 2009			As of June 30, 2008		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Finite-lived intangible assets:						
Customer relationships <sup>(1)</sup>	\$ 74,832	\$ (8,094)	\$ 66,738	\$ 15,679	\$ (2,581)	13,098
Software and unpatented technology	8,173	(7,489)	684	9,974	(6,638)	3,336
FTS patent	3,942	(3,432)	510	4,811	(3,850)	961
Exclusive licenses	4,506	(3,131)	1,375	4,506	(2,645)	1,861
Trademarks	2,964	(762)	2,202	3,618	(674)	2,944
Customer contracts	114	(114)	-	114	(98)	16
Total finite-lived intangible assets	<u>\$ 94,531</u>	<u>\$ (23,022)</u>	<u>\$ 71,509</u>	<u>\$ 38,702</u>	<u>\$ (16,486)</u>	<u>\$ 22,216</u>

(1) Includes the customer relationships acquired as part of the BGS acquisition in August 2008.

Aggregate amortization expense on the finite-lived intangible assets for the three and nine months ended March 31, 2009, was approximately \$3.4 million and \$9.3 million, respectively (three and nine months ended March 31, 2008 was approximately \$1.7 million and \$5.1 million, respectively). Future annual amortization expense is estimated at approximately \$12.4 million, however, this amount could differ from the actual amortization as a result of changes in useful lives, exchange rate fluctuations and other relevant factors.

### 10. Short-term facilities

As of March 31, 2009, the Company had short-term facilities in South African Rand of approximately \$51.4 million, translated at exchange rates applicable as of March 31, 2009. As of March 31, 2009 the overdraft rate on these facilities was 11.85%. In addition, BGS has short-term facilities of approximately \$1.3 million, translated at exchange rates applicable as of March 31, 2009, with each of two of Austria's largest banks. These facilities are available to the Company. The interest rate applicable to these short-term facilities is negotiated when the facilities are utilized. As of March 31, 2009, the Company had utilized \$0.2 million of its South African short-term facilities. The Company's management believes its current short-term facilities are sufficient in order to meet its future obligations to distribute social welfare grants.

#### *Short-term loan facility obtained to fund the BGS acquisition*

The Company obtained a \$110 million six month bank loan facility to fund the cash portion of the purchase price for the BGS acquisition. The Company was entitled to settle the full facility at any time during the six month period without incurring a prepayment penalty. During the nine months ended March 31, 2009, the Company utilized approximately \$103 million of this facility to pay the cash portion of the purchase price, the \$1.1 million facility fee and transaction-related costs. The interest rate charged on this facility was LIBOR plus 2.50%.

The Company pledged \$25 million of its US dollar-denominated cash reserves and the A class shares and B class shares it owned in its South African subsidiary, Net1 Applied Technologies South Africa Limited ("New Aplitec"), as collateral security for the bank loan.

The Company paid the lender an upfront facility fee of \$1.1 million which was amortized over the period that the loan was outstanding. Included in interest income, net for nine months ended March 31, 2009, is \$1.1 million related to the facility fee.

On October 16, 2008, the Company used internally generated funds to repay the loan in full and all collateral security arrangements were terminated.

### 11. Capital structure and creditor rights attached to the B Class Loans

As described in Note 11 to the Company's audited consolidated financial statements included within the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2008, the Company's balance sheet reflected two classes of equity - common stock and linked units. Effective October 2008, the linked units were all converted to common stock as a result of the listing of the Company's common stock on the JSE. The Company now has one class of equity, namely common stock.

## 11. Capital structure and creditor rights attached to the B Class Loans (continued)

During the nine months ended March 31, 2009, 4,882,429 shares of special convertible preferred stock were converted to common stock. The trigger event that gave rise to these conversions was the listing on the JSE Limited and requests by linked unit-holders to sell and/or convert 35,975,818 linked units during the nine months ended March 31, 2009. The net result of these conversions was that 35,975,818 B class preference shares and B class loans were ceded to Net1 during the nine months ended March 31, 2009, which converted 4,882,429 shares of special convertible preferred stock to 4,882,429 shares of common stock in return for the ownership of 35,975,818 B class preference shares and B class loans. As a result of the conversion, the number of outstanding shares of common stock has increased by 4,882,429 and the number of outstanding shares of special convertible preferred stock has decreased by 4,882,429. In addition, as a result of the conversion, Net1 owned all of the 236,977,187 B class preference shares and B class loans.

On October 16, 2008, New Aplitec repaid the A and B class loans to Net1 and acquired the B class preference shares from Net1 for a total of approximately \$84.7 million (ZAR 847.4 million at the negotiated \$:ZAR exchange rate on October 16, 2008). As a result, as of October 16, 2008, the only class of shares that New Aplitec has in issue are its A class ordinary shares, all of which are owned by Net1.

## 12. Earnings per share

The entire consolidated net income of the Company was attributable to the shareholders of the Company comprising both the holders of Net1 common stock and the holders of linked units prior to the Company's listing on the JSE. As discussed in note 11, all of the remaining linked unit holders converted their linked units to common stock as a result of listing of all of the Company's common stock on the JSE. As described in note 11 to the Company's audited consolidated financial statements included within the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2008, the linked units had the same rights and entitlements as those attached to common stock. As a result of the conversion of all the linked units, the entire consolidated net income of the Company is attributable to the holders of Net1 common stock.

Diluted earnings per share have been calculated to give effect to the number of additional shares of common stock that would have been outstanding if the potential dilutive instruments had been issued in each period. The calculation of diluted earnings per share for the three and nine months ended March 31, 2009, includes the dilutive effect of a portion of the restricted stock awards granted to employees in August 2007 as these restricted stock awards are considered contingently issuable shares for the purposes of the diluted earnings per share calculation and as of March 31, 2009, the vesting conditions in respect of a portion of the awards had been satisfied.

The basic earnings per share for the three and nine months ended March 31, 2009, for the common stock and linked units are the same and is calculated by dividing the net income by the combined weighted average number of outstanding shares (57.1 million) of common stock (51.5 million) and special convertible preferred stock (5.6 million).

The following tables detail the weighted average number of outstanding shares used for the calculation of earnings per share for the three and nine months ended March 31, 2009 and 2008.

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2009	2008	2009	2008
	'000	'000	'000	'000
Weighted average number of outstanding shares of common stock – basic	55,075	51,486	56,336	51,473
Weighted average effect of dilutive securities:				
employee stock options	125	489	193	463
Weighted average number of outstanding shares of common stock – diluted	55,200	51,975	56,529	51,936

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2009	2008	2009	2008
	'000	'000	'000	'000
Weighted average number of outstanding linked units – basic	-	5,656	-	5,656
Weighted average effect of dilutive securities:				
employee stock options	-	54	-	51
Weighted average number of outstanding linked units – diluted	-	5,710	-	5,707

## 12. Earnings per share (continued)

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2009	2008	2009	2008
	'000	'000	'000	'000
Total weighted average number of outstanding shares used to calculate earnings per share – basic	55,075	57,142	56,336	57,129
Total weighted average number of outstanding shares used to calculate earnings per share – diluted	55,200	57,685	56,529	57,643

## 13. Comprehensive (loss) income

The Company's comprehensive (loss) income consists of net income and foreign currency translation gains and losses which, under GAAP, are excluded from net income. Total comprehensive (loss) income for the three and nine months ended March 31, 2009 and 2008 was:

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2009	2008	2009	2008
Net income	\$ 14,379	\$ 26,967	\$ 68,385	\$ 65,213
Foreign currency translation adjustments	(10,733)	(49,005)	(72,051)	(40,868)
	\$ 3,646	\$ (22,038)	\$ (3,666)	\$ 24,345

## 14. Stock-based compensation

### Summary of Stock Option Activity

The following table summarizes stock option activity for the three and nine months ended March 31, 2009, and 2008:

	Number of shares	Weighted average exercise price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (\$'000)
Balance outstanding – July 1, 2008	953,378	\$ 18.20	7.40	\$ 5,813
Granted	560,000	\$ 24.46	10.00	-
Exercised	(50,006)	-	-	1,270
Balance outstanding – September 30, 2008	1,463,372	\$ 21.12	8.27	\$ 3,102
Balance outstanding – December 31, 2008	1,463,372	\$ 21.12	8.00	\$ 1,703
Balance outstanding – March 31, 2009	1,463,372	\$ 21.12	7.80	\$ 1,959
Balance outstanding – July 1, 2007	1,374,543	\$ 16.30	8.20	\$ 10,840
Exercised	(49,998)	-	-	1,172
Balance outstanding – September 30, 2007	1,324,545	\$ 16.80	8.00	\$ 13,782
Forfeitures	(96,623)	-	-	-
Balance outstanding – December 31, 2007	1,227,922	\$ 16.31	7.70	\$ 16,021
Exercised	(8,333)	-	-	237
Balance outstanding – March 31, 2008	1,219,589	\$ 16.40	7.50	\$ 7,496

No stock options became exercisable during the three and nine months ended March 31, 2009 and 2008.

During the nine months ended March 31, 2009, the Company received approximately \$0.2 million from stock options exercised. During the three and nine months ended March 31, 2008, the Company received approximately \$0.1 million and \$0.2 million, respectively, from stock options exercised. The Company issues new shares to satisfy stock option exercises.

## 14. Stock-based compensation (continued)

### Stock-based compensation charge and unrecognized compensation cost

The Company has recorded a net stock compensation charge of \$1.3 million and \$1.1 million for the three months ended March 31, 2009 and 2008, 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 March 31, 2009			
Stock-based compensation charge	\$ 1,317	\$ 60	\$ 1,257
Total – Three months ended March 31, 2009	<u>\$ 1,317</u>	<u>\$ 60</u>	<u>\$ 1,257</u>
Three months ended March 31, 2008			
Stock-based compensation charge	\$ 1,108	\$ 60	\$ 1,048
Total – Three months ended March 31, 2008	<u>\$ 1,108</u>	<u>\$ 60</u>	<u>\$ 1,048</u>

The Company has recorded a net stock compensation charge of \$3.9 million and \$2.9 million for the nine months ended March 31, 2009 and 2008, 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>
Nine months ended March 31, 2009			
Stock-based compensation charge	\$ 3,868	\$ 181	\$ 3,687
Total - nine months ended March 31, 2009	<u>\$ 3,868</u>	<u>\$ 181</u>	<u>\$ 3,687</u>
Nine months ended March 31, 2008			
Stock-based compensation charge	\$ 3,146	\$ 259	\$ 2,887
Reversal of stock compensation charge related to options forfeited	(286)	(147)	(139)
Total – Nine months ended March 31, 2008	<u>\$ 2,860</u>	<u>\$ 112</u>	<u>\$ 2,748</u>

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

As of March 31, 2009, the total unrecognized compensation cost related to stock options was approximately \$5.8 million, which the Company expects to recognize over approximately four years. As of March 31, 2009, the total unrecognized compensation cost related to restricted stock awards was approximately \$8.2 million, which the Company expects to recognize over approximately two years. As of March 31, 2009, interest due from employees related to loans extended to fund stock option exercises was approximately \$0.1 million.

As of March 31, 2009, the Company has recorded a deferred tax asset of approximately \$0.8 million related to the stock-based compensation charge recognized related to employees of Net1 as it is able to deduct the grant date fair value for taxation purposes in the United States.

## 15. Operating segments

The Company discloses segment information in accordance with FASB SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*, which requires companies to determine and review their segments as reflected in the management information systems reports that their managers use in making decisions and to report certain entity-wide disclosures about products and services, major customers, and the material countries in which the entity holds assets and reports revenues.

The Company currently has four reportable segments: Transaction-based activities, Smart card accounts, Financial services and Hardware, software and related technology sales. Each segment, other than the Hardware, software and related technology sales segment, operates mainly within South Africa. The Company's reportable segments offer different products and services and require different resources and marketing strategies and share the Company's assets. The operations of BGS have been allocated to the Hardware, software and related technology sales segment.

The Transaction-based activities segment currently consists mainly of a state pension and welfare benefit distribution service provided to provincial governments in South Africa and transaction processing for retailers, utilities and banks. Fee income is earned based on the number of beneficiaries included in the government pay-file as well as from merchants and card holders using the Company's merchant retail application. In addition, utility providers and banks are charged a fee for transaction processing services performed on their behalf at retailers. This segment has individually significant customers that each provides more than 10% of the total revenue of the Company. For each of the three and nine months ended March 31, 2009, there were three and two such customers, providing 34%, 15% and 10%, and 31% and 14%, respectively, of total revenue (three and nine months ended March 31, 2008: three customers providing 30%, 16% and 10%, and 31%, 16% and 10%, respectively, of total revenue).

The Smart card accounts segment derives revenue from the provision of smart card accounts, as a fixed monthly fee per card is charged for the maintenance of these accounts.

The Financial services segment provides short-term loans as a principal and life insurance products on an agency basis and generates interest income and initiation and services fees. Interest income is recognized in the consolidated statement of operations as it falls due, using the interest method by reference to the constant interest rate stated in each loan agreement. The Company sold its traditional microlending business included in this segment on March 1, 2009. In addition, the Company has recorded a goodwill impairment of \$1.8 million which was allocated to the Financial services segment during the nine months ended March 31, 2009. From March 1, 2009, the Financial services segment comprised only the Company's UEPS-based microlending business.

The Hardware, software-related and technology sales segment markets, sells and implements the UEPS as well as develops and provides Prism secure transaction technology, solutions and services. From September 1, 2008, the segment includes the operations of BGS, which comprise mainly hardware sales and licenses of the DUET system. The segment undertakes smart card system implementation projects, delivering hardware, software and business solutions in the form of customized systems. Sales of hardware, SIM cards, cryptography services, SIM card licenses and other software licenses are recorded within this segment. This segment also generates rental income from hardware provided to merchants enrolled in the Company's merchant retail application. Sales to SmartSwitch Nigeria Limited and the related taxation implications are not reflected in revenue to external customers, operating income, income taxation expense or net income after taxation presented in the tables below.

Corporate/Eliminations includes the Company's head office cost centers in addition to the elimination of inter-segment transactions.

## 15. Operating segments (continued)

The Company evaluates segment performance based on operating income. The following tables summarize segment information which is prepared in accordance with GAAP:

	Three months ended March 31,		Nine months ended March 31,	
	2009	2008	2009	2008
<b>Revenues to external customers</b>				
Transaction-based activities	\$ 35,995	\$ 37,254	\$ 109,159	\$ 115,409
Smart card accounts	6,676	8,696	21,957	27,469
Financial services	1,357	1,999	4,571	6,317
Hardware, software and related technology sales	11,850	15,117	49,514	42,630
Total	<u>55,878</u>	<u>63,066</u>	<u>185,201</u>	<u>191,825</u>
<b>Inter-company revenues</b>				
Transaction-based activities	810	1,026	2,603	3,247
Smart card accounts	-	-	-	-
Financial services	-	-	-	-
Hardware, software and related technology sales	(19)	468	1,999	206
Total	<u>791</u>	<u>1,494</u>	<u>4,602</u>	<u>3,453</u>
<b>Operating income</b>				
Transaction-based activities	21,638	20,347	60,929	62,317
Smart card accounts	3,034	3,953	9,979	12,485
Financial services	(261)	507	(1,504)	1,411
Hardware, software and related technology sales	(1,398)	5,380	8,229	9,585
Corporate/Eliminations	(2,140)	(1,537)	(6,677)	(3,016)
Total	<u>20,873</u>	<u>28,650</u>	<u>70,956</u>	<u>82,782</u>
<b>Interest earned</b>				
Transaction-based activities	-	-	-	-
Smart card accounts	-	-	-	-
Financial services	-	-	-	-
Hardware, software and related technology sales	-	-	-	-
Corporate/Eliminations	4,279	6,871	16,062	19,137
Total	<u>4,279</u>	<u>6,871</u>	<u>16,062</u>	<u>19,137</u>
<b>Interest expense</b>				
Transaction-based activities	2,081	3,055	6,284	8,196
Smart card accounts	-	-	-	-
Financial services	-	-	-	-
Hardware, software and related technology sales	1	56	196	75
Corporate/Eliminations	72	6	1,992	14
Total	<u>2,154</u>	<u>3,117</u>	<u>8,472</u>	<u>8,285</u>
<b>Depreciation and amortization</b>				
Transaction-based activities	900	1,222	2,929	3,653
Smart card accounts	-	-	-	-
Financial services	102	125	317	333
Hardware, software and related technology sales	2,991	1,042	7,818	3,311
Corporate/Eliminations	273	327	886	998
Total	<u>4,266</u>	<u>2,716</u>	<u>11,950</u>	<u>8,295</u>
<b>Income taxation expense</b>				
Transaction-based activities	5,576	5,082	15,853	15,974
Smart card accounts	849	1,147	2,793	3,622
Financial services	423	147	589	408
Hardware, software and related technology sales	(292)	1,700	2,449	3,021
Corporate/Eliminations	1,987	(2,920)	13,760	4,791
Total	<u>\$ 8,543</u>	<u>\$ 5,156</u>	<u>\$ 35,444</u>	<u>\$ 27,816</u>

## 15. Operating segments (continued)

	Three months ended March 31,		Nine months ended March 31,	
	2009	2008	2009	2008
<b>Net income</b>				
Transaction-based activities	\$ 13,980	\$ 12,211	\$ 38,793	\$ 38,342
Smart card accounts	2,185	2,806	7,185	8,866
Financial services	271	360	(1,139)	1,000
Hardware, software and related technology sales	(1,115)	3,623	5,661	6,466
Corporate/Eliminations	(942)	7,967	17,885	10,539
Total	<u>14,379</u>	<u>26,967</u>	<u>68,385</u>	<u>65,213</u>
<b>Segment assets</b>				
Total	<u>422,832</u>	<u>405,869</u>	<u>422,832</u>	<u>405,869</u>
<b>Expenditures for long-lived assets</b>				
Transaction-based activities	157	809	2,400	2,269
Smart card accounts	-	-	-	-
Financial services	34	133	666	467
Hardware, software and related technology sales	222	62	630	144
Corporate/Eliminations	-	-	-	-
Total	<u>\$ 413</u>	<u>\$ 1,004</u>	<u>\$ 3,696</u>	<u>\$ 2,880</u>

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.

