

NET 1 UEPS TECHNOLOGIES INC
Form 10-Q
May 07, 2015

**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, 2015

OR

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

For the transition period from _____ To _____

Commission file number: **000-31203**

NET 1 UEPS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction
of incorporation or organization)

98-0171860
(IRS Employer
Identification No.)

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

(Address of principal executive offices, including zip code)

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

Not Applicable

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

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

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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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

Smaller reporting company

(do not check if a 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 May 5, 2015 (the latest practicable date), 46,607,153 shares of the registrant's common stock, par value \$0.001 per share, net of treasury shares, 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.
Unaudited Condensed Consolidated Balance Sheets

	Unaudited March 31, 2015	(A) June 30, 2014
(In thousands, except share data)		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 111,002	\$ 58,672
Pre-funded social welfare grants receivable (Note 2)	2,853	4,809
Accounts receivable, net of allowances of March: \$2,347; June: \$1,313	136,520	148,067
Finance loans receivable, net of allowances of March: \$4,707; June: \$3,083	44,935	53,124
Inventory (Note 3)	12,095	10,785
Deferred income taxes	6,828	7,451
Total current assets before settlement assets	314,233	282,908
Settlement assets (Note 4)	651,615	725,987
Total current assets	965,848	1,008,895
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of March: \$98,213; June: \$91,422	48,395	47,797
EQUITY-ACCOUNTED INVESTMENTS	930	878
GOODWILL (Note 6)	169,433	186,576
INTANGIBLE ASSETS, net (Note 6)	51,665	68,514
OTHER LONG-TERM ASSETS, including reinsurance assets (Note 5 and Note 7)	35,781	38,285
TOTAL ASSETS	1,272,052	1,350,945
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	15,341	17,101
Other payables	41,087	42,257
Current portion of long-term borrowings (Note 9)	-	14,789
Income taxes payable	10,215	7,676
Total current liabilities before settlement obligations	66,643	81,823
Settlement obligations (Note 4)	651,615	725,987
Total current liabilities	718,258	807,810
DEFERRED INCOME TAXES	11,841	15,522
LONG-TERM BORROWINGS (Note 9)	60,027	62,388
OTHER LONG-TERM LIABILITIES, including insurance policy liabilities (Note 7)	20,250	23,477
TOTAL LIABILITIES	810,376	909,197
COMMITMENTS AND CONTINGENCIES (Note 17)		
EQUITY		
COMMON STOCK (Note 10)		
Authorized: 200,000,000 with \$0.001 par value;	64	63

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Issued and outstanding shares, net of treasury - March:		
46,607,153; June: 47,819,299		
PREFERRED STOCK		
Authorized shares: 50,000,000 with \$0.001 par value;		
Issued and outstanding shares, net of treasury: March: -;	-	-
June: -		
ADDITIONAL PAID-IN-CAPITAL	213,264	202,401
TREASURY SHARES, AT COST: March: 18,057,228; June:	(214,520)	(200,681)
15,883,212		
ACCUMULATED OTHER COMPREHENSIVE LOSS	(131,415)	(82,741)
RETAINED EARNINGS	593,954	522,729
TOTAL NET1 EQUITY	461,347	441,771
NON-CONTROLLING INTEREST	329	(23)
TOTAL EQUITY	461,676	441,748
TOTAL LIABILITIES AND SHAREHOLDERS\$	1,272,052	\$ 1,350,945

EQUITY

(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

	Three months ended March 31,		Nine months ended March 31,	
	2015	2014	2015	2014
	(In thousands, except per share data)		(In thousands, except per share data)	
REVENUE	\$ 151,121	\$ 138,126	\$ 461,693	\$ 398,903
EXPENSE				
Cost of goods sold, IT processing, servicing and support	71,094	63,149	217,274	187,591
Selling, general and administration	38,001	40,586	118,122	121,916
Depreciation and amortization	10,060	10,442	30,391	30,245
OPERATING INCOME	31,966	23,949	95,906	59,151
INTEREST INCOME	4,211	3,438	11,888	9,993
INTEREST EXPENSE	941	1,734	3,360	5,712
INCOME BEFORE INCOME TAX EXPENSE	35,236	25,653	104,434	63,432
INCOME TAX EXPENSE (Note 16)	10,305	8,535	32,156	22,119
NET INCOME BEFORE EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	24,931	17,118	72,278	41,313
EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	65	52	233	202
NET INCOME	24,996	17,170	72,511	41,515
LESS (ADD) NET INCOME (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTEREST	638	(12)	1,690	(12)
NET INCOME ATTRIBUTABLE TO NET1	\$ 24,358	\$ 17,182	\$ 70,821	\$ 41,527
Net income per share, in United States dollars (Note 13)				
Basic earnings attributable to Net1 shareholders	\$ 0.52	\$ 0.38	\$ 1.51	\$ 0.91
Diluted earnings attributable to Net1 shareholders	\$ 0.52	\$ 0.37	\$ 1.51	\$ 0.90

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended March 31,		Nine months ended March 31,	
	2015	2014	2015	2014
	(In thousands)		(In thousands)	
Net income	\$ 24,996	\$ 17,170	\$ 72,511	\$ 41,515
Other comprehensive income (loss)				
Net unrealized gain on asset available for sale, net of tax	648	327	422	288
Movement in foreign currency translation reserve	(11,596)	(2,134)	(49,182)	2,838
Total other comprehensive (loss) income, net of taxes	(10,948)	(1,807)	(48,760)	3,126
Comprehensive income	14,048	15,363	23,751	44,641
(Less) Add comprehensive (income) loss attributable to non-controlling interest	(601)	12	(1,604)	12
Comprehensive income attributable to Net1	\$ 13,447	\$ 15,375	\$ 22,147	\$ 44,653

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.**Unaudited Condensed Consolidated Statement of Changes in Equity for the nine months ended March 31, 2015**
(dollar amounts in thousands)**Net 1 UEPS Technologies, Inc. Shareholders**

	Number of Shares	Amount	Number of Treasury Shares	Treasury Shares	Number of shares, net of treasury	Additional Paid-In Capital	Retained Earnings	Accumulated other comprehensive loss
Balance July 1, 2014	63,702,511	\$ 63	(15,883,212)	\$ (200,681)	47,819,299	\$ 202,401	\$ 522,729	\$ (82,741)
Repurchase of common stock (Note 10)			(1,837,432)	(9,151)	(1,837,432)			
Restricted stock granted (Note 12)	213,237				213,237			
Exercise of stock option (Note 12)	748,633	1	(336,584)	(4,688)	412,049	6,467		
Stock-based compensation charge (Note 12)						2,682		
Income tax benefit from vested stock awards						483		
Transactions with non-controlling interest (Note 10)						1,231	404	
Dividends paid to non-controlling interest								
Net income							70,821	
Other comprehensive loss (Note 11)								(48,671)
Balance March 31, 2015	64,664,381	\$ 64	(18,057,228)	\$ (214,520)	46,607,153	\$ 213,264	\$ 593,954	\$ (131,412)

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended March 31,		Nine months ended March 31,	
	2015	2014	2015	2014
	(In thousands)		(In thousands)	
Cash flows from operating activities				
Net income	\$ 24,996	\$ 17,170	\$ 72,511	\$ 41,515
Depreciation and amortization	10,060	10,442	30,391	30,245
Earnings from equity-accounted investments	(65)	(52)	(233)	(202)
Fair value adjustments	(449)	110	(270)	49
Interest payable	(23)	30	1,276	1,696
Profit on disposal of property, plant and equipment	(64)	(26)	(295)	(42)
Stock-based compensation charge	731	922	2,682	2,820
Facility fee amortized	36	79	170	657
Decrease (Increase) in accounts receivable, pre-funded social welfare grants receivable and finance loans receivable	3,379	(6,443)	5,534	(67,521)
(Increase) Decrease in inventory	(26)	2,821	(2,771)	979
Increase (Decrease) in accounts payable and other payables	4,735	2,656	(7,654)	(10,895)
Increase in taxes payable	7,465	8,069	4,113	9,431
Decrease in deferred taxes	(1,467)	(1,141)	(2,025)	(3,019)
Net cash provided by operating activities	49,308	34,637	103,429	5,713
Cash flows from investing activities				
Capital expenditures	(6,307)	(4,848)	(24,822)	(17,309)
Proceeds from disposal of property, plant and equipment	163	123	777	2,124
Proceeds from sale of business (Note 14)	-	-	1,895	-
(Investment in equity in)	-	(25)	-	(25)
Repayment of loan by equity-accounted investment	-	-	-	-
Other investing activities	-	571	(29)	570
Net change in settlement assets	(188,315)	(277,912)	10,283	(21,409)
Net cash used in investing activities	(194,459)	(282,091)	(11,896)	(36,049)
Cash flows from financing activities				
Repayment of long-term borrowings (Note 9)	-	-	(14,128)	(87,008)
Long-term borrowings utilized	798	1,028	2,976	72,633
	-	-	(9,151)	-