## 16. Income tax in interim periods

For the purposes of interim financial reporting, the Company determines the appropriate income tax provision in accordance with the guidance in APB Opinion 28, *Interim Reporting*, and FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods*. Accordingly, the tax charge is calculated 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 that are reported separately, and have an impact on the tax charge. The cumulative effect of any change in the enacted tax rate 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 and nine months ended March 31, 2009, the tax charge was calculated using the expected effective tax rate for the year (34.55%) . Our effective tax rate for the three and nine months ended March 31, 2009, was 37.1% and 33.7%, respectively, and includes the effect of the change in the fully distributed tax rate from 35.45% to 34.55% . The change in the fully distributed tax rate from 35.45% to 34.55% is discussed below.

The Company increased its unrecognized tax benefits by \$0.1 million and \$0.4 million and reduced its deferred tax assets by approximately \$0.1 million and \$0.1 million during the three and nine months ended March 31, 2009, respectively. As of March 31, 2009, the Company had accrued interest related to uncertain tax positions of approximately \$0.1 million on its balance sheet.

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

The Company files income tax returns mainly in South Africa, Austria, the Russian Federation and in the US federal jurisdiction. As of March 31, 2009, the Company's South African subsidiaries are no longer subject to income tax examination by the South African Revenue Service for periods before March 31, 2005. 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.

## 16. Income tax in interim periods (continued)

On February 20, 2008, the Finance Minister of South Africa announced the decrease in statutory rate of taxation for South African-domiciled companies from 29% to 28% for all fiscal years ending on or after April 1, 2008. The change in tax rate was promulgated on July 22, 2008. The fully distributed tax rate was reduced to 34.55% from 35.45% during the first quarter of fiscal 2009 and has resulted in an income tax benefit included in the Company's income tax expense line on its unaudited condensed consolidated statements of operations for the nine months ended March 31, 2009. The income tax expense of approximately \$35.4 million for the nine months ended March 31, 2009, includes an income tax benefit of approximately \$3.5 million resulting from the reversal of a portion of the deferred tax assets and liabilities recognized as of June 30, 2008.



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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q.

### Forward-looking statements

Some of the statements in this Quarterly Report on 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 "Risk Factors" and elsewhere in our Annual Report on Form 10-K for the year ended June 30, 2008. 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 Quarterly Report on Form 10-Q to conform those statements to reflect the occurrence of unanticipated events, except as required by applicable law.

You should read this Quarterly Report on Form 10-Q and the documents that we reference herein and the documents we have filed as exhibits hereto and which we have filed with the 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.

### Trends and Material Developments Affecting our Business

#### South Africa

##### *Contract for the payment of social welfare grants*

We have entered into a new one year contract with the South African Social Security Agency, or SASSA, for the payment of social welfare grants in the five provinces where we currently provide a grant payment service. The new contract commenced on April 1, 2009 and expires on March 31, 2010. SASSA received special approval from the South African National Treasury Department to enter into new agreements with us and the other current service providers for a twelve month period without conducting a tender process. SASSA has indicated that it will initiate a new tender process during the next twelve months.

The new contract contains a standard pricing formula for all provinces based on a transaction fee per beneficiary paid regardless of the number or amount of grants paid per beneficiary, calculated on a guaranteed minimum number of beneficiaries per month. Under our previous contracts, depending on the province, we received either a fee per grant distributed, or per beneficiary paid, or as a percentage of the total grant amount distributed. In addition, SASSA will assume responsibility for the pre-funding of all social welfare grants with effect from the May 2009 pay cycle. We will continue to pre-fund certain merchants who facilitate the distribution of grants through our merchant acquiring system.

We do not expect that the new contract will materially affect our future results of operations since the reduced pricing should be offset by the guaranteed minimum number of beneficiaries per month and the increased interest income we expect to receive as a result of the elimination of our pre-funding requirement.

Refer to discussion under "Part II. Other Information—Item 1A. Risk Factors."

##### *Progress of wage payment implementation*

During the first quarter of fiscal 2009, we entered into an agreement with our first major corporate customer to utilize our wage payment system. Our customer is the largest provider of security and guarding services in South Africa and employs approximately 20,000 people. We commenced with the registration process during the third quarter of fiscal 2009 and we expect to complete the enrollment of all employees by the end of the fourth quarter of fiscal 2009.

## *Sale of our traditional microlending business*

During the third quarter of fiscal 2009, we entered into an agreement with Finbond Property Finance Limited, or Finbond, for the sale of our traditional microlending business with effect from March 1, 2009. The payment consideration was settled through the issuance of new Finbond shares and we also exercised an option to increase our shareholding in Finbond to approximately 20%. Finbond will have a national network of 178 branches following the sale of our traditional microlending business to them. We have signed an agreement with Finbond under which we have agreed to install our UEPS technology and point of sale devices for the marketing of pre-paid electricity, pre-paid cell phone air time and bill payments into all of Finbond's branches. In addition, Finbond will utilize its branch and broker network to market our wage payment and EasyPay bill payment solutions.

## **International Expansion**

### *BGS Acquisition*

On August 27, 2008, we acquired 80.1% of the issued share capital of BGS Smartcard Systems AG, or BGS, an Austrian private company. The results of BGS' operations are reflected in our financial statements from September 1, 2008. BGS' activities are similar to those performed by our hardware, software and related technology sales segment and include payment system implementations which occur on an ad hoc basis. BGS' operations are highly seasonal, with its second and fourth quarters typically being its most profitable and its first and third quarters generally the weakest. However, in the current financial year the majority of BGS' revenues were generated during the second quarter of fiscal 2009. We expect higher revenues during the fourth quarter of fiscal 2009 compared with the third quarter, however we do not expect these revenues to be higher than those of the second quarter of fiscal 2009.

### *Iraq*

We do not equity account or consolidate the results of our activities in Iraq. Our UEPS banking and payment system went live in Iraq during the first quarter of fiscal 2009 and we commenced registration of war victims. We performed software development activities and delivered ATMs and smart cards to an Iraqi consortium during fiscal 2009. We expect to generate revenues in the fourth quarter of fiscal 2009 from sale of additional smart cards. In addition, we expect to commence generating license fees under this contract from the first quarter of fiscal 2010.

### *Ghana*

We do not equity account or consolidate the results of our activities in Ghana, where we have implemented our UEPS system as the national payment system for the Bank of Ghana. During the third quarter of fiscal 2009 we continued with the delivery of smart cards under our contract and additional purchase orders with the Bank of Ghana. Enrolment of e-zwich users continued in Ghana during the third quarter of fiscal 2009. We expect to deliver additional smart cards during the fourth quarter of fiscal 2009.

### *Namibia*

We own 50% of SmartSwitch Namibia (Proprietary) Limited, or SmartSwitch Namibia, and the other 50% is owned by Namibia Post Limited, or NamPost, a government entity which provides post office and banking services across Namibia. As of March 30, 2009, SmartSwitch Namibia has activated 267,578 UEPS smart cards and has signed up 148 merchants to accept the UEPS smart cards.

In February 2009, SmartSwitch Namibia signed an agreement with the Government Institutions Pension Fund, or GIPF. Under this agreement the GIPF will issue each of its active members a UEPS-enable smartcard which will act as the beneficiary's membership card and will be used to biometrically identify the beneficiary. The GIPF expects to use the biometric functionality of our UEPS technology to mitigate the risk of fraud which can easily be perpetrated through the use of a paper-based legacy system. The beneficiary's monthly annuities and other benefits will be loaded onto the card at Nampost branches and the beneficiary will be able to use the card at Nampost branches and merchants participating in SmartSwitch Namibia's merchant acquiring system to procure goods. Enrolment of the systems is expected to commence in the second quarter of fiscal 2010 and SmartSwitch Namibia expects to generate revenues related to this agreement in the third quarter of fiscal 2010.

### *Botswana*

We own 50% of Smartswitch Botswana (Proprietary) Limited, or SmartSwitch Botswana, and the other 50% is owned by Capricorn Investment Holdings (Botswana) Proprietary Limited, or Capricorn, which owns 100% of Botswana-based Bank Gaborone Limited and the majority holding in a number of financial services companies operating in Botswana.

During the third quarter of fiscal 2009, SmartSwitch Botswana continued registration of food voucher recipients under the tender granted by the Department of Social Services in Botswana. SmartSwitch Botswana commenced paying recipients of food voucher grants using our UEPS technology in April 2009.

### *Nigeria*

We consolidate SmartSwitch Nigeria Limited, or SmartSwitch Nigeria, for financial accounting purposes as we own 80% of the equity. This differs from the equity accounting treatment of our investments in SmartSwitch Namibia and SmartSwitch Botswana. SmartSwitch Nigeria has entered into a contract with the River State government for the distribution of funds using our UEPS technology. The system went live during the third quarter of 2009 and currently there are 12,000 card holders in the River State using our technology.

### *Colombia*

We own 50% of VTU De Colombia SA, or VTU Colombia, and have fully installed and integrated the VTU system in Colombia. The VTU system in Colombia is now active with Colombia's first and third largest mobile operators. VTU Colombia currently operates in Bogotá, Baranquilla and Cartagena and is expected to expand the VTU system nationally in the next four quarters. VTU Colombia generates revenues from mobile phone users when they purchase airtime using the VTU system.

### *Vietnam*

We own 30% of Vietnam Payment Technologies, or VinaPay, which was authorized and licensed to commence business activities at the end of May 2007. The VTU system became fully operational and the first commercial transactions were performed by customers in late December 2007. VinaPay generates revenues from mobile phone users when they purchase airtime using the VTU system.

### *Other Countries*

We have also implemented UEPS systems in Rwanda, Burundi, Malawi and Mozambique, some of which are considered among the poorest countries in the world. In Malawi, our system has been implemented by the Reserve Bank of Malawi as a national payment system.

In addition, our relationship with MTN Group (Africa/Middle East's largest mobile operator group) regarding VTU continues to progress. Both MTN Ivory Coast and MTN Rwanda have purchased VTU systems, bringing the number of MTN operators using VTU for electronic pre-paid airtime top-up to six.

## **Critical Accounting Policies**

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

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, 2008.

- Revenue Recognition – System Implementation Projects;
- Deferred taxation;
- Stock-based compensation;
- Intangible assets acquired through the acquisition of Prism and BGS;
- Accounts receivable and allowance for doubtful debts; and
- Research and development.

## **Recent accounting pronouncements adopted**

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

## Recent accounting pronouncements not yet adopted as of March 31, 2009

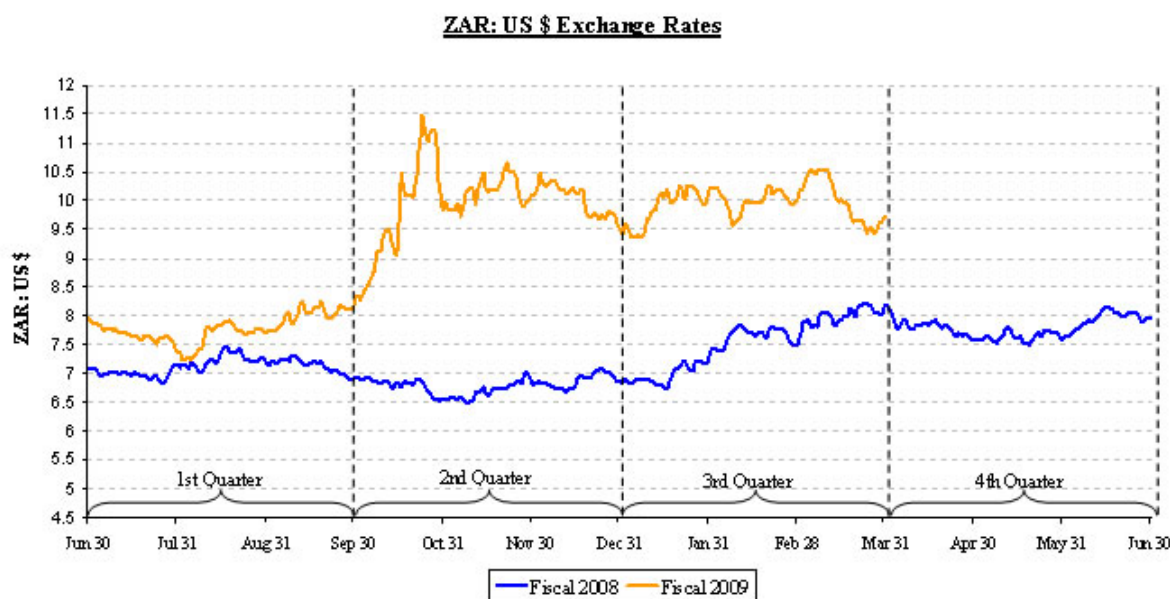
Refer to Note 1 of the unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of March 31, 2009, including the expected dates of adoption and effects on financial condition, results of operations and cash flows.

## Currency Exchange Rate Information

### Actual exchange rates

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

	Three months ended March 31,		Nine months ended March 31,		Year ended June 30,
	2009	2008	2009	2008	2008
ZAR : \$ average exchange rate	9.9583	7.5459	9.2287	7.1516	7.3123
Highest ZAR : \$ rate during period	10.7025	8.2440	11.8506	8.2440	8.2440
Lowest ZAR : \$ rate during period	9.1614	6.6810	7.1557	6.4262	6.4262
Rate at end of period	9.7205	8.1940	9.7205	8.1940	7.9645



### Translation exchange rates

We are required to translate our results of operations from ZAR to U.S. dollars on a monthly basis. Thus, the average rates used to translate this data for the three and nine months ended March 31, 2009 and 2008, 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:

	Three months ended March 31,		Nine months ended March 31,		Year ended June 30,
	2009	2008	2009	2008	2008
Income and expense items: \$1 = ZAR.	9.9617	7.4118	9.0829	7.1306	7.2905
Balance sheet items: \$1 = ZAR	9.7205	8.1940	9.7205	8.1940	7.9645

## Results of operations

The discussion of our consolidated overall results of operations is based on amounts as reflected in “Item 1 – Financial Statements” which are reported in US dollars and are prepared in accordance with US GAAP. Our discussion analyzes our results of operations both in US dollars and ZAR, because ZAR is the functional currency of the entities which contribute the majority of our profits and is the currency in which the majority of our transactions are initially incurred and measured. Due to the significant impact of currency fluctuations between the US dollar and ZAR on our reported results and because we use the US dollar as our reporting currency, we believe that the supplemental presentation of our results of operations in ZAR is useful to investors to understand the changes in the underlying trends of our business.

We analyze our business and operations in terms of four inter-related but independent operating segments: (1) transaction-based activities, (2) smart card accounts, (3) financial services, and (4) hardware, software and related technology sales. 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.

### Third quarter of fiscal 2009 compared to the third quarter of fiscal 2008

#### Consolidated overall results of operations

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

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

	<b>In United States Dollars (US GAAP)</b>		
	<b>Three months ended March 31,</b>		
	<b>2009 \$ '000</b>	<b>2008 \$ '000</b>	<b>% change</b>
Revenue	55,878	63,066	(11)%
Cost of goods sold, IT processing, servicing and support	15,225	16,515	(8)%
Selling, general and administration	14,772	15,185	(3)%
Depreciation and amortization	4,266	2,716	57%
Loss on sale of microlending business	742	-	
Operating income	20,873	28,650	(27)%
Interest income, net	2,125	3,754	(43)%
Income before income taxes	22,998	32,404	(29)%
Income tax expense	8,543	5,156	66%
Net income from continuing operations before minority interest and loss from equity-accounted investments	14,455	27,248	(47)%
Minority interest	(185)	-	
Loss from equity-accounted investments	(261)	(281)	(7)%
Net income	14,379	26,967	(47)%

Table 4

	In South African Rand (US GAAP)		
	Three months ended March 31,		
	2009 ZAR '000	2008 ZAR '000	ZAR % change
Revenue	556,640	467,432	19%
Cost of goods sold, IT processing, servicing and support	151,666	122,405	24%
Selling, general and administration	147,154	112,548	31%
Depreciation and amortization	42,496	20,131	111%
Loss on sale of microlending business	7,392	-	
Operating income	207,932	212,348	(2)%
Interest income, net	21,169	27,824	(24)%
Income before income taxes	229,101	240,172	(5)%
Income tax expense	85,103	38,215	123%
Net income from continuing operations before minority interest and loss from equity-accounted investments	143,998	201,957	(29)%
Minority interest	(1,843)	-	
Loss from equity-accounted investments	(2,600)	(2,083)	25%
Net income	143,241	199,874	(28)%

There were a number of factors that significantly affected the comparability of our 2009 third quarter results to last year. First, the South African rand, our functional currency, depreciated 34% against the U.S. dollar, our reporting currency, based on average exchange rates during the periods, which adversely affected our 2009 reported revenues and net income. Second, our 2008 results were favorably impacted by a reduction in our fully-distributed tax rate which became effective during the third quarter of 2008. Third, 2009 includes a loss from BGS, which we did not own during 2008. BGS' operations are highly seasonal, with its second and fourth quarters typically being its most profitable and its first and third quarters generally the weakest. Fourth, 2009 includes intangible asset amortization related to the BGS acquisition. Fifth, our fiscal 2008 results were favorably impacted by revenues we recorded from our Ghana contract, which was largely completed prior to the most recent quarter. Finally, we recorded a higher stock-based compensation charge in 2009 compared with the prior year.