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Acquisition of treasury stock (Note 10)				
Sale of equity to non-controlling interest (Note 10)	-	-	1,407	-
Dividends paid to non-controlling interest	(1,024)	-	(1,024)	-
Proceeds from issue of common stock	791	88	1,780	88
Payment of facility fee	-	-	-	(872)
Proceeds from bank overdraft	-	-	-	24,580
Repayment of bank overdraft	-	(23,335)	-	(23,335)
Acquisition of interests in KSNET (Note 10)	-	-	-	(1,968)
Net change in settlement obligations	188,315	277,912	(10,283)	21,409
Net cash provided (used in) by financing activities	188,880	255,693	(28,423)	5,527
Effect of exchange rate changes on cash	(3,708)	274	(10,780)	2,019
Net increase (decrease) in cash and cash equivalents	40,021	8,513	52,330	(22,790)
Cash and cash equivalents beginning of period	70,981	22,362	58,672	53,665
Cash and cash equivalents end of period	111,002	\$ 30,875	\$ 111,002	\$ 30,875

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, 2015 and 2014

(All amounts in tables stated in thousands or 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, 2015 and 2014, 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, 2014. 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.

Recent accounting pronouncements adopted

In March 2013, the FASB issued guidance regarding *Parent s Accounting for the Cumulative Translation Adjustment Upon Derecognition of Certain Subsidiaries or Groups of Assets Within a Foreign Entity or of an Investment in a Foreign Entity*. This guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The guidance is effective for the Company beginning July 1, 2014, and is applied prospectively. The adoption of this guidance did not have a material impact on the Company s financial statements.

Recent accounting pronouncements not yet adopted as of March 31, 2015

In May 2014, the FASB issued guidance regarding *Revenue from Contracts with Customers*. This guidance requires an entity to recognize revenue when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is effective for the Company beginning July 1, 2017. Early adoption is not permitted. The Company expects that this guidance will have a material impact on its financial statements and is currently evaluating the impact of this guidance on its financial statements on adoption.

In August 2014, the FASB issued guidance regarding *Disclosure of Uncertainties About an Entity s Ability to Continue as a Going Concern*. This guidance requires an entity to perform interim and annual assessments of its ability to continue as a going concern within one year of the date that its financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity s ability to continue as a going concern. The guidance is effective for the Company beginning July 1, 2017. Early adoption is permitted. The

Company is currently assessing the impact of this guidance on its financial statements disclosure.

In February 2015, the FASB issued guidance regarding *Amendments to the Consolidation Analysis*. This guidance amends both the variable interest entity and voting interest entity consolidation models. The requirement to assess an entity under a different consolidation model may change previous consolidation conclusions. The guidance is effective for the Company beginning July 1, 2016. Early adoption is permitted. The Company is currently assessing the impact of this guidance on its financial statements disclosure.

2. Pre-funded social welfare grants receivable

Pre-funded social welfare grants receivable represents amounts pre-funded by the Company to certain merchants participating in the merchant acquiring system. The April 2015 payment service commenced on April 1, 2015, but the Company pre-funded certain merchants participating in the merchant acquiring system on the last two days of March 2015.

3. Inventory

The Company's inventory comprised the following categories as of March 31, 2015 and June 30, 2014.

	March 31, 2015	June 30, 2014
Finished goods	\$ 12,095	\$ 10,785
	\$ 12,095	\$ 10,785

4. Settlement assets and settlement obligations

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

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

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

5. Fair value of financial instruments

Initial recognition and measurement

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

Risk management

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

Currency exchange risk

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

Translation risk

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

Interest rate risk

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

5. Fair value of financial instruments (continued)

Risk management (continued)

Credit risk

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

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

UEPS-based microlending credit risk

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

Equity price and liquidity risk

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

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

Financial instruments

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

In general, and where applicable, the Company uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology applies 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 are 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.

Asset measured at fair value using significant unobservable inputs - investment in Finbond Group Limited (Finbond)

The Company's Level 3 asset represents an investment of 156,788,712 shares of common stock of Finbond, which are exchange-traded equity securities. Finbond's shares are traded on the Johannesburg Stock Exchange (JSE) and the Company has designated such shares as available for sale investments. 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. Finbond issues financial products and services under a mutual banking licence and also has a microlending offering. In determining the fair value of Finbond, the Company has considered amongst other things Finbond's historical financial information (including its most recent public accounts), press releases issued by Finbond and its published net asset value. 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.

5. Fair value of financial instruments (continued)**Financial instruments (continued)***Asset measured at fair value using significant unobservable inputs investment in Finbond Group Limited (Finbond) (continued)*

The fair value of these securities as of March 31, 2015, represented approximately 1% of the Company's total assets, including these securities. The Company expects to hold these securities for an extended period of time and it is 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.

Derivative transactions - Foreign exchange contracts

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

The Company's outstanding foreign exchange contracts are as follows:

As of March 31, 2015

Notional amount	Strike price	Fair market value price	Maturity
EUR 706,205.00	ZAR 14.8645	ZAR 13.0822	April 20, 2015
EUR 512,865.00	ZAR 14.9455	ZAR 13.1517	May 20, 2015
EUR 526,263.00	ZAR 15.0345	ZAR 13.2305	June 22, 2015
EUR 526,263.00	ZAR 15.1145	ZAR 13.3002	July 20, 2015
EUR 526,263.00	ZAR 15.2025	ZAR 13.3786	August 20, 2015
EUR 526,263.00	ZAR 15.2944	ZAR 13.4595	September 21, 2015
EUR 526,263.00	ZAR 15.3809	ZAR 13.5353	October 20, 2015
EUR 509,516.00	ZAR 15.4728	ZAR 13.6178	November 20, 2015
EUR 529,865.00	ZAR 15.5654	ZAR 13.7004	December 21, 2015
EUR 526,663.00	ZAR 15.6625	ZAR 13.7827	January 20, 2016

As of June 30, 2014

Notional amount	Strike price	Fair market value price	Maturity
EUR 182,272.50	ZAR 15.2077	ZAR 14.5803	July 21, 2014
EUR 182,272.50	ZAR 15.3488	ZAR 14.5803	July 21, 2014
EUR 180,022.50	ZAR 15.4228	ZAR 14.6542	August 20, 2014
EUR 180,022.50	ZAR 15.2819	ZAR 14.6542	August 20, 2014
EUR 180,022.50	ZAR 15.3623	ZAR 14.7367	September 22, 2014
EUR 180,022.50	ZAR 15.5041	ZAR 14.7367	September 22, 2014
EUR 181,570.50	ZAR 15.5739	ZAR 14.8119	October 20, 2014
EUR 181,570.50	ZAR 15.4316	ZAR 14.8119	October 20, 2014
EUR 180,022.50	ZAR 15.6552	ZAR 14.8982	November 20, 2014
EUR 180,022.50	ZAR 15.5136	ZAR 14.8982	November 20, 2014

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EUR 180,022.50	ZAR 15.5970	ZAR 14.9874	December 22, 2014
EUR 180,022.50	ZAR 15.7391	ZAR 14.9874	December 22, 2014
EUR 174,424.50	ZAR 15.8119	ZAR 15.0671	January 20, 2015
EUR 174,424.50	ZAR 15.6729	ZAR 15.0671	January 20, 2015

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5. Fair value of financial instruments (continued)

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of March 31, 2015, according to the fair value hierarchy:

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Related to insurance business (included in other long-term assets):				
Cash and cash equivalents	\$ 1,643	\$ -	\$ -	\$ 1,643
Investment in Finbond (available for sale assets included in other long-term assets)	-	-	7,608	7,608
Other	-	1,300	-	1,300
Total assets at fair value	\$ 1,643	\$ 1,300	\$ 7,608	\$ 10,551
Liabilities				
Foreign exchange contracts	\$ -	\$ 819	\$ -	\$ 819
Total liabilities at fair value	\$ -	\$ 819	\$ -	\$ 819

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2014, according to the fair value hierarchy:

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Related to insurance business (included in other long-term assets):				
Cash and cash equivalents	\$ 1,800	\$ -	\$ -	\$ 1,800
Investment in Finbond (available for sale assets included in other long-term assets)	-	-	8,068	8,068
Other	-	47	-	47
Total assets at fair value	\$ 1,800	\$ 47	\$ 8,068	\$ 9,915
Liabilities				
Foreign exchange contracts	\$ -	\$ 164	\$ -	\$ 164
Total liabilities at fair value	\$ -	\$ 164	\$ -	\$ 164

Changes in the Company's investment in Finbond (Level 3 that are measured at fair value on a recurring basis) were insignificant during the three and nine months ended March 31, 2015 and 2014, respectively. There have been no transfers in or out of Level 3 during the three and nine months ended March 31, 2015 and 2014, respectively.

Assets and liabilities measured at fair value on a nonrecurring basis

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

6. Goodwill and intangible assets, net**Goodwill**

Summarized below is the movement in the carrying value of goodwill for the nine months ended March 31, 2015:

	Gross value	Accumulated impairment	Carrying value
Balance as of June 30, 2014	\$ 186,576	\$ -	\$ 186,576
Foreign currency adjustment ⁽¹⁾	(17,143)	-	(17,143)
Balance as of March 31, 2015	\$ 169,433	\$ -	\$ 169,433

(1) The foreign currency adjustment represents the effects of the fluctuations between the South African rand and the Korean won, and the US dollar on the carrying value.

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

	As of March 31, 2015	As of June 30, 2014
South African transaction processing	\$ 24,974	\$ 28,517
International transaction processing	117,788	128,427
Financial inclusion and applied technologies	26,671	29,632
Total	\$ 169,433	\$ 186,576

Intangible assets, net***Carrying value and amortization of intangible assets***

Summarized below is the carrying value and accumulated amortization of the intangible assets as of March 31, 2015 and June 30, 2014:

	As of March 31, 2015			As of June 30, 2014		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Finite-lived intangible assets:						
Customer relationships	\$ 89,797	\$ (43,972)	\$ 45,825	\$ 98,676	\$ (41,273)	\$ 57,403
Software and unpatented technology	30,534	(27,585)	2,949	33,604	(26,207)	7,397
FTS patent	3,169	(3,169)	-	3,619	(3,619)	-
Exclusive licenses	4,506	(4,506)	-	4,506	(4,506)	-
Trademarks	6,205	(3,314)	2,891	6,890	(3,176)	3,714
	\$ 134,211	\$ (82,546)	\$ 51,665	\$ 147,295	\$ (78,781)	\$ 68,514

Total
finite-lived
intangible
assets

Aggregate amortization expense on the finite-lived intangible assets for the three and nine months ended March 31, 2015, was approximately \$3.6 million and \$11.3 million, respectively (three and nine months ended March 31, 2014, was approximately \$4.6 million and \$12.5 million, respectively).

Future estimated annual amortization expense for the next five fiscal years and thereafter, assuming exchange rates prevailing on March 31, 2015, is presented in the table below. Actual amortization expense in future periods could differ from this estimate as a result of acquisitions, changes in useful lives, exchange rate fluctuations and other relevant factors.

2015	\$ 14,446
2016	10,800
2017	8,611
2018	8,612
2019	8,293
Thereafter	\$ 11,507

7. Reinsurance assets and policy holder liabilities under insurance and investment contracts

Reinsurance assets and policy holder liabilities under insurance contracts

Summarized below is the movement in reinsurance assets and policy holder liabilities under insurance contracts during the nine months ended March 31, 2015:

	Reinsurance assets (1)	Insurance contracts (2)
Balance as of June 30, 2014	\$ 21,062	\$ (21,478)
Foreign currency adjustment ⁽³⁾	(2,617)	2,668
Balance as of March 31, 2015	\$ 18,445	\$ (18,810)

(1) Included in other long-term assets.