Analyzed in ZAR the increase in revenue and cost of goods sold, IT processing, servicing and support for the third quarter of fiscal 2009, was primarily due to the higher volumes in our transaction-based activities and a greater number of UEPS-based smart card holders.

Our operating income margin decreased to 37% from 45% mainly as a result of a lower contribution from our hardware, software and related technology sales segment; increased intangible asset amortization related to the BGS acquisition; increases in goods and services purchased from third parties, including the effects of the increase in inflation in South Africa; and stock based compensation charges.

Selling, general and administration expense increased primarily due to the stock-based compensation charge related to the stock options and restricted stock awarded in the first quarter of fiscal 2009 and increases in goods and services purchased from third parties.

Our direct costs of maintaining a listing on Nasdaq and obtaining a listing on the JSE, as well as compliance with the Sarbanes-Oxley Act of 2002, or Sarbanes, particularly Section 404 of Sarbanes, includes independent directors' fees, legal fees, fees paid to Nasdaq, our compliance officer's salary, fees paid to consultants who assist with Sarbanes compliance, fees paid to the JSE and consultants and advisors assisting with the JSE listing, and fees paid to our independent accountants related to the audit and review process. This has resulted in expenditures of \$0.4 million (ZAR 4.1 million) and \$0.4 million (ZAR 3.2 million) during the third quarters of fiscal 2009 and 2008, respectively.

The table below presents the amortization related to the acquired intangible assets recognized in the Prism and BGS acquisitions and the related tax effects included in our reported results for the third quarter of fiscal 2009 and 2008:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$ '000</b>
Amortization included in depreciation and amortization expense:	3,189	1,343
Prism acquisition	999	1,343
BGS acquisition	2,190	-
Deferred tax included in income tax expense:	888	487
Prism acquisition	340	487
BGS acquisition	548	-

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>ZAR '000</b>	<b>ZAR '000</b>
Amortization included in depreciation and amortization expense:	31,767	9,951
Prism acquisition	9,951	9,951
BGS acquisition	21,816	-
Deferred tax included in income tax expense:	8,844	3,607
Prism acquisition	3,385	3,607
BGS acquisition	5,459	-

Property, plant and equipment acquired to provide administration and distribution services to our customers is depreciated over the shorter of expected useful life and the contract period with the provincial government. Through March 31, 2009, we were in an extension phase with all our contracts thus and the majority of our property, plant and equipment related to the administration and distribution of social welfare grants had been written off in prior periods. Accordingly, depreciation expense related to these activities decreased during the third quarter of fiscal 2009 compared with the third quarter of fiscal 2008. This reduction in depreciation was partially offset by the increase in depreciation related to new back-end processing computers and our participating merchant POS terminals.

During the third quarter of fiscal 2009 we sold our traditional microlending business and recognized a loss of approximately \$0.7 million (ZAR 7.4 million).

In ZAR, interest on surplus cash decreased to \$4.3 million (ZAR 42.6 million) from \$6.9 million (ZAR 51.1 million). The decrease in interest on surplus cash held in South Africa was due to a lower average daily ZAR cash balance during fiscal 2009 compared with fiscal 2008 and lower deposit rates resulting from the adjustment in the South African prime interest rate from an average of approximately 14.50% per annum during fiscal 2008 to 14.32% per annum during fiscal 2009. As our new SASSA contract does not require us to pre-fund the payment of social welfare grants in the KwaZulu-Natal and Eastern Cape provinces, we expect our interest on surplus cash for the fourth quarter of fiscal 2009 to increase from the comparable period in fiscal 2008 primarily as a result of what we expect to be higher average daily ZAR cash balances.

In ZAR, interest expense decreased due to a decrease in the average rates of interest on our short-term facilities as a result of the South African Reserve Bank lowering the repurchase rate by 2.0% during the third quarter of fiscal 2009. In ZAR, finance costs decreased to \$2.1 million (ZAR 21.4 million) from \$3.1 million (ZAR 22.9 million).

Total tax expense increased to \$8.5 million (ZAR 85.1 million) from \$5.2 million (ZAR 38.2 million) primarily as a result of the change in our fully distributed tax rate from 36.89% to 35.45% during the third quarter of fiscal 2008 when the South African legislation to reduce Secondary Tax on Companies from a rate of 12.5% to 10% was enacted. Our third quarter of fiscal 2008 tax expense includes the result of our net change in our fully distributed tax rate of \$5.9 million (ZAR 43.9 million). Our effective tax rate for the third quarter of fiscal 2009 was 37.1%, compared to 15.9% for the third quarter of fiscal 2008. The increase was primarily due to the lower tax charge caused by the reduction in our fully distributed tax rate in the third quarter of fiscal 2008, as well as an increase in non-deductible expenses during the third quarter of fiscal 2009, including the loss on sale of our traditional microlending business.

Loss from equity-accounted investments for the third quarter of fiscal 2009 and 2008 was \$0.3 million (ZAR 2.6 million) and \$0.3 million (ZAR 2.1 million), respectively.

## Results of operations by operating segment

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

Table 7

Operating Segment	In United States Dollars (US GAAP)				
	Three months ended March 31,				
	2009 \$ '000	% of total	2008 \$ '000	% of total	% change
Consolidated revenue:					
Transaction-based activities	35,995	64%	37,254	59%	(3)%
Smart card accounts	6,676	12%	8,696	14%	(23)%
Financial services	1,357	2%	1,999	3%	(32)%
Hardware, software and related technology sales	11,850	22%	15,117	24%	(22)%
<b>Total consolidated revenue</b>	<b>55,878</b>	<b>100%</b>	<b>63,066</b>	<b>100%</b>	<b>(11)%</b>
Consolidated operating income (loss):					
Transaction-based activities	21,638	104%	20,347	71%	6%
Operating income before amortization	21,962		20,783		6%
Amortization of intangible assets	(324)		(436)		(26)%
Smart card accounts	3,034	15%	3,953	14%	(23)%
Financial services	(261)	(1)%	507	2%	(151)%
Operating income before loss on sale of microlending business	481		507		(5)%
Loss of sale of microlending business	(742)		-		
Hardware, software and related technology sales	(1,398)	(7)%	5,380	19%	(126)%
Operating income before amortization	1,467		6,287		(77)%
Amortization of intangible assets	(2,865)		(907)		216%
Corporate/eliminations	(2,140)	(11)%	(1,537)	(6)%	39%
<b>Total consolidated operating income</b>	<b>20,873</b>	<b>100%</b>	<b>28,650</b>	<b>100%</b>	<b>(27)%</b>

Table 8

Operating Segment	In South African Rand (US GAAP)				
	Three months ended March 31,				
	2009 ZAR '000	% of total	2008 ZAR '000	% of total	% change
Consolidated revenue:					
Transaction-based activities	358,572	64%	276,119	59%	30%
Smart card accounts	66,504	12%	64,453	14%	3%
Financial services	13,518	2%	14,816	3%	(9)%
Hardware, software and related technology sales	118,046	22%	112,044	24%	5%
<b>Total consolidated revenue</b>	<b>556,640</b>	<b>100%</b>	<b>467,432</b>	<b>100%</b>	<b>19%</b>
Consolidated operating income (loss):					
Transaction-based activities	215,552	104%	150,808	71%	43%
Operating income before amortization	218,781		154,037		42%
Amortization of intangible assets	(3,229)		(3,229)		-%
Smart card accounts	30,224	15%	29,299	14%	3%
Financial services	(2,600)	(1)%	3,758	2%	(169)%
Operating income before loss on sale of microlending business	4,792		3,758		28%
Loss of sale of microlending business	(7,392)		-		
Hardware, software and related technology sales	(13,926)	(7)%	39,875	19%	(135)%
Operating income before amortization	14,612		46,597		(69)%
Amortization of intangible assets	(28,538)		(6,722)		325%
Corporate/eliminations	(21,318)	(11)%	(11,392)	(6)%	87%
<b>Total consolidated operating income</b>	<b>207,932</b>	<b>100%</b>	<b>212,348</b>	<b>100%</b>	<b>(2)%</b>



## Transaction-based activities

In ZAR, the increases in revenue and operating income were primarily due to higher average revenue per grant paid in all provinces where we provide a welfare distribution service, higher volumes from four of our provincial contracts, increased revenue resulting from the opening of the April 2009 pay file in all five provinces in the last two days of March 2009 (as opposed to an early opening in only four provinces in the prior year), continued adoption of our merchant acquiring system in the provinces where we distribute welfare grants and increased transacting ability at participating retailers' POS devices in these provinces. We discuss these factors in more detail below.

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

Operating income margin of our transaction-based activities increased to 60% from 55%. The increase was due primarily to the early opening of the April 2009 pay file and price increases described above and improved margins at EasyPay, which was partially offset by continued inflationary increases in our cost components.

### ***Higher average revenue per grant paid and higher overall volumes from our provincial contracts:***

During the third quarter of fiscal 2009, we experienced growth in four of the provinces where we administer payments of social welfare grants. This growth was mainly due to an increase in the number of child support grants and disability grants approved by the various provincial governments. In total, the volume of payments processed during the third quarter of fiscal 2009 increased 2% to 12,087,976 from the third quarter of fiscal 2008. We believe that SASSA may experience budgetary constraints in the foreseeable future and while we expect this to negatively impact on the volume of grants distributed to social welfare recipients, we do not believe that the volume of grants will decrease significantly from the current level. In addition, we do not expect significant growth in the number of grant recipients in the foreseeable future.

The volumes under existing provincial contracts during the third quarter of fiscal 2009 and 2008 as well as average revenue per grant paid are detailed below:

**Table 9**

Province	Three months ended March 31,					
	Number of Grants Paid		Average Revenue per Grant Paid			
	2009	2008	2009 (1)	2008 (2)	2009 ZAR(1)	2008 ZAR(2)
KwaZulu-Natal (A)	5,253,330	5,051,827	2.94	2.88	29.28	21.76
Limpopo (B)	2,980,649	2,949,459	2.06	2.43	20.56	18.32
North West (C)	1,276,789	1,245,238	2.54	2.94	25.33	22.19
Northern Cape (D)	504,587	494,664	2.29	2.69	22.84	20.26
Eastern Cape (E)	2,072,621	2,151,385	1.92	2.19	19.07	16.56
<b>Total</b>	<b>12,087,976</b>	<b>11,892,573</b>				

(1) Average Revenue per Grant Paid excludes \$ 0.55 (ZAR 5.50) related to the provision of smart card accounts.

(2) Average Revenue per Grant Paid excludes \$ 0.73 (ZAR 5.50) related to the provision of smart card accounts.

(A) - in ZAR, the increase in the Average Revenue per Grant Paid in KwaZulu-Natal was due to an increase in the value of all grant types, which forms the basis of our remuneration in this province as well as an inflation adjustment to the rate we charge. During the second quarter of fiscal 2009 the South African government announced an interim increase in the grant amounts payable to beneficiaries.

(B) - in ZAR, the increase in the Average Revenue per Grant Paid in Limpopo was due to the negotiated annual price adjustment effective from January 2009.

(C) - in ZAR, the increase in the Average Revenue per Grant Paid in North West was due to the negotiated annual price adjustment approved by the provincial government in September 2008.

(D) - in ZAR, the increase in the Average Revenue per Grant Paid in Northern Cape was due to negotiated price increases effective from January 2008.

(E) - in ZAR, the increase in the Average Revenue per Grant Paid in Eastern Cape was due to negotiated price increases effective from November 2008.

**Key statistics and indicators related to our merchant acquiring system:**

During the first quarter of fiscal 2009 we performed an extensive exercise to identify those merchants that had contracted to participate in our merchant acquiring system and had an installed but unused POS device. After discussions with these merchants a number of them cancelled their contracts to participate in our merchant acquiring system. In addition, we have implemented procedures to identify merchants that are abusing our merchant acquiring system. If a merchant is identified as abusing the merchant acquiring system, its contract is terminated and its equipment is removed. However, these contract cancellations and terminations have had no impact on the number of grants paid through our merchant acquiring system.

The key statistics and indicators of our merchant acquiring system during the third quarter of fiscal 2009 and 2008, in each of the South African provinces where we distribute social welfare grants are summarized in the table below:

**Table 10**

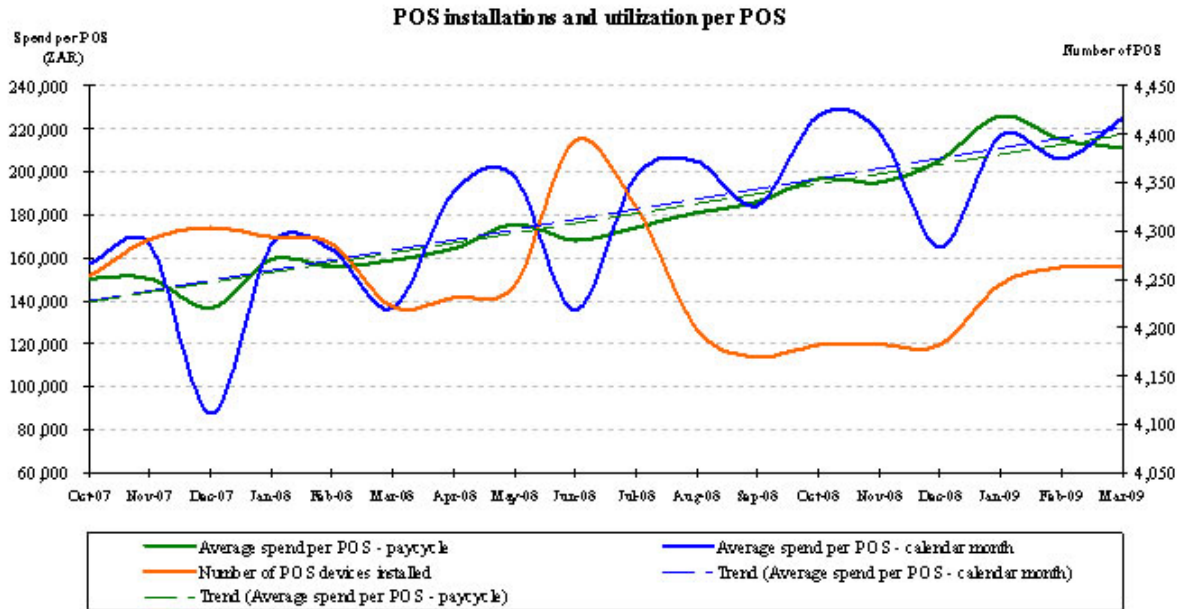
	Three months ended March 31,	
	2009	2008
Province included (1)	NC, EC, KZN, L and NW	NC, EC, KZN, L and NW
Total POS devices installed	4,263	4,222
Number of participating UEPS retail locations	2,391	2,468
Value of transactions processed through POS devices during the quarter (2) (in \$ '000)	276,947	264,525
Value of transactions processed through POS devices during the completed pay cycles for the quarter (3) (in \$ '000)	278,685	268,085
Value of transactions processed through POS devices during the quarter (2) (in ZAR '000)	2,758,391	1,996,072
Value of transactions processed through POS devices during the completed pay cycles for the quarter (3) (in ZAR '000)	2,775,707	2,022,938
Number of grants paid through POS devices during the quarter (2)	4,690,822	3,910,667
Number of grants paid through POS devices during the completed pay cycles for the quarter (3)	4,769,010	3,979,363
Average number of grants processed per terminal during the quarter (2) .	1,111	917
Average number of grants processed per terminal during the completed pay cycles for the quarter (3)	1,129	933

(1) NC = Northern Cape, EC = Eastern Cape, KZN = KwaZulu-Natal, L = Limpopo, NW = North West.

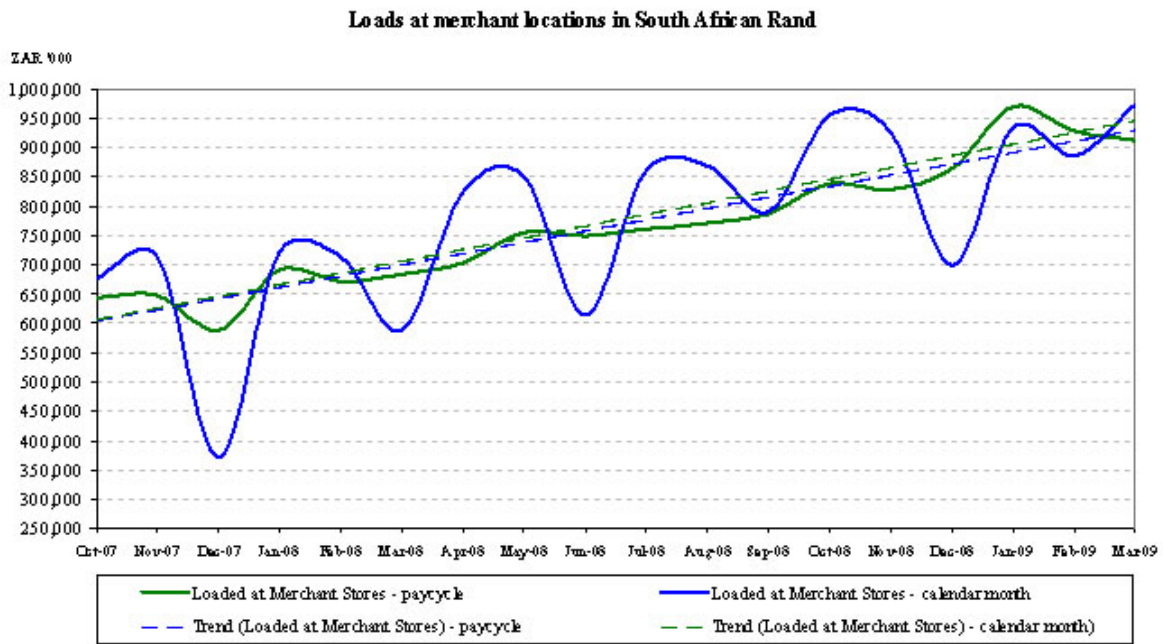
(2) Refers to events occurring during the quarter (i.e., based on three calendar months).

(3) Refers to events occurring during the completed pay cycle.

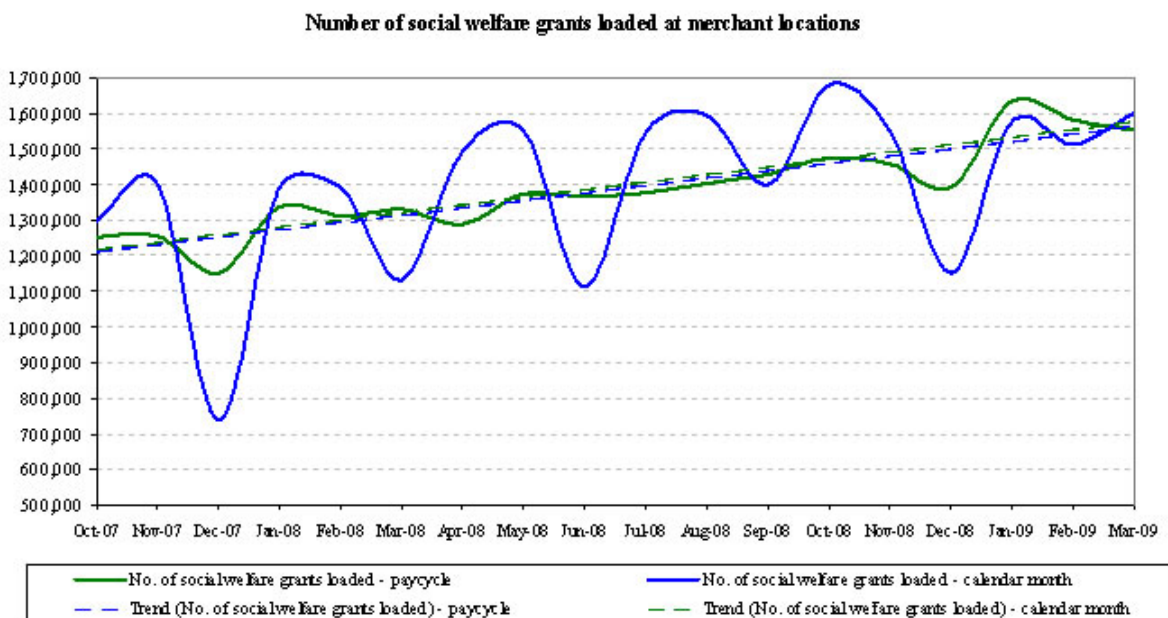
The following chart presents the number of POS devices installed and the average spend per POS device, *per pay cycle and calendar month*, during the 18 month period ended March 31, 2009:



The following chart presents the growth in the value of loads at merchant locations processed through our installed base of POS devices, *per pay cycle and calendar month*, during the 18 month period ended March 31, 2009:



The following graph presents the number of social welfare grants loaded at merchant locations, *per pay cycle and calendar month*, for the 18 month period ended March 31, 2009:



### **April 2009 pay file**

The April 2008 pay file was opened in March 2008 at merchant locations in all provinces except KwaZulu-Natal, where we distribute the highest number of grants and which provides the highest revenue per grant paid. The April 2009 pay file was opened in March 2009 at merchant locations in KwaZulu-Natal as well as all other provinces, which resulted in an increase in revenue and operating income of approximately \$1.0 million (ZAR 9.9 million).

### **EasyPay transaction fees**

During the third quarter of fiscal 2009 and 2008, EasyPay processed 143 million and 129 million transactions with an approximate value of \$3.1 billion (ZAR 31.3 billion) and \$3.7 billion (ZAR 28.1 billion), respectively. The average fee per transaction during the third quarter of fiscal 2009 and 2008, was \$0.02 (ZAR 0.21) and \$0.03 (ZAR 0.20), respectively. South Africa has one of the largest prepaid mobile phone airtime markets in the world and we believe that we, through our EasyPay offering, can generate additional revenues from the provision of a transaction switching service to retailers and other sellers of prepaid airtime and electricity. The increase in transaction volumes during the third quarter of fiscal 2009 was primarily driven by an increase in prepaid airtime and electricity volumes. Growth in the South African retail sector has started to slow down and we expect flat transaction volume during the fourth quarter of fiscal 2009. We do not expect a significant fluctuation, in ZAR, in the average fee per transaction during the fourth quarter of fiscal 2009.

Operating income margins generated by EasyPay during the third quarter of fiscal 2009 and 2008, were 45% and 21%, respectively, which is lower than those generated by our social welfare distribution business and reduced the operating income margins within our transaction-based activities segment. Our operating income margin at EasyPay increased primarily as a result of the implementation of a new integrated switch, which has improved operating efficiencies. We expect the new integrated switch to greatly enhance our offering at EasyPay and enable us to take advantage of new business opportunities.

Amortization of EasyPay intangible assets during the third quarter of fiscal 2009 and 2008 was \$0.3 million (ZAR 3.2 million) and \$0.4 million (ZAR 3.2 million), respectively, and is included in the calculation of EasyPay operating margins. Operating income margin before amortization of EasyPay intangible assets during the third quarter of fiscal 2009 and 2008 was 56% and 34%, respectively.

## Smart card accounts

Operating income margin from providing smart card accounts was constant at 45% for the third quarter of fiscal 2009 and 2008.

In ZAR, revenue from the provision of smart card-based accounts grew in proportion to the higher number of beneficiaries serviced through our social welfare payment contracts. A total number of 4,006,847 smart card-based accounts were active at March 31, 2009, compared to 3,956,882 active accounts as at March 31, 2008. The increase in the number of active accounts resulted from an increase in the number of beneficiaries in four provinces qualifying for government grants and the transfer of beneficiaries in the North West province from the South African Post Office to our system.

## Financial services

On March 1, 2009, we sold our traditional microlending business and thus, segment results include revenue and operating income from this business only for January and February 2009. Revenue and operating income for the third quarter of fiscal 2008 include the results of our traditional microlending business for the full quarter.

Included in our operating loss is the loss on the sale of our traditional microlending business of \$0.7 million (ZAR 7.4 million).

Revenue from UEPS-based lending decreased primarily due to the lower number of loans granted. In addition, on average, the return on these UEPS-based loans was lower.

Some of the key indicators of these businesses are illustrated below:

**Table 11**

			As at March 31,			
	2009	2008	\$% change	2009	2008	ZAR % change
	\$ '000	\$ '000		ZAR '000	ZAR '000	
<b>Traditional microlending<sup>(1)</sup>:</b>						
Finance loans receivable – gross	-	4,611	(100)%	-	37,777	(100)%
Allowance for doubtful finance loans receivable	-	(2,667)	(100)%	-	(21,850)	(100)%
Finance loans receivable – net	-	1,944	(100)%	-	15,927	(100)%
<b>UEPS-based lending:</b>						
Finance loans receivable – net and gross (i.e., no allowance)	2,552	2,986	(15)%	24,952	24,469	2%
Total finance loans receivable, net	2,552	4,930		24,952	40,396	

(1) – our traditional microlending business was sold on March 1, 2009.

Excluding the effects of the loss from the sale of our traditional microlending business, our operating income margin increased to 35% from 25% primarily as a result of the sale of our traditional microlending business. Our UEPS-based microlending business has a significantly lower cost base than the traditional microlending business. We expect our segment margins to improve as a result of the sale.

## Hardware, software and related technology sales

Operating results for this segment include BGS only for fiscal 2009. The table below presents the contribution of BGS to our revenue and operating income during fiscal 2009:

**Table 12**

	Three months ended March 31,	
	2009 \$ '000	2008 \$ '000
Revenue	11,850	15,117
Hardware, software and related technology sales excluding BGS	9,690	15,117
BGS	2,160	-
Operating (loss) income	(1,398)	5,380
Hardware, software and related technology sales excluding BGS	2,018	5,380
BGS	(3,416)	-
BGS excluding amortization of acquisition related intangible assets	(1,226)	-
Amortization of acquisition related intangible assets	(2,190)	-

**Table 13**

	Three months ended March 31,	
	2009 ZAR '000	2008 ZAR '000
Revenue	118,046	112,044
Hardware, software and related technology sales excluding BGS	96,529	112,044
BGS	21,517	-
Operating (loss) income	(13,926)	39,875
Hardware, software and related technology sales excluding BGS	20,103	39,875
BGS	(34,029)	-
BGS excluding amortization of acquisition related intangible assets	(12,213)	-
Amortization of acquisition related intangible assets	(21,816)	-

In ZAR, the increase in revenue was primarily due to the inclusion of BGS, offset by lower revenue from our Bank of Ghana contract. In ZAR, the decrease in operating income resulted from lower revenue from the Bank of Ghana as well as, an operating loss from our BGS operations due to limited revenue activity, bonuses paid to its employees related to its 2008 fiscal year ended December and increased amortization of BGS intangible assets.

During the third quarter of fiscal 2009, we delivered hardware, including smart cards, to and performed software development for the Bank of Ghana and recognized revenue of approximately \$0.8 million (ZAR 8.1 million). During the third quarter of fiscal 2008, revenue included approximately \$4.3 million (ZAR 31.7 million) from software development and customization activities and hardware sales. Software development and customization are high margin activities for us. thus, lower revenues from the Bank of Ghana contract in fiscal 2009 contributed to the decrease in operating income.

During the third quarter of fiscal 2009, we did not make any hardware sales to Nedbank Limited, or Nedbank. During the third quarter of fiscal 2008 we recognized revenue of \$0.6 million (ZAR 4.5 million) from sales of hardware to Nedbank.

Amortization of Prism intangible assets during the third quarter of fiscal 2009 and 2008 was approximately \$0.7 million (ZAR 6.7 million) and \$0.9 million (ZAR 6.7 million), respectively, and reduced our operating income.

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

## Corporate/eliminations

The increase in our operating loss in this segment resulted from increases in corporate head office-related expenditure, including the effects of the increase in inflation in South Africa and stock-based compensation charges. Our operating loss includes expenditure related to compliance with Sarbanes, non-executive directors' fees; employee and executive salaries and bonuses; stock-based compensation; legal and audit fees; directors and officer's insurance premiums; telecommunications expenses; property-related expenditures including utilities, rental, security and maintenance; and elimination entries.

### Year to date fiscal 2009 compared to year to date fiscal 2008

#### Consolidated overall results of operations

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

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

**Table 14**

	In United States Dollars (US GAAP)		
	Nine months ended March 31,		
	2009 \$'000	2008 \$ '000	\$% change
Revenue	185,201	191,825	(3)%
Cost of goods sold, IT processing, servicing and support	51,636	51,833	-%
Selling, general and administration	48,081	48,915	(2)%
Depreciation and amortization	11,950	8,295	44%
Loss on sale of microlending business	742	-	
Impairment of goodwill	1,836	-	
Operating income	70,956	82,782	(14)%
Foreign exchange gain related to short-term investment	26,657	-	
Interest income, net	7,590	10,852	(30)%
Income before income taxes	105,203	93,634	12%
Income tax expense	35,444	27,816	27%
Net income from continuing operations before minority interest and loss from equity-accounted investments	69,759	65,818	6%
Minority interest	577	(196)	(394)%
Loss from equity-accounted investments	(797)	(801)	(1)%
Net income	68,385	65,213	5%

**Table 15**

	In South African Rand (US GAAP)		
	Nine months ended March 31,		
	2009 ZAR '000	2008 ZAR '000	ZAR % change
Revenue	1,682,170	1,367,825	23%
Cost of goods sold, IT processing, servicing and support	469,007	369,599	27%
Selling, general and administration	436,716	348,793	25%
Depreciation and amortization	108,542	59,149	84%
Loss on sale of microlending business	6,740	-	
Impairment of goodwill	16,676	-	
Operating income	644,489	590,284	9%
Foreign exchange gain related to short-term investment	242,124	-	
Interest income, net	68,940	77,381	(11)%
Income before income taxes	955,553	667,665	43%
Income tax expense	321,936	198,345	62%
Net income from continuing operations before minority interest and loss from equity-accounted investments	633,617	469,320	35%
Minority interest	5,241	(1,398)	
Loss from equity-accounted investments	(7,239)	(5,712)	27%
Net income	621,137	465,006	34%

There were a number of factors that significantly affected the comparability of our year to date fiscal 2009 results to last year. First, the South African rand, our functional currency, depreciated 27% against the U.S. dollar, our reporting currency, based on average exchange rates during the periods, which adversely affected our 2009 reported revenues and net income. Second, our 2009 results include net income resulting from a foreign exchange gain related to the asset swap we entered into during the period that the short-term loan facility was to remain outstanding. Third, 2009 includes income from BGS, which we did not own during 2008. BGS' operations are highly seasonal, with its second and fourth quarters typically being its most profitable and its first and third quarters generally the weakest. Fourth, 2009 includes intangible asset amortization related to the BGS acquisition. Fifth, our fiscal 2008 results were favorably impacted by revenues we recorded from our Ghana contract, which was largely completed prior to the most recent quarter. Finally, we recorded a higher stock-based compensation charge in 2009 compared with the prior year.

Analyzed in ZAR the increase in revenue and cost of goods sold, IT processing, servicing and support for the first three quarters of fiscal 2009, was primarily due to the higher volumes in our transaction-based activities and a greater number of UEPS-based smart card holders and the acquisition of BGS.

Our operating income margin decreased to 38% from 43% mainly as a result of the decrease in contribution from our hardware, software and related technology sales segment, which generates a lower margin than our transaction-based activities segment; increased intangible asset amortization related to the BGS acquisition and increases in goods and services purchased from third parties, including the effects of the increase in inflation in South Africa, and stock based compensation charges.

We recognized a foreign exchange gain of \$26.7 million (ZAR 234.6 million) during the second quarter of fiscal 2009 resulting from an asset swap arrangement we entered into in August 2008.

During the first three quarters of fiscal 2009 we sold our traditional microlending business and recognized a loss of approximately \$0.7 million (ZAR 6.7 million).

Selling, general and administration expenses increased primarily due to the stock-based compensation charge related to the options and restricted stock awarded in the first quarter of fiscal 2009, increases in goods and services purchased from third parties, including the effects of the increase in inflation in South Africa and expenses of \$0.5 million related to our JSE listing.

Our direct costs of maintaining a listing on Nasdaq and obtaining a listing on the JSE, as well as compliance with the Sarbanes-Oxley Act of 2002, or Sarbanes, particularly Section 404 of Sarbanes, includes independent directors' fees, legal fees, fees paid to Nasdaq, our compliance officer's salary, fees paid to consultants who assist with Sarbanes compliance, fees paid to the JSE and consultants and advisors assisting with the JSE listing, and fees paid to our independent accountants related to the audit and review process. This has resulted in expenditures of \$1.8 million (ZAR 15.9 million) and \$1.5 million (ZAR 10.5 million) during the first three quarters of fiscal 2009 and 2008, respectively.

The table below presents the amortization related to the acquired intangible assets recognized in the Prism and BGS acquisitions and the related tax effects included in our reported results for the first three quarters of fiscal 2009 and 2008:

	Nine months ended March 31,	
	2009 \$ '000	2008 \$ '000
Amortization included in depreciation and amortization expense:	8,488	4,187
Prism acquisition	3,287	4,187
BGS acquisition	5,201	-
Deferred tax included in income tax expense:	2,420	1,518
Prism acquisition	1,118	1,518
BGS acquisition	1,302	-



Table 17

	Nine months ended	
	March 31,	
	2009	2008
	ZAR '000	ZAR '000
Amortization included in depreciation and amortization expense:	77,093	29,853
Prism acquisition	29,853	29,853
BGS acquisition	47,240	-
Deferred tax included in income tax expense:	21,981	10,821
Prism acquisition	10,155	10,821
BGS acquisition	11,826	-

Property, plant and equipment acquired to provide administration and distribution services to our customers is depreciated over the shorter of expected useful life and the contract period with the provincial government. Through March 31, 2009, we were in an extension phase with all our contracts and thus the majority of our property, plant and equipment related to the administration and distribution of social welfare grants had been written off in prior periods. Accordingly, depreciation expense related to these activities decreased during the current year compared with the prior year. This reduction in depreciation was partially offset by the increase in depreciation related to new back-end processing computers and our participating merchant POS terminals.

In ZAR, interest on surplus cash increased to \$16.1 million (ZAR 146.0 million) from \$19.1 million (ZAR 136.2 million). The increase in interest on surplus cash held in South Africa was due to a higher average daily ZAR cash balance and higher deposit rates resulting from the adjustment in the South African prime interest rate from an average of approximately 13.94% per annum for the fiscal period to March 2008 to 15.08% per annum for the fiscal year to March 2009.

Included in interest expense is the facility fee of approximately \$1.1 million (ZAR 9.7 million) that we paid to the lender under the short-term loan facility we obtained to fund the BGS acquisition and approximately \$0.8 million (ZAR 7.3 million) interest on the short-term loan facility. Excluding the impact of this facility fee and the interest, interest expense increased due to an increase in the average rates of interest on our short-term facilities. In ZAR, excluding the impact of the facility fee and interest, finance costs increased to \$6.6 million (ZAR 59.6 million) from \$8.3 million (ZAR 59.2 million).

Total tax expense increased to \$35.4 million (ZAR 321.9 million) from \$27.8 million (ZAR 198.3 million). Deferred tax assets and liabilities are measured utilizing the enacted fully distributed tax rate. Accordingly, a reduction in the fully distributed tax rate from 35.45% to 34.55% during the fiscal period to March 2009 results in lower deferred tax assets and liabilities and the net change of \$3.5 million (ZAR 26.5 million) is included in our income tax expense in our unaudited condensed consolidated statement of operations. In ZAR, without giving effect to the change in our fully-distributed tax rate, our total tax expense increased, primarily due to the foreign exchange gain discussed above. Our effective tax rate increased to 33.7% from 29.7%. The change in our effective tax rate was primarily due to the foreign exchange gain and an increase in non-deductible expenses.

Loss from equity-accounted investments for the fiscal period to March 2009 and 2008 was \$0.8 million (ZAR 7.2 million) and \$0.8 million (ZAR 5.7 million), respectively.

## Results of operations by operating segment

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

**Table 18** *In United States Dollars (US GAAP)*

Operating Segment	Nine months ended March 31,				
	2009 \$ '000	% of total	2008 \$ '000	% of total	% change
Consolidated revenue:					
Transaction-based activities	109,159	59%	115,409	60%	(5)%
Smart card accounts	21,957	12%	27,469	14%	(20)%
Financial services	4,571	2%	6,317	3%	(28)%
Hardware, software and related technology sales	49,514	27%	42,630	23%	16%
<b>Total consolidated revenue</b>	<b>185,201</b>	<b>100%</b>	<b>191,825</b>	<b>100%</b>	<b>(3)%</b>
Consolidated operating income (loss):					
Transaction-based activities	60,929	86%	62,317	75%	(2)%
Operating income before amortization	61,995		63,675		(3)%
Amortization of intangible assets	(1,066)		(1,358)		(22)%
Smart card accounts	9,979	14%	12,485	15%	(20)%
Financial services	(1,504)	(2)%	1,411	2%	(207)%
Operating income before impairment and loss on sale of microlending business	1,074		1,411		(24)%
Impairment of goodwill and loss on sale of microlending business	(2,578)		-		
Hardware, software and related technology sales	8,229	12%	9,585	12%	(14)%
Operating income before amortization	15,651		12,414		26%
Amortization of intangible assets	(7,422)		(2,829)		162%
Corporate/eliminations	(6,677)	(10)%	(3,016)	(4)%	121%
<b>Total consolidated operating income</b>	<b>70,956</b>	<b>100%</b>	<b>82,782</b>	<b>100%</b>	<b>(14)%</b>

**Table 19** *In South African Rand (US GAAP)*

Operating Segment	Nine months ended March 31,				
	2009 ZAR '000	% of total	2008 ZAR '000	% of total	% change
Consolidated revenue:					
Transaction-based activities	991,485	59%	822,934	60%	20%
Smart card accounts	199,434	12%	195,870	14%	2%
Financial services	41,518	2%	45,044	3%	(8)%
Hardware, software and related technology sales	449,733	27%	303,977	23%	48%
<b>Total consolidated revenue</b>	<b>1,682,170</b>	<b>100%</b>	<b>1,367,825</b>	<b>100%</b>	<b>23%</b>
Consolidated operating income (loss):					
Transaction-based activities	553,414	86%	444,357	75%	25%
Operating income before amortization	563,100		454,043		24%
Amortization of intangible assets	(9,686)		(9,686)		-%
Smart card accounts	90,639	14%	89,025	15%	2%
Financial services	(13,661)	(2)%	10,061	2%	(236)%
Operating income before impairment and loss on sale of microlending business	9,755		10,061		(3)%
Impairment of goodwill and loss on sale of microlending business	(23,416)		-		
Hardware, software and related technology sales	74,744	12%	68,347	12%	9%
Operating income before amortization	142,151		88,514		61%
Amortization of intangible assets	(67,407)		(20,167)		234%
Corporate/eliminations	(60,647)	(10)%	(21,506)	(4)%	182%
<b>Total consolidated operating income</b>	<b>644,489</b>	<b>100%</b>	<b>590,284</b>	<b>100%</b>	<b>9%</b>

## Transaction-based activities

The increases in revenue and operating income were primarily due to higher average revenue per grant paid in all provinces where we provide a welfare distribution service, higher volumes from four of our provincial contracts, continued adoption of our merchant acquiring system in the provinces where we distribute welfare grants and increased transacting ability at participating retailers' POS devices in these provinces. We discuss these factors in more detail below.

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

Operating income margin of our transaction-based activities increased to 56% from 54% mainly as a result of the price increases described above, partially offset by continued inflationary increases in our cost components.

### **Higher average revenue per grant paid and higher overall volumes from our provincial contracts:**

During the fiscal period to March 2009, we experienced growth in four of the provinces where we administer payments of social welfare grants. This growth was mainly due to an increase in the number of child support grants and disability grants approved by the various provincial governments. In total, the volume of payments processed increased 2% to 36,367,477.

The volumes under existing provincial contracts during the fiscal period to March 2009 and 2008 as well as average revenue per grant paid are detailed below:

Province	Number of Grants Paid		Nine months ended March 31,			
			Average Revenue per Grant Paid			
	2009	2008	2009 \$(1)	2008 \$(2)	2009 ZAR(1)	2008 ZAR(2)
KwaZulu-Natal (A)	15,761,307	15,155,356	2.92	3.02	26.94	21.63
Limpopo (B)	8,906,334	8,833,286	2.05	2.45	18.94	17.49
North West (C)	3,983,501	3,694,651	2.72	3.02	25.11	21.58
Northern Cape (D)	1,506,876	1,489,641	2.55	2.69	23.49	19.23
Eastern Cape (E)	6,209,459	6,444,793	1.95	2.22	17.95	15.90
<b>Total</b>	<b>36,367,477</b>	<b>35,617,727</b>				

(1) Average Revenue per Grant Paid excludes \$ 0.60 (ZAR 5.50) related to the provision of smart card accounts.

(2) Average Revenue per Grant Paid excludes \$ 0.77 (ZAR 5.50) related to the provision of smart card accounts.

(A) - in ZAR, the increase in the Average Revenue per Grant Paid in KwaZulu-Natal was due to an increase in the value of all grant types, which forms the basis of our remuneration in this province as well as an inflation adjustment to the rate we charge. During the second quarter of fiscal 2009, the South African government announced an interim increase in the grant amounts payable to beneficiaries. These increases were effective from October 2008, but paid in December 2008.

(B) - in ZAR, the increase in the Average Revenue per Grant Paid in Limpopo was due to the negotiated annual price adjustment effective from January 2009.

(C) - in ZAR, the increase in the Average Revenue per Grant Paid in North West was due to the negotiated annual price adjustment approved by the provincial government in September 2008.

(D) - in ZAR, the increase in the Average Revenue per Grant Paid in Northern Cape was due to the negotiated annual price adjustment effective from January 2008.

(E) - in ZAR, the increase in the Average Revenue per Grant Paid in Eastern Cape was due to negotiated price increases effective from November 2008.

### **Key statistics and indicators related to our merchant acquiring system:**

During the fiscal period to March 2009 we performed an extensive exercise to identify those merchants that had contracted to participate in our merchant acquiring system and had an installed but unused POS device. After discussions with these merchants a number of them cancelled their contracts to participate in our merchant acquiring system. In addition, we have implemented procedures to identify merchants that are abusing our merchant acquiring system. If a merchant is identified as abusing the merchant acquiring system, its contract is terminated and its equipment is removed. However, these contract cancellations and terminations have had no impact on the number of grants paid through our merchant acquiring system.

Refer to also to discussion under “—Third quarter of fiscal 2009 compared to the third quarter of fiscal 2008—Results of operations by operating segment—Transaction-based activities—Continued adoption of our merchant acquiring system.”

### ***April 2009 pay file***

The April 2008 pay file was opened in March 2008 at merchant locations in all provinces except KwaZulu-Natal, where we distribute the highest number of grants and which provides the highest revenue per grant paid. The April 2009 pay file was opened in March 2009 at merchant locations in KwaZulu-Natal as well as all other provinces, which resulted in an increase in revenue and operating income of approximately \$1.0 million (ZAR 9.9 million).

### ***EasyPay transaction fees***

During the fiscal period to March 2009 and 2008, EasyPay processed 434 million and 383 million transactions with an approximate value of \$10.9 billion (ZAR 99.2 billion) and \$11.8 billion (ZAR 84.5 billion), respectively. The average fee per transaction during the fiscal period to March 2009 and 2008, was \$0.02 (ZAR 0.21) and \$0.03 (ZAR 0.20), respectively.

Operating income margins generated by EasyPay increased to 45% from 34%, which is lower than those generated by our social welfare distribution business and reduced the operating income margins within our transaction-based activities segment. Amortization of EasyPay intangible assets during the fiscal year to March 2009 and 2008 was \$1.1 million (ZAR 9.7 million) and \$1.4 million (ZAR 9.7 million), respectively, and is included in the calculation of EasyPay operating margins. Operating income margin before amortization of EasyPay intangible assets increased to 55% from 46%.

### **Smart card accounts**

Operating income margin from providing smart card accounts was constant at 45%.

In ZAR, revenue from the provision of smart card-based accounts grew in proportion to the higher number of beneficiaries serviced through our social welfare payment contracts. A total number of 4,006,847 smart card-based accounts were active at March 31, 2009, compared to 3,956,882 active accounts as at March 31, 2008. The increase in the number of active accounts resulted from an increase in the number of beneficiaries in four provinces qualifying for government grants and the transfer of beneficiaries in the North West province from the South African Post Office to our system.

### **Financial services**

Excluding the impact of the impairment charge and the loss on the sale of our traditional microlending business, operating income decreased by 24% in US dollars and decreased by 3% in ZAR, respectively.

Revenue from UEPS-based lending decreased primarily due to the lower number of loans granted. In addition, on average, the return on these UEPS-based loans was lower.

Revenues from our traditional microlending business decreased during the fiscal period to March 2009 due to the sale of our traditional microlending business on March 1, 2009, increased competition, our strategic decision not to grow this business, and an overall lower return on traditional microlending loans as a result of compliance with the National Credit Act, or NCA. The NCA regulates fees and interest charged on micro-lending loans and imposes credit check obligations on lenders prior to granting of credit to individuals.

See also the discussion under “—Third quarter of fiscal 2009 compared to the third quarter of fiscal 2008—Results of operations by operating segment—Financial Services.

Excluding the effects of the goodwill impairment and loss on the sale of our traditional microlending business, operating income margin for the Financial services segment increased to 29% from 22%.

## Hardware, software and related technology sales

Operating results for this segment include BGS only for fiscal 2009. The table below presents the contribution of BGS to our revenue and operating income during fiscal 2009:

	Nine months ended March 31,	
	2009 \$ '000	2008 \$ '000
Revenue	49,514	42,630
Hardware, software and related technology sales excluding BGS	35,745	42,630
BGS	13,769	-
Operating income	8,229	9,585
Hardware, software and related technology sales excluding BGS	9,339	9,585
BGS	(1,110)	-
BGS excluding amortization of acquisition related intangible assets	4,091	-
Amortization of acquisition related intangible assets	(5,201)	-

	Nine months ended March 31,	
	2009 ZAR '000	2008 ZAR '000
Revenue	449,733	303,977
Hardware, software and related technology sales excluding BGS	324,670	303,977
BGS	125,063	0
Operating income	74,744	68,347
Hardware, software and related technology sales excluding BGS	84,826	68,347
BGS	(10,082)	-
BGS excluding amortization of acquisition related intangible assets	37,158	-
Amortization of acquisition related intangible assets	(47,240)	-

In ZAR, the increase in revenue was primarily due to the inclusion of BGS and hardware and software development sales under our contract with an Iraqi consortium. In ZAR, the decrease in operating income is primarily due to amortization of intangible assets related to the BGS acquisition and fewer sales to the Bank of Ghana.

During the fiscal period to March 2009, we delivered hardware, including smart cards and terminals, to the Bank of Ghana and recognized revenue of approximately \$8.1 million (ZAR 71.5 million). During the fiscal period to March 2008 we recognized revenue of approximately \$10.8 million (ZAR 76.3 million) from software development and customization activities and hardware related to this contract.

During the fiscal period to March 2009 and 2008, we recognized revenue of \$2.5 million (ZAR 19.5 million) and \$2.6 million (ZAR 18.2 million), respectively, from sales of hardware to Nedbank.

Amortization of Prism intangible assets during the fiscal period to March 2009 and 2008 was approximately \$2.2 million (ZAR 20.2 million) and \$2.8 million (ZAR 20.2 million), respectively, and reduced our operating income.

### Corporate/eliminations

The increase in our operating loss in this segment resulted from increases in corporate head office-related expenditure, including the effects of the increase in inflation in South Africa, stock-based compensation charges and the JSE listing costs. Our operating loss includes expenditure related to compliance with Sarbanes, non-executive directors' fees; employee and executive salaries and bonuses; stock-based compensation; legal and audit fees; directors and officer's insurance premiums; telecommunications expenses; property-related expenditures including utilities, rental, security and maintenance; and elimination entries.

## Liquidity and Capital Resources

Our business has historically generated and continues to generate high levels of cash. At March 31, 2009, our cash balances were \$121.0 million, which comprised mainly ZAR-denominated balances of ZAR 870.0 million (\$89.5 million) and US dollar-denominated balances of \$22.6 million. Our cash balances decreased from June 30, 2008 levels mainly as a result of our acquisition of BGS, repurchases of our common stock under our repurchase program, payment of taxes, the timing of receipt of payment from the provincial governments and the pre-funding of social welfare grants for the April 2009 payment cycle in the last days of March 2009.

We generally invest the surplus cash held by our South African operations in overnight call accounts that we maintain at South African banking institutions, and surplus cash held by our non-South African companies in the US and European money markets.

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

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

We have a unique cash flow cycle due to our obligations to pre-fund the payments of social welfare grants in the KwaZulu-Natal and Eastern Cape provinces. We provide the funds required for the grant payments on behalf of these provincial governments from our own cash resources and are reimbursed within two weeks by the KwaZulu-Natal and Eastern Cape governments, thus exposing ourselves to these provinces' credit risk. These obligations result in a peak funding requirement, on a monthly basis, of approximately \$35.0 million (ZAR 340 million) for each of the KwaZulu-Natal and Eastern Cape contracts. The funding requirements are at peak levels for the first three weeks of every month during the year. In addition, when grants are paid at merchant locations before the start of the payment service at pay points, we pre-fund these payments to the merchants distributing the grants on our behalf. We typically reimburse these merchants within 48 hours after they distribute the grants to the social welfare beneficiaries, however, the provincial governments reimburse the amount due to us within two weeks after the distribution date. This practice results in a significant net cash outflow at the end of a month (and thus, at the end of the fiscal quarter) as the payment service generally commences in the last few days of the month preceding new payment cycle month (for instance, for the last two years, the January payment service commenced in the last week of December at merchant locations and in January at pay points).

Our new SASSA contract relieves us of the obligation to pre-fund social welfare grants in the KwaZulu-Natal and Eastern Cape provinces beginning in May 2009. Under the new contract, we will receive the grant funds 48 hours prior to the provision of the service; any interest earned on these amounts will be for the benefit of SASSA. We expect a significant increase in our cash and cash equivalents as of the end of each fiscal quarter resulting from the change in our pre-funding obligation. We will continue to pre-fund certain merchants who facilitate the distribution of grants through our merchant acquiring system.

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

### ***Cash flows from operating activities***

#### *Three months ended March 31, 2009*

Net cash provided by operating activities for the third quarter of fiscal 2009 was \$5.1 million (ZAR 50.9 million) compared to \$65.2 million (ZAR 482.9 million) for the third quarter of fiscal 2008. The decrease resulted primarily from the timing of the opening of the April 2009 pay file in all provinces in the last week of March 2009, which was partially offset by increased activity in our transaction based activities. We reimbursed merchants during March 2009 for the April 2009 grants distributed by them during March 2009.

During the third quarter of fiscal 2009, we made additional first provisional tax payments of \$8.2 million (ZAR 82.4 million) related to our 2009 tax year in South Africa. We also made first provisional payments of \$0.4 million (ZAR 3.5 million) related to our 2009 tax year in Europe, primarily Austria.

During the third quarter of fiscal 2008, we paid a \$1.4 million (ZAR 10.9 million) first provisional payment for our 2008 tax year. See the table below for a summary of all taxes paid.

Taxes paid during the third quarter of fiscal 2009 and 2008 were as follows:

**Table 23**

	<b>Three months ended March 31,</b>			
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>ZAR</b>	<b>ZAR</b>
	<b>'000</b>	<b>'000</b>	<b>'000</b>	<b>'000</b>
First provisional payments	8,598	1,367	85,976	10,945
<b>Total tax paid</b>	<b>8,598</b>	<b>1,367</b>	<b>85,976</b>	<b>10,945</b>

We expect to pay our second provisional payments in South Africa related to our 2009 tax year in the fourth quarter of fiscal 2009.

*Nine months ended March 31, 2009*

Net cash provided by operating activities for the fiscal period to March 2009 was \$18.0 million (ZAR 163.5 million) compared to net cash provided by operating activities of \$89.8 million (ZAR 640.6 million) for the fiscal period to March 2008. The decrease resulted primarily from an increased use of cash in March 2009 as compared to March 2008 due to a timing difference relating to the opening of the April pay file from year to year (and thus our commencement of our payment service), which was offset by the foreign exchange gain and increased activity in our Transaction-based activities and Hardware, software and related technology sales segments. We commenced our grant payment service for April 2008 in the last few days of March 2008 at merchant locations in four provinces and therefore utilized less cash to pay the April grants in March during fiscal 2008 compared with fiscal 2009.

During the fiscal period to March 2009, we made a third provisional payment of \$2.9 million (ZAR28.7 million) and an additional second provisional payment of \$8.6 million (ZAR 66.9 million) related to our 2008 tax year in South Africa. In addition, we paid our first provisional tax payments of \$18.1 million (ZAR 181.5 million) related to our 2009 tax year in South Africa. We also paid taxes of \$1.2 million related to our 2008 tax year in the United States and \$1.4 million (ZAR 13.4 million) related to our 2008 tax year in Europe, primarily Austria. Finally, we paid Secondary Tax on Companies of \$2.2 million (ZAR 22.3 million) related to dividends paid by New Aplitec to Net1.

During the fiscal period to March 2008, we paid a \$13.6 million (ZAR 95.3 million) first provisional payment for our 2008 tax year. In addition, we paid a \$3.9 million (ZAR 26.5 million) third provisional payment for our 2007 tax year. During the first three quarters of fiscal 2008, we paid an additional \$8.4 million (ZAR 60.5 million) second provisional payment related to our 2007 tax year. See the table below for a summary of all taxes paid (refunded).

Taxes paid during the fiscal period to March 2009 and 2008 were as follows:

**Table 24**

	<b>Nine months ended March 31,</b>			
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>ZAR</b>	<b>ZAR</b>
	<b>'000</b>	<b>'000</b>	<b>'000</b>	<b>'000</b>
First provisional payments	18,497	13,641	185,068	95,278
Second provisional payments	9,595	8,357	76,826	60,465
Third provisional payments	2,868	3,861	28,704	26,526
Taxation refunds received	(61)	(10)	(471)	(66)
Secondary taxation on companies	2,230	-	22,318	-
<b>Total tax paid</b>	<b>33,129</b>	<b>25,849</b>	<b>312,445</b>	<b>182,203</b>

***Cash flows from investing activities***

*Three months ended March 31, 2009*

Cash used in investing activities for the third quarter of fiscal 2009 includes capital expenditure of \$0.4 million (ZAR 4.1 million).

During the third quarter of fiscal 2009, we paid \$3.4 million (ZAR 34.8 million) in cash to acquire 43,495,150 shares in Finbond Property Finance Company, or Finbond. In addition, we received 41,137,375 shares as consideration for the sale of our traditional microlending business to Finbond on March 1, 2009. Our investment in Finbond has been accounted for as an available for sale security.

Under the BGS purchase agreement we paid an additional \$1.9 million (ZAR 19.1 million) to former shareholders of BGS on March 31, 2009.

In March 2009, we provided additional loan funding to VTU Colombia of approximately \$0.2 million. These funds will be used to fund operating activities.

Cash used in investing activities for the third quarter of fiscal 2008 includes capital expenditure of \$1.0 million (ZAR 7.41 million), of which \$0.4 million (ZAR 2.8 million) relates to hardware and software acquired, including hardware to perform switching activities and software to interface to customers and to perform database management, \$0.3 million (ZAR 2.1 million) relates to vehicles acquired to distribute social welfare grants and \$0.1 million (ZAR 0.8 million) relates to the acquisition of POS terminals for our merchant acquiring system.

#### *Nine months ended March 31, 2009*

Cash used in investing activities for the fiscal period to March 2009 includes capital expenditure of \$3.7 million (ZAR 33.0 million), of which \$2.1 million (ZAR 16.1 million) relates to six backend processing machines to maintain and expand current operations, \$0.2 million (ZAR 1.7 million) relates to equipment acquired for our card manufacturing facility and \$0.2 million (ZAR 1.6 million) relates to modifications to vehicles acquired to distribute social welfare grants.

During the fiscal period to March 2009, we paid \$97.7 million (ZAR 767.3 million), net of cash received, for 80.1% of the outstanding ordinary capital of BGS, which includes approximately \$0.5 million paid to consultants.

During the third quarter of fiscal 2009, we paid \$3.4 million (ZAR34.8 million) in cash to acquire Finbond,

During the fiscal period to March 2009, we acquired additional shares of VinaPay for approximately \$0.3 million. Our current shareholding in VinaPay remains at 30%. These funds will be used to fund operating activities.

During the fiscal period to March 2009, we acquired additional shares of VTU Colombia for approximately \$0.3 million and provided loan funding of approximately \$0.2 million. Our shareholding in VTU Colombia remains at 50%. These funds will be used to fund operating activities.

Cash used in investing activities for the fiscal period to March 2008 includes capital expenditure of \$2.9 million (ZAR 20.7 million), of which \$0.5 million (ZAR 3.5 million) relates to renovations of the transaction-based activities segment head office and data room, \$0.4 million (ZAR 2.8 million) relates to hardware and software acquired, including hardware to perform switching activities and software to interface to customers and perform database management, \$0.3 million (ZAR 2.1 million) relates to vehicles acquired to distribute social welfare grants, \$0.2 million (ZAR 1.5 million) relates to capital expenditure to maintain our EasyPay operations and \$0.5 million (ZAR 3.7 million) relates the acquisition of POS terminals for our merchant acquiring system.

#### ***Cash flows from financing activities***

##### *Three months ended March 31, 2009*

During the third quarter of fiscal 2009, we were required to use our overdraft facilities. The majority of the amount utilized was repaid in March 2009.

There were no significant cash flows from financing activities during the third quarter of fiscal 2008.



During the fiscal period to March 2009, we received and repaid the \$110 million short-term loan facility described above. In addition we paid the \$1.1 million facility fee related to this facility.

During the fiscal period to March 2009, we acquired 2,419,581 shares of our common stock for \$24.8 million.

During the fiscal period to March 2009 and 2008, we received \$0.2 million (ZAR 1.2 million) and \$0.18 million (ZAR 1.2 million), respectively, from employees exercising stock options and repaying loans.

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

### Capital Expenditures

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

We discuss our capital expenditures during the third quarter and first three quarters of fiscal 2009 under – “Liquidity and capital resources – Cash flows from investing activities.”

All of our capital expenditures for the past three fiscal years have been funded through internally generated funds. We had outstanding capital commitments of \$0.1 million as of March 31, 2009. We anticipate that capital spending for the fourth quarter of fiscal 2009 will relate primarily to on-going replacement of equipment used to administer and distribute social welfare grants and provide a switching service through EasyPay. We expect to fund these expenditures through internally generated funds.

### Contingent Liabilities, Commitments and Contractual Obligations

We lease various premises under operating leases. Our minimum future commitments for lease premises as well as other commitments are as follows:

Table 25

	Payments due by Period, as at March 31, 2009 (in \$ '000s)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations	4,304	1,766	2,239	299	-
Purchase obligations	1,638	1,638	-	-	-
Capital commitments	12	12	-	-	-
Total	5,954	3,416	2,239	299	-

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We seek to reduce our 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, we use financial instruments to economically hedge our exposure to exchange rate and interest rate fluctuations arising from our operations. We are also exposed to credit risks.

#### Currency Exchange Risk

We are subject to currency exchange risk because we purchase inventories that we are required to settle in other currencies, primarily the euro and US dollar. We have used forward contracts to limit our exposure in these transactions to fluctuations in exchange rates between the South African rand, on the one hand, and the US dollar and the euro, on the other hand. As of March 31, 2009 and 2008, our outstanding foreign exchange contracts were as follows:

##### As of March 31, 2009

Notional amount		Strike price		Fair market value price		Maturity
EUR	47,651	ZAR	12.8441	ZAR	12.7818	April 30, 2009
EUR	241,500	ZAR	13.1515	ZAR	13.0233	August 14, 2009

##### As of March 31, 2008

Notional amount		Strike price		Fair market value price		Maturity
USD	2,440	ZAR	8.0843	ZAR	8.1389	April 4, 2008
USD	96,000	ZAR	8.168	ZAR	8.1891	April 30, 2008
EUR	222,400	ZAR	12.9018	ZAR	13.0060	May 15, 2008
EUR	98,950	ZAR	12.7869	ZAR	13.0445	May 30, 2008
USD	4,891	ZAR	8.225	ZAR	8.2588	June 3, 2008
EUR	183,000	ZAR	12.9018	ZAR	13.1261	June 30, 2008

#### Translation Risk

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

#### Interest Rate Risk

As a result of our normal borrowing and leasing activities, our operating results are exposed to fluctuations in interest rates, which we manage primarily through our regular financing activities. We generally maintain limited investment in cash equivalents and have occasionally invested in marketable securities. Typically, for every 1% increase in SARB's repurchase our interest expense on pre-funding social welfare grants in the KwaZulu-Natal and Eastern Cape provinces increases by \$17,192 per month, while interest earned per month on any surplus cash increases by \$8,906 per \$10.3 million (ZAR 100 million).

#### Credit Risk

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

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

## Micro-lending Credit Risk

We are exposed to credit risk in our microlending activities, which provides unsecured short-term loans to qualifying customers. We manage this risk by assigning each prospective customer a “creditworthiness score,” which takes into account a variety of factors such as employment status, salary earned, 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 we would incur as a result of the volatility in the exchange-traded price of equity securities that we hold and the risk that we may not be able to liquidate these securities. On March 1, 2009, we acquired 20% of the issued share capital of Finbond, which are exchange-traded equity securities. The fair value of these securities as of March 31, 2009, represented less than 2% of our total assets, including these securities. We expect to hold these securities for an extended period of time and we are not concerned with short-term equity price volatility with respect to these securities provided that the underlying business, economic and management characteristics of the company remain sound.

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

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

The following table summarizes our exchange traded equity securities with equity price risk as of March 31, 2009. The effects of a hypothetical 10% increase and a 10% decrease in market prices as of March 31, 2009 is also shown. The selected 10% hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due both to the nature of equity markets and the aforementioned liquidity risk.

As of March 31, 2009

Table 26

	Fair value (\$ '000)	Hypothetical price change	Estimated fair value after hypothetical change in price (\$ '000)	Hypothetical Percentage Increase (Decrease) in Shareholders' Equity
Exchange-traded equity securities	6,966	10% increase	7,662	0.22%
		10% decrease	6,269	(0.22)%

## **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 March 31, 2009. 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 March 31, 2009.

### ***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 March 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 1. Legal Proceedings**

On February 10, 2009, we instituted a legal proceeding in the form of a review application in the High Court of South Africa (Transvaal Provincial Division) against the Chief Executive Officer of SASSA, in his capacity as such. Various other parties were also cited as respondents, by virtue of them being interested parties. These parties have a right to defend the application, but elected not to do so. In the proceeding, we are seeking to have the Court review and set aside the October 31, 2008 decision of the Chief Executive Officer to make no tender award and terminate the procurement process in respect of SASSA Tender 19/06/BS. The Chief Executive Officer has not yet responded to our review application, except to enter a notice of intention to defend. We cannot predict the outcome of this legal proceeding.

**Item 1A. Risk Factors**

See Item 1A RISK FACTORS in Part I of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2008 for a discussion of the Company's risk factors. Except for the four risk factors discussed below, there have been no material changes to these risk factors.

*As a result of SASSA's decision to cancel the tender process for new contract awards and its stated intention to initiate another tender process, there is continued uncertainty about the timing and ultimate outcome of any future SASSA contract awards. Our management will be required to continue to devote significant time and resources to matters relating to our SASSA contract, including responding to the new tender and conducting the litigation we have instituted against SASSA challenging the cancellation of the tender process.*

We currently derive a majority of our revenues from our contract with SASSA to distribute social welfare grants in five of the nine provinces of South Africa. For the foreseeable future, our revenues, results of operations and cash flows will depend on this contract. During the years ended June 30, 2008, 2007 and 2006, and the nine months ended March 31, 2009, we derived approximately 67%, 70%, 77% and 64%, respectively, of our revenues from our government social welfare contracts.

In early 2007, SASSA commenced a national tender for the award of contracts to distribute social welfare grants throughout South Africa. We participated in the tender process and timely submitted proposals for each of South Africa's nine provinces, as well as a proposal for the entire country. There were a series of extensive delays during the tender process which resulted in numerous extensions of our bid proposals as well as an extension of our existing contracts. On November 3, 2008, SASSA notified bidders that it had terminated the tender process without awarding new contracts, citing a number of defects in the original request for proposal published by SASSA and in the bid evaluation process. In late March 2009, we signed a new contract with SASSA which expires on March 31, 2010. SASSA has stated that it will commence a new tender process during the period of this new contract.

As a result of SASSA's decision to terminate the tender process, there is substantial uncertainty about the timing and ultimate outcome of the future contract award process. Once SASSA initiates a new tender process, we cannot assure you that the tender will result in our receiving contracts to continue to distribute social welfare grants in each of the five South African provinces where we currently distribute them. Even if we do receive new contracts, or extensions of our new contract, we cannot predict the terms that such contracts will contain. Any new contract or extension we receive may contain pricing or other terms, such as provisions relating to early termination, that are not as favorable to us as the contracts under which we currently operate. It is also possible that any new tender specification would include a requirement for the successful bidder to pre-fund the social welfare grants in the relevant province for a one month period, as we were required to do under certain of our previous provincial contracts, which would result in significant cash flow funding requirements for the contractor.

The previous tender process and the negotiation of the new contracts consumed a substantial amount of our management's time and attention during the past two and half years. Any future tender initiated by SASSA would require our management to devote further resources to the tender process which could adversely affect their ability to focus on other matters, including potential international business development activities. In addition, we have initiated litigation against SASSA challenging the cancellation of the previous tender process. We cannot predict the outcome of this litigation, or whether or how such litigation will affect the outcome of any future tender process.

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

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

***Depreciation of the South African rand against the US dollar has adversely affected and may continue to adversely affect our reported operating results and our stock price.***

The South African rand, or ZAR, is the primary operating currency for our business operations while our financial results are reported in US dollars. Our future revenues and profits may experience significant fluctuations as the rate of exchange between the ZAR and the US dollar fluctuates. We cannot assure you what effect, if any, changes in the exchange rate of the ZAR against the US dollar will have on our results of operations and financial condition. While the US dollar/ZAR exchange rate has historically been volatile, the ZAR weakened against the US dollar during the 2008 fiscal year. Moreover, as a result of the recent dramatic changes in the world financial markets, including the collapse of major financial institutions and the perception that there may be a prolonged global recession that would adversely affect developing economies like South Africa's, the ZAR declined significantly against the US dollar during the first three quarters of fiscal 2009. The depreciation of the ZAR may also be affected by political instability in South Africa and neighboring Zimbabwe. Because our revenues are primarily denominated in ZAR, the decline in the value of the ZAR against the US dollar has adversely affected our reported results of operations. We cannot predict whether or not the depreciation of the ZAR against the US dollar will continue; however continued weakness in the ZAR may adversely affect our future operating results and may also continue to affect the price at which our common stock trades. Refer to "Item 7— Currency Exchange Rate Information—Actual exchange rates—table 3" and the graph beneath table 3 included in our Annual Report on Form 10-K and "Item 2— Currency Exchange Rate Information—Actual exchange rates—table 1" and the graph beneath table 1 in this Quarterly Report on Form 10-Q.

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

***It may be difficult for us to implement our acquisition strategy especially in light of recent global market and economic conditions.***

Acquisitions are a significant part of our long-term growth strategy as we seek to grow our business internationally and to deploy our technologies in new markets outside South Africa. We believe that it is frequently desirable to issue equity or equity-linked securities, as full or partial consideration for strategic acquisitions. However, the recent decline in our stock price as a result of turmoil in the global financial markets, the fear of the prolonged global recession and depreciation of the ZAR has reduced the feasibility of our pursuing acquisitions in which we would issue our stock at least in the near term. In addition, the conditions in the global credit markets and other related trends affecting the banking industry have caused significant operating losses and bankruptcies throughout the banking industry which has made acquisition financing more difficult to obtain. Many lenders and institutional investors have ceased to provide funding to even the most credit-worthy borrowers. If our stock price remains too low to serve as acquisition currency or if we are unable to obtain acquisition financing, we may be unable to take advantage of potential acquisitions or to otherwise expand our business as planned.

***The failure of any bank or financial institution in which we keep our cash and cash equivalents may prevent us from funding our business or may lead to substantial losses of assets.***

We maintain a significant amount of cash and cash equivalents to fund our business operations at several major South African and European banks and financial institutions. As of March 31, 2009, we maintained an aggregate of \$121.0 million in cash and cash equivalents which were deposited with such banks and financial institutions. Although we maintain a policy of entering into transactions only with South African and European banks and financial institutions that have ratings acceptable to our board, as determined by credit rating agencies such as Standard & Poor's, Moody's and Fitch Ratings, due to the current credit crisis and global economic conditions, it is possible that despite such ratings, one or more of these banks or financial institutions may fail. The failure of one or more of these institutions may cause us to lose a significant amount of cash and cash equivalents. In addition to the actual value of our company which would be reduced due to the loss of cash and cash equivalents, our business could be materially and adversely affected by the failure of any institution where we maintain our cash and cash equivalents. Although to date we have not experienced any such losses or been prevented from funding our business operations, in light of recent global economic conditions such losses may occur in the future.

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

A significant portion of our assets and the assets of our directors and executive officers are located outside the United States. In addition, most of the members of our board of directors and all of our executive officers are residents of South Africa or other foreign countries. As a result, it may not be possible to effect service of process within the United States or elsewhere outside South Africa upon these persons. Moreover, any judgment obtained against us or any of these foreign persons in the United States, including one based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the United States and may not be enforced by a South African court. Further, if a foreign judgment is enforced by a South African court, it will be payable in South African currency. Also, under South Africa's exchange control laws, the approval of the South African Reserve Bank is required before a defendant resident in South Africa may pay money to a non-resident plaintiff in satisfaction of a foreign judgment enforced by a court in South Africa. It may also be difficult for you to assert U.S. securities law claims in original actions instituted in South Africa.

## **Item 5. Other Information**

We have entered into a new one year contract with SASSA for the payment of social welfare grants in the five provinces where we currently provide a grant payment service. The new contract commenced on April 1, 2009 and expires on March 31, 2010.

The new contract contains a standard pricing formula for all provinces based on a transaction fee per beneficiary paid regardless of the number or amounts of grants paid per beneficiary, calculated on a guaranteed minimum number of beneficiaries per month. In addition, SASSA will assume responsibility for the pre-funding of all social welfare grants with effect from the May 2009 pay cycle.

We do not expect that the new contract will materially affect our future results of operations since the reduced pricing should be offset by the guaranteed minimum number of beneficiaries per month and the increased interest income we expect to receive as a result of the elimination of our pre-funding requirement.



## Item 6. Exhibits

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

Exhibit Number	Description
<a href="#">10.49†</a>	<a href="#">Interim agreement entered into between SASSA and Cash Paymaster Services (Proprietary) Limited dated March 25, 2009</a>
<a href="#">10.50</a>	<a href="#">Employment Agreement between Leonid Delberg and BGS Smartcard Systems AG</a>
<a href="#">10.51</a>	<a href="#">Employment Agreement between Richard Schweger and BGS Smartcard Systems AG</a>
<a href="#">31.1</a>	<a href="#">Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">31.2</a>	<a href="#">Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
<a href="#">32</a>	<a href="#">Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes- Oxley Act of 2002</a>

† Confidential treatment will be requested for certain portions of this Exhibit pursuant to Rule 24b-2 of the Exchange Act which portions have been omitted and filed separately with the Securities and Exchange Commission.

## 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 May 7, 2009.

NET 1 UEPS TECHNOLOGIES, INC.

By: /s/ Dr. Serge C.P. Belamant

Dr. Serge C.P. Belamant

Chief Executive Officer, Chairman of the Board and Director

By: /s/ Herman Gideon Kotzé

Herman G. Kotzé

Chief Financial Officer, Treasurer and Secretary, Director

**CONFIDENTIAL TREATMENT  
REQUESTED PURSUANT TO RULE 24b-2**

**Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 24b-2 under the Securities Exchange Act of 1934. The omitted materials have been filed separately with the Securities and Exchange Commission.**

**INTERIM AGREEMENT ENTERED INTO BETWEEN SASSA AND CASH PAYMASTER SERVICES (PROPRIETARY) LIMITED ('CPS') ('THE PARTIES')**

**Preamble:**

Whereas there are a number of existing Service Level Agreements ('SLAs') between the South African Social Security Agency ('SASSA') and a number of NetApplied Technologies South Africa Limited's subsidiaries, for the payment of grant beneficiaries in the following provinces: Kwa-Zulu Natal, Limpopo, Northern Cape, North West and a portion of the Eastern Cape ('the Provinces');

Whereas the SLAs are terminating on 31 March 2009 and the Parties realise the need for continued payment of social grants to beneficiaries in the Provinces;

Whereas the Parties are desirous to eventually enter into an agreement which will consolidate all the agreements concluded in respect of each Province into one agreement ('the consolidated agreement') and which agreement will supersede this Agreement;

Therefore, the Parties agree as follows:

1. CPS is appointed to render the grant payment services specified in and in accordance with the SLAs in the Provinces with effect from 1<sup>st</sup> April 2009 to 31<sup>st</sup> March 2010;
2. the Parties agree that pending the conclusion of the consolidated agreement, all the terms and conditions contained in the SLAs shall apply equally herein to each Province in respect of which the applicable SLA has been concluded and shall be incorporated herein as if specifically recorded save as amended hereby;
3. CPS agrees to invoice SASSA on a cost per recipient basis in all its Provinces in accordance with **Annexure A**. Such a modification must result in the lowering of the overall fees payable by SASSA to CPS;

[\*\*\*] Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

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Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 24b-2 under the Securities Exchange Act of 1934. The omitted materials have been filed separately with the Securities and Exchange Commission.

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4. SASSA confirms that the grant recipient number is [\*\*\*] ([\*\*\*)] as specified in the SOCPEN payment file for the month of December 2008. This number shall be the guaranteed recipient baseline for the purposes of this Agreement and the consolidated agreement;
5. subject to the provisions of paragraph 4, the Parties agree that any additional grant recipient numbers in excess of the guaranteed recipient baseline shall result in CPS reducing the service fee to be charged to SASSA in accordance with the formula contained in **Annexure A** attached hereto;
6. the Parties agree to negotiate in good faith and endeavour to conclude the consolidated agreement by no later than 30<sup>th</sup> April 2009;
7. SASSA agrees that CPS will no longer be required to contribute to the Social Responsibility Funds (RDP);
8. SASSA agrees to pre-fund grant payments in all Provinces and to advance such funds to CPS at least 48 (forty-eight) hours prior to the commencement of the applicable payment cycle effective from the May 2009 payment cycle. Furthermore, CPS undertakes to refund SASSA on all interest earned on the amount pre-funded to CPS;
9. this Agreement is binding between the Parties up until such time that the Parties sign the consolidated agreement. The Parties agree that failure to conclude the consolidated agreement shall not affect the validity of this Agreement;
10. if any provision contained in the SLAs is inconsistent with the provisions of the Public Finance Management Act No 1 of 1999, the SASSA Act No 9 of 2004 and the Social Assistance Act No 13 of 2004, then in such an event such provision shall be deemed severable from the remainder of this Agreement provided that should such occurrence has a material negative effect on CPS net income. In the event that the Parties disagree whether or not the effect is material then, in such event, the matter shall be referred to an independent subject matter expert (agreed to by the Parties) who shall determine whether

[\*\*\*] Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

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**Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 24b-2 under the Securities Exchange Act of 1934. The omitted materials have been filed separately with the Securities and Exchange Commission.**

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or not such negative effect is material. If the Parties fail to agree on the subject matter expert, then same shall be appointed by TOKISO or its assignees or successors-in-title. The decision of the subject matter expert is final and binding upon the Parties;

11. Parties agree that the consolidated agreement will not contain any terms or conditions which are inconsistent with the legislation specified in paragraph 10; and
12. CPS agrees to standardise service fees payable by SASSA to CPS across all Provinces.

[\*\*\*] Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

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Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 24b-2 under the Securities Exchange Act of 1934. The omitted materials have been filed separately with the Securities and Exchange Commission.

THUS SIGNED AT SANDTON ON THIS 25TH DAY OF MARCH 2009.

Witnesses:

1. /s/ Bandile Maqetuka  
\_\_\_\_\_  
Name: Bandile Maqetuka

**FEZILE MAKIWANE**  
Chief Executive Officer,  
South African Social Security Agency  
/s/ Fezile Makiwane  
\_\_\_\_\_

2. /s/ Mazwi Yako  
\_\_\_\_\_  
Name: Mazwi Yako

THUS SIGNED AT SANDTON ON THIS 25TH DAY OF MARCH 2009.

Witnesses:

1. /s/ Bandile Maqetuka  
\_\_\_\_\_  
Name: Bandile Maqetuka

**SERGE BELAMANT**  
Chief Executive Officer,  
Cash Paymaster Services (Proprietary) Limited  
/s/ Serge Belamant  
\_\_\_\_\_

2. /s/ Mazwi Yako  
\_\_\_\_\_  
Name: Mazwi Yako

[\*\*\*] Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

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Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 24b-2 under the Securities Exchange Act of 1934. The omitted materials have been filed separately with the Securities and Exchange Commission.

**ANNEXURE "A": SERVICE FEE**

SASSA shall pay CPS the Service Fee, calculated in accordance with the formula below for the services rendered in all the Provinces in accordance with the Interim Agreement:

Service Fee = ([\*\*\*] beneficiaries x R[\*\*\*]) + (b x R[\*\*\*])

where b = the amount of recipients in excess of [\*\*\*] paid during the applicable pay cycle

All amounts exclude Value Added Tax (VAT).

CPS will invoice SASSA within 36 hours after payment has been completed for each specific pay cycle.

[\*\*\*] Confidential information has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request.

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**EXECUTIVE SERVICE AGREEMENT**

concluded between BGS Smartcard Systems Aktiengesellschaft, hereinafter called the "Company", and Mr. Leonid Delberg, hereinafter called the "Executive Officer".

**1. Appointment to the Managing Board**

By a resolution of the Supervisory Board, Mr. Leonid Delberg was appointed to the Managing Board of the Company for a period of three years beginning on September 1<sup>st</sup>, 2008. Mr. Leonid Delberg has accepted this appointment.

**2. Scope of Responsibility, Management of the Company**

2.1 The basis for the activities of the Executive Officer shall be formed by the Austrian Stock Corporation Act, the Articles of Association of the Company which are known to the Executive Officer and the Rules of Procedure for the Executive Officer.

2.2 The Executive Officer shall represent the Company together with other Executive Officers or with a senior officer holding general proxy (*Prokurist*).

**3. Duration, Termination Payment**

3.1 This Agreement has been concluded for a period of three years, and will therefore expire on August 31, 2011.

3.2 If neither of the parties to this Agreement expressly notifies the other party by registered letter (definitive for the determination of legal validity is the date of the postmark) at least six months prior to expiration that the continuation of this Agreement is not desired (declaration of non-continuation), then the Agreement will automatically be extended for a further one year after September 1, 2011. The above-mentioned conditions for continuation shall apply analogously to the extended agreement as well as to any future extensions.

If this Executive Service Agreement is not continued by the Company but ends on the date of expiration or if the Executive Director refuses to continue the agreement, then Mr. Leonid Delberg shall have the right to receive (i) a severance pay (*Abfertigung*) in the amount of 1/12<sup>th</sup> of the gross annual salary for every six months of service of the Executive Officer for the Company (see clause 4) since September 1<sup>st</sup> 1997 as well as (ii) the full paid up pension promise referred to in clause 7.2.

**4. Previous Service**

4.1 The determining date for the calculation of all claims that are based on the length of service with the Company shall be December 1, 1992.

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## 5. Termination of the Agreement, Recall

### 5.1 Recall

The Executive Officer may be recalled by the Supervisory Board in accordance with § 75 para 4 of the Austrian Stock Corporation Act (e.g. for gross breach of duties, the inability to properly manage the Company or the withdrawal of confidence by the Company's General Meeting). In the event of recall, this Agreement shall be considered as terminated by the Company. The claims of the Executive Officer (if any) as a result of such recall and corresponding termination shall be governed by clause 5.2 below.

### 5.2 Premature Termination

5.2.1 Mr. Leonid Delberg has the right to prematurely terminate this Agreement during the three year term at any time. Mr. Leonid Delberg shall have no further claims against the Company in case of such voluntary premature termination (other than any claim for payment of due but unpaid salary or cost reimbursements and payment of the full paid up pension promise (*Pensionszusage*) referred to in clause 7.2) . In case of such voluntary termination Mr. Leonid Delberg, if required, shall upon mutually agreed terms be reasonably available for another six months period for purposes of transition and handover of the operational tasks.

5.2.2 In case the Company prematurely terminates this Agreement for cause within the meaning of section 26 Austrian Employment Act (*AngestelltenG*), the Executive Officer shall have no further claims against the Company for any period after such termination, (which, for the avoidance of doubt, does not affect any claim of the Executive Officer for payment of due but unpaid salary or cost reimbursements and payment of the full paid up pension promise (*Pensionszusage*) referred to in clause 7.2)

5.2.3 The Company and the Executive Officer may from time to time agree, in writing, on specific strategic tasks and related time-frames. In the event that the Executive Officer refuses to deliver or comply with the agreed tasks (such refusal a "Refusal"), the Company may terminate this Agreement at any time with immediate effect. In such case the Executive Officer shall be entitled to receive:

(i) a lump-sum in an amount equal to the sum of (1) of any salary, bonus, reimbursements of costs and expenses and other claims due but unpaid at such time of termination, (2) 50% of all outstanding salary payments for the remaining scheduled term of the Agreement including the monthly car compensation, (3) 50% of an amount equal to the average annual performance based bonus claim (see clause 6.4) during the three years preceding the year in which the termination becomes effective for each year (and/or fraction thereof) outstanding until the scheduled end of the Agreement and 50% of any outstanding claims from the long term



incentive scheme as per clause 6.5 until the scheduled end of the Agreement and

- (ii) the full paid up pension promise referred to in clause 7.2

5.2.4 In case either (a) the Company prematurely terminates this Agreement without cause (such as, for example, in the case of a recall without cause within the meaning of section 26 Austrian Employment Act) or (b) the Executive Officer terminates for cause, the Executive Officer shall be entitled to receive:

- (i) a lump-sum in an amount equal to the sum of (1) any salary, bonus, reimbursements of costs and expenses and other claims due but unpaid at such time of termination, (2) all outstanding salary payments including the monthly car compensation for the remaining scheduled term of the Agreement, (3) an amount equal to the average annual performance based bonus claim (see clause 6.4) during the three years preceding the year in which the termination becomes effective for each year (and/or fraction thereof) outstanding until the scheduled end of the Agreement and (4) a severance pay (*Abfertigung*) in the amount of 1/12<sup>th</sup> of the annual gross salary for every six months of service of the Executive Officer (see clause 4) since September 1<sup>st</sup> 1997; in referenve to (2) and (3) reduced, however, by 5% for each such outstanding year (or pro rata in case of an inter-annual termination),

- (ii) any outstanding claims from the long term incentive scheme as per clause 6.5 until the scheduled end of the Agreement may be exercised by the Executive within 60 days of termination, and

- (iii) the full paid up pension promise referred to in clause 7.2.

A unilateral recall from or change to position, function or scope of responsibilities as CEO shall be deemed to be a premature termination of the Agreement without cause (and also be treated as such premature termination of the Agreement with the above-mentioned legal consequences).

## **6. Salary; Bonus**

6.1 For his services, Mr. Leonid Delberg shall receive an annual gross salary of € 315.393,95 which shall be paid in fourteen equal installments of € 22.528,14 at the end of each month plus one additional payment each on June 30 and November 30 of each year.

6.2 This salary shall also represent compensation for all services provided by the Executive Officer above and beyond the normal working hours for employees of the Company. It is understood that the Executive Officer will provide such additional services when necessary.

6.3 The salary specified under 6.1 above shall be indexed in accordance with the Austrian Consumer Price Index 2000 (basis month is June 2008). Any such salary increase will be effective from July 1 every year.

6.4 The salary will be reviewed for purposes of an increase on an annual basis by the Company (taking into account recommendations of the NET1 UEPS Technologies Inc. group remuneration committee) and may be increased after considering all relevant qualitative and quantitative factors. Any such salary increase will be effective from July 1 every year.

6.5 In addition to the salary specified in clause 6.1 above, the Executive Officer shall receive an annual bonus as determined by the supervisory board of the Company (taking into account recommendations by the Net1 UEPS Technologies, Inc group remuneration committee). In determining the amount of the bonus, the supervisory board will take into account all relevant qualitative and quantitative factors. Any annual bonus payment will be made during the month of September.

6.6 In addition to the salary specified in 6.1 above and the bonus specified in clause 6.5 above, the Executive Officer shall participate in any long term incentive schemes, including stock option plans and restricted stock awards, as determined by the NET1 UEPS Technologies Inc. group remuneration committee from time to time.

6.7 In the event Mr. Leonid Delberg is unable to perform his duties because of illness or accident, the Company will continue to pay him the salary to which he is entitled for a maximum period of six months in full and a maximum of three additional months at 49%.

## **7. Insurance; Pension**

7.1 The Company shall at its expense conclude an accident insurance on behalf of Mr. Leonid Delberg and for the duration of this Executive Service Agreement based on the following insurance amounts:

- Death 1 year's salary
- Disability 3 years' salary
- Recuperation 6 month's salary

Annual salary in the sense of this Clause 7 above shall be understood to include an amount equal to the average bonus claim over the preceding three business years in accordance with clause 6. One month's salary within the meaning of this Clause 7 shall be understood to be one-twelfth of the annual salary. The insurance amounts shall be adjusted accordingly in July of each year.

Mr. Leonid Delberg has designated his wife Mrs. Raisa Delberg as beneficiary in the event of death and shall have the right to change this designation in writing at any point in time.

7.2 The company has as of 01 January 2002 granted a pension promise to Mr. Leonid Delberg towards which the company performs annual payments as per pension agreement.

## **8. Company Car, Business Travel**

8.1 On business trips, the Executive Officer shall have the right to travel first class by rail and business class on flights. Travel expenses of an appropriate amount shall be reimbursed on presentation of relevant vouchers.

The Company shall provide Mr. Leonid Delberg with an automobile of the make "Mercedes Benz", which meets his personal needs. Mr. Leonid Delberg may also utilize this vehicle for his private use. Every 3 years Mr. Delberg shall have the right to arrange for the exchange for a new car which shall not require the approval of another body of the Company.

The taxes charged for the private use of this compensation in kind shall be borne entirely by Mr. Leonid Delberg.

The Company shall bear all costs - including the costs associated with private use - for the maintenance and operation of the motor vehicle (fuel, repairs, etc.) as well as the cost of full comprehensive insurance

## **9. Vacation**

The Executive Officer shall be entitled to 30 workdays of vacation each year, whereby Mondays through Fridays are regarded as workdays. The Austrian Vacation Act shall apply.

Mr. Leonid Delberg shall have the right at any time to claim payment in cash for unused vacation days as well as vacation days from previous vacation years that have not expired in accordance with the provisions of the Austrian Vacation Act (but not for the current vacation year). This right to claim payment in cash, however, only applies to vacation days incurred after September 1, 2008. This claim must be made in writing.

## **10. Prohibition to Compete**

10.1 The Executive Officer shall be subject to the prohibition to compete, which is set forth in § 79 of the Austrian Stock Exchange Act.

10.2 The Executive Officer shall be obliged to make his entire working capabilities available to the Company and may only assume any corporate function or position in other entities or engage in an independent enterprise to the extent such function, position or enterprise does not interfere with the Executive Officer's obligations hereunder, in which other case the Executive Officer shall require the prior express written consent of the Supervisory Board.

## **11. Exclusive Service Clause**

11.1 For a period of one year after the termination of his employment relationship, the Executive Officer shall agree not to work with or for a customer of the Company, either directly or indirectly, only with the express consent of the Company.

11.2 The Executive Officer shall not be bound to this Agreement if bankruptcy or settlement proceedings have been opened over the assets of the Company or if the employment relationship was terminated by a resolution of the Supervisory Board, unless the Executive Officer has given just cause for such termination through negligent behavior.

## **12. Reimbursement of Expenses**

12.1 Mr. Leonid Delberg shall have the right to dispose over an annual personal budget of € 8000.00 for continuing education (excluding travel and accommodation). This amount shall be indexed annually with effect of July to the CPI 2000 (basis month is June 2008).

12.2 With the framework specified in Par. 1 above, the use of the funds provided for continuing education shall not require the approval of another body of the Company. However, Mr. Leonid Delberg shall be obliged to verify the use of any of these funds with appropriate vouchers.

12.3 Mr. Leonid Delberg shall have the right to dispose over an annual personal budget of €2,500 for an annual Medical Management Checkup. This amount shall be indexed annually with effect of July to the CPI 2000 (basis month is June 2008). However, Mr. Leonid Delberg shall be obliged to verify the use of any of these funds with appropriate vouchers.

## **13. Miscellaneous Provisions**

13.1 If any provision of this Agreement should be or become invalid, this will not affect the validity of the remaining provisions. In such case, the parties to the Agreement agree to replace the invalid provision with another provision that reflects its economic results to the greatest extent possible.

13.2 No verbal agreements shall be made over and above this Agreement. Any amendments or additions to this Agreement may only be made in writing; this also applies to any mutual agreement to deviate from this requirement. Furthermore, all written amendments shall require the approval of the Supervisory Board or an authorized member of this body.

13.3 Unless specified otherwise in the Austrian Stock Corporation Act, the Articles of Association of the Company, the Rule of Procedure for the Managing Board or this Executive Service Agreement, the provisions of the Austrian Salaried Employees Act (Federal Gazette "BGBl" 1921/292) in the current form shall apply.

13.4  
Officer.

This Agreement shall replace the previous agreement concluded between the Company and the Executive

13.5  
Agreement.

The Company shall bear all duties and fees related to the preparation of this Executive Service

13.6  
court in Vienna.

All disputes arising from or related to this Agreement shall be subject to the jurisdiction of the relevant

Date

/s/ Leonid Delberg  
Leonid Delberg

Date

/s/ Richard Schweger/ Leonid Delberg  
BGS Smartcard Systems AG

Date

/s/ Serge Belamant  
Dr. Serge Belamant

## EXECUTIVE SERVICE AGREEMENT

concluded between BGS Smartcard Systems Aktiengesellschaft, hereinafter called the "Company", and Mr. Richard Schweger, hereinafter called the "Executive Officer".

### 1. Appointment to the Managing Board

By a resolution of the Supervisory Board, Mr. Richard Schweger was appointed to the Managing Board of the Company for a period of three years beginning on September 1<sup>st</sup>, 2008. Mr. Richard Schweger has accepted this appointment.

### 2. Scope of Responsibility, Management of the Company

2.1 The basis for the activities of the Executive Officer shall be formed by the Austrian Stock Corporation Act, the Articles of Association of the Company which are known to the Executive Officer and the Rules of Procedure for the Executive Officer.

2.2 The Executive Officer shall represent the Company together with other Executive Officers or with a senior officer holding general proxy (*Prokurist*).

### 3. Duration, Termination Payment

3.1 This Agreement has been concluded for a period of three years, and will therefore expire on August 31, 2011.

3.2 If neither of the parties to this Agreement expressly notifies the other party by registered letter (definitive for the determination of legal validity is the date of the postmark) at least six months prior to expiration that the continuation of this Agreement is not desired (declaration of non-continuation), then the Agreement will automatically be extended for a further one year after September 1, 2011. The above-mentioned conditions for continuation shall apply analogously to the extended agreement as well as to any future extensions.

If this Executive Service Agreement is not continued by the Company but ends on the date of expiration or if the Executive Director refuses to continue the agreement, then Mr. Richard Schweger shall have the right to receive (i) a severance pay (*Abfertigung*) in the amount of 1/12<sup>th</sup> of the gross annual salary for every six months of service of the Executive Officer for the Company (see clause 4) since September 1<sup>st</sup> 1997 as well as (ii) the full paid up pension promise referred to in clause 7.2.

### 4. Previous Service

4.1 The determining date for the calculation of all claims that are based on the length of service with the Company shall be September 1, 1997.

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## 5. Termination of the Agreement, Recall

### 5.1 Recall

The Executive Officer may be recalled by the Supervisory Board in accordance with § 75 para 4 of the Austrian Stock Corporation Act (e.g. for gross breach of duties, the inability to properly manage the Company or the withdrawal of confidence by the Company's General Meeting). In the event of recall, this Agreement shall be considered as terminated by the Company. The claims of the Executive Officer (if any) as a result of such recall and corresponding termination shall be governed by clause 5.2 below.

### 5.2 Premature Termination

5.2.1 Mr. Richard Schweger has the right to prematurely terminate this Agreement during the three year term at any time. Mr. Richard Schweger shall have no further claims against the Company in case of such voluntary premature termination (other than any claim for payment of due but unpaid salary or cost reimbursements and payment of the full paid up pension promise (*Pensionszusage*) referred to in clause 7.2) . In case of such voluntary termination Mr. Richard Schweger, if required, shall upon mutually agreed terms be reasonably available for another six months period for purposes of transition and handover of the operational tasks.

5.2.2 In case the Company prematurely terminates this Agreement for cause within the meaning of section 26 Austrian Employment Act (*AngestelltenG*), the Executive Officer shall have no further claims against the Company for any period after such termination (which, for the avoidance of doubt, does not affect any claim of the Executive Officer for payment of due but unpaid salary or cost reimbursements and payment of the full paid up pension promise (*Pensionszusage*) referred to in clause 7.2) .

5.2.3 The Company and the Executive Officer may from time to time agree, in writing, on specific strategic tasks and related time-frames. In the event that the Executive Officer refuses to deliver or comply with the agreed tasks (such refusal a "Refusal"), the Company may terminate this Agreement at any time with immediate effect. In such case the Executive Officer shall be entitled to receive:

- (i) a lump-sum in an amount equal to the sum of (1) of any salary, bonus, reimbursements of costs and expenses and other claims due but unpaid at such time of termination, (2) 50% of all outstanding salary payments for the remaining scheduled term of the Agreement including the monthly car compensation, (3) 50% of an amount equal to the average annual performance based bonus claim (see clause 6.4) during the three years preceding the year in which the termination becomes effective for each year (and/or fraction thereof) outstanding until the scheduled end of the Agreement, 50% of any outstanding claims from the long term

incentive scheme as per clause 6.5 until the scheduled end of the Agreement and

- (ii) the full paid up pension promise referred to in clause 7.2.

5.2.4 In case either (a) the Company prematurely terminates this Agreement without cause (such as, for example, in the case of a recall without cause within the meaning of section 26 Austrian Employment Act) or (b) the Executive Officer terminates for cause, the Executive Officer shall be entitled to receive:

- (i) a lump-sum in an amount equal to the sum of (1) any salary, bonus, reimbursements of costs and expenses and other claims due but unpaid at such time of termination, (2) all outstanding salary payments including the monthly car compensation for the remaining scheduled term of the Agreement, (3) an amount equal to the average annual performance based bonus claim (see clause 6.4) during the three years preceding the year in which the termination becomes effective for each year (and/or fraction thereof) outstanding until the scheduled end of the Agreement and (4) a severance pay (*Abfertigung*) in the amount of 1/12<sup>th</sup> of the annual gross salary for every six months of service of the Executive Officer (see clause 4) since September 1<sup>st</sup> 1997; in reference to (2) and (3) reduced, however, by 5% for each such outstanding year (or pro rata in case of an inter-annual termination),

- (ii) any outstanding claims from the long term incentive scheme as per clause 6.5 until the scheduled end of the Agreement may be exercised by the Executive within 60 days of termination; and

- (iii) the full paid up pension promise referred to in clause 7.2.

A unilateral recall from or change to position, function or scope of responsibilities as CFO/COO shall be deemed to be a premature termination of the Agreement without cause (and also be treated as such premature termination of the Agreement with the above-mentioned legal consequences).

## **6. Salary; Bonus**

6.1 For his services, Mr. Richard Schweger shall receive an annual gross salary of € 275.988,84 which shall be paid in fourteen equal installments of € 19.713,49 at the end of each month plus one additional payment each on June 30 and November 30 of each year.

6.2 This salary shall also represent compensation for all services provided by the Executive Officer above and beyond the normal working hours for employees of the Company. It is understood that the Executive Officer will provide such additional services when necessary.



6.3 The salary specified under 6.1 above shall be indexed in accordance with the Austrian Consumer Price Index 2000 (basis month is June 2008). Any such salary increase will be effective from July 1 every year.

6.4 The salary will be reviewed for purposes of an increase on an annual basis by the Company (taking into account recommendations of the NET1 UEPS Technologies Inc. group remuneration committee) and may be increased after considering all relevant qualitative and quantitative factors. Any such salary increase will be effective from July 1 every year.

6.5 In addition to the salary specified in clause 6.1 above, the Executive Officer shall receive an annual bonus as determined by the supervisory board of the Company (taking into account recommendations by the Net1 UEPS Technologies, Inc group remuneration committee). In determining the amount of the bonus, the supervisory board will take into account all relevant qualitative and quantitative factors. Any annual bonus payment will be made during the month of September.

6.6 In addition to the salary specified in 6.1 above and the bonus specified in clause 6.5 above, the Executive Officer shall participate in any long term incentive schemes, including stock option plans and restricted stock awards, as determined by the NET1 UEPS Technologies Inc. group remuneration committee from time to time.

6.7 In the event Mr. Richard Schweger is unable to perform his duties because of illness or accident, the Company will continue to pay him the salary to which he is entitled for a maximum period of six months in full and a maximum of three additional months at 49%.

## **7. Insurance; Pension**

7.1 The Company shall at its expense conclude an accident insurance on behalf of Mr. Richard Schweger and for the duration of this Executive Service Agreement based on the following insurance amounts:

- Death 1 year's salary
- Disability 3 years' salary
- Recuperation 6 month's salary

Annual salary in the sense of this Clause 7 above shall be understood to include an amount equal to the average bonus claim over the preceding three business years in accordance with clause 6. One month's salary within the meaning of this Clause 7 shall be understood to be one-twelfth of the annual salary. The insurance amounts shall be adjusted accordingly in July of each year.

Mr. Richard Schweger has designated his wife Mrs. Margit Schweger as beneficiary in the event of death and shall have the right to change this designation in writing at any point in time.

7.2 The company has as of 01 January 2002 granted a pension promise to Mr. Richard Schweger towards which the company performs annual payments as per pension agreement.

## **8. Company Car, Business Travel**

8.1 On business trips, the Executive Officer shall have the right to travel first class by rail and business class on flights. Travel expenses of an appropriate amount shall be reimbursed on presentation of relevant vouchers.

8.2 The Executive Officer will receive monthly company car compensation in the value of Euro 24,000 gross per year, payable in twelve monthly installments of Euro 2,000 gross at the end of each month. Alternatively the Executive can also arrange for a car leasing agreement, up to an amount of Euro 2,000 net (excl. VAT) monthly, to be made out directly between the company and the lessor. Either amount shall be indexed in accordance with the Austrian Consumer Price Index 2000 (basis month is June 2008). Any increase will be effective from July 1 every year.

## **9. Vacation**

The Executive Officer shall be entitled to 30 workdays of vacation each year, whereby Mondays through Fridays are regarded as workdays. The Austrian Vacation Act shall apply.

Mr. Richard Schweger shall have the right at any time to claim payment in cash for unused vacation days as well as vacation days from previous vacation years that have not expired in accordance with the provisions of the Austrian Vacation Act (but not for the current vacation year). This right to claim payment in cash, however, only applies to vacation days incurred after September 1, 2008. This claim must be made in writing.

## **10. Prohibition to Compete**

10.1 The Executive Officer shall be subject to the prohibition to compete, which is set forth in § 79 of the Austrian Stock Exchange Act.

10.2 The Executive Officer shall be obliged to make his entire working capabilities available to the Company and may only assume any corporate function or position in other entities or engage in an independent enterprise to the extent such function, position or enterprise does not interfere with the Executive Officer's obligations hereunder, in which other case the Executive Officer shall require the prior express written consent of the Supervisory Board.

## **11. Exclusive Service Clause**

11.1 For a period of one year after the termination of his employment relationship, the Executive Officer shall agree not to work with or for a customer of the Company, either directly or indirectly, only with the express consent of the Company.

11.2 The Executive Officer shall not be bound to this Agreement if bankruptcy or settlement proceedings have been opened over the assets of the Company or if the employment relationship was terminated by a resolution of the Supervisory Board, unless the Executive Officer has given just cause for such termination through negligent behavior.

## **12. Reimbursement of Expenses**

12.1 Mr. Richard Schweger shall have the right to dispose over an annual personal budget of € 8000.00 for continuing education (excluding travel and accommodation). This amount shall be indexed annually with effect of July to the CPI 2000 (basis month is June 2008).

12.2 With the framework specified in Par. 1 above, the use of the funds provided for continuing education shall not require the approval of another body of the Company. However, Mr. Richard Schweger shall be obliged to verify the use of any of these funds with appropriate vouchers.

12.3 Mr. Richard Schweger shall have the right to dispose over an annual personal budget of €2,500 for an annual Medical Management Checkup. This amount shall be indexed annually with effect of July to the CPI 2000 (basis month is June 2008). However, Mr. Richard Schweger shall be obliged to verify the use of any of these funds with appropriate vouchers.

## **13. Miscellaneous Provisions**

13.1 If any provision of this Agreement should be or become invalid, this will not affect the validity of the remaining provisions. In such case, the parties to the Agreement agree to replace the invalid provision with another provision that reflects its economic results to the greatest extent possible.

13.2 No verbal agreements shall be made over and above this Agreement. Any amendments or additions to this Agreement may only be made in writing; this also applies to any mutual agreement to deviate from this requirement. Furthermore, all written amendments shall require the approval of the Supervisory Board or an authorized member of this body.

13.3 Unless specified otherwise in the Austrian Stock Corporation Act, the Articles of Association of the Company, the Rule of Procedure for the Managing Board or this Executive Service Agreement, the provisions of the Austrian Salaried Employees Act (Federal Gazette "BGBl" 1921/292) in the current form shall apply.

13.4 This Agreement shall replace the previous agreement concluded between the Company and the Executive Officer.

13.5 The Company shall bear all duties and fees related to the preparation of this Executive Service Agreement.

13.6 All disputes arising from or related to this Agreement shall be subject to the jurisdiction of the relevant court in Vienna

Date /s/ Richard Schweger  
Richard Schweger

Date /s/ Richard Schweger/ Leonid Delberg  
BGS Smartcard Systems AG

Date /s/ Serge Belamant  
Dr. Serge Belamant

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, Serge Belamant, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Net 1 UEPS Technologies, Inc. ("Net1") for the quarter ended March 31, 2009;

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. Net1's other certifying officer and I are 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. Net1's other certifying officer and 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: May 7, 2009

/s/ Dr. Serge C. P. Belamant

Dr. Serge C. P. Belamant

Principal executive officer

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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 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 March 31, 2009;

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. Net1's other certifying officer and I are 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. Net1's other certifying officer and 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: May 7, 2009

/s/ Herman Gideon Kotzé  
Herman Gideon Kotzé  
Principal 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 March 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Dr. Serge Belamant and Herman Kotzé, Chief Executive Officer and Chief Financial Officer, respectively, of Net1, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that to their 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: May 7, 2009

/s/: Dr. Serge C. P. Belamant  
Name: Dr. Serge C. P. Belamant  
Chief Executive Officer and Chairman  
of the Board

Date: May 7, 2009

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

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