(2) Included in other long-term liabilities.

(3) The foreign currency adjustment represents the effects of the fluctuations between the ZAR against the US dollar.

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

The value of insurance contract liabilities is based on best estimates assumptions of future experience plus prescribed margins, as required in the markets in which these products are offered, namely South Africa. The process of deriving the best estimates assumptions plus prescribed margins includes assumptions related to future mortality and morbidity (an appropriate base table of standard mortality is chosen depending on the type of contract and class of business), withdrawals (based on recent withdrawal investigations and expected future trends), investment returns (based on government treasury rates adjusted by an applicable margin), expense inflation (based on a 10-year real return on CPI-linked government bonds from the risk-free rate and adding an allowance for salary inflation and book shrinkage of 1% per annum) and claim reporting delays (based on average industry experience).

Assets and policy holder liabilities under investment contracts

Summarized below is the movement in assets and policy holder liabilities under investment contracts during the nine months ended March 31, 2015:

	Assets (1)	Investment contracts (2)
Balance as of June 30, 2014	\$ 688	\$ (688)
Foreign currency adjustment ⁽³⁾	(85)	85
Balance as of March 31, 2015	\$ 603	\$ (603)

(1) Included in other long-term assets.

(2) Included in other long-term liabilities.

(3) The foreign currency adjustment represents the effects of the fluctuations between the ZAR against the US dollar.

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

8. Short-term credit facility

The Company's short-term credit facilities are described in Note 12 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2014.

South Africa

As of March 31, 2015, and June 30, 2014, the Company had not utilized any of its ZAR 250.0 million (\$20.7 million, translated at exchange rates applicable as of March 31, 2015) overdraft facility. As of March 31, 2015, the interest rate on the overdraft facility was 8.10%. At March 31, 2015, the Company had utilized approximately ZAR 137.2 million (\$11.3 million, translated at exchange rates applicable as of March 31, 2015) of its ZAR 150 million indirect and derivative facilities to obtain foreign exchange contracts from the bank and to enable the bank to issue guarantees, including stand-by letters of credit, in order for the Company to honor its obligations to third parties requiring such guarantees (refer to Note 17). As of June 30, 2014, the Company had utilized approximately ZAR 139.0 million (\$13.1 million, translated at exchange rates applicable as of June 30, 2014) of its indirect and derivative facilities.

8. Short-term credit facility (continued)**Korea**

The Company had not utilized any of its KRW 10 billion (\$9.0 million, translated at exchange rates applicable as of March 31, 2015) overdraft facility as of March 31, 2015 and June 30, 2014. As of March 31, 2015, the interest rate on the overdraft facility was 3.80%. The facility expires in January 2016.

9. Long-term borrowings

The Company's Korean senior secured loan facility is described in Note 13 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2014. The current carrying value as of March 31, 2015, is \$60.0 million. As of March 31, 2015, the carrying amount of the long-term borrowings approximated fair value. The interest rate in effect on March 31, 2015, was 5.22%.

Interest expense incurred during the three and nine months ended March 31, 2015 and 2014, was \$0.8 million and \$2.2 million; and \$1.1 million and \$3.7 million, respectively. Prepaid facility fees amortized during the three and nine months ended March 31, 2015 and 2014, was \$0.04 million and \$0.2 million; and \$0.1 million and \$0.7 million, respectively. Prepaid facility fees amortized during the nine months ended March 31, 2014, include the remaining prepaid facility fees related to the refinanced facility of approximately \$0.4 million that were expensed.

The next scheduled principal payment of \$9.0 million (translated at exchange rates applicable as of March 31, 2015) will be made on April 29, 2016.

10. Capital structure

The following table presents reconciliation between the number of shares, net of treasury, presented in the unaudited condensed consolidated statement of changes in equity during the nine months ended March 31, 2015 and 2014, respectively, and the number of shares, net of treasury, excluding non-vested equity shares that have not vested during the nine months ended March 31, 2015 and 2014, respectively:

	2015	2014
Number of shares, net of treasury:		
Statement of changes in equity	46,607,153	45,783,342
Less: Non-vested equity shares that have not vested (Note 12)	(341,529)	(385,778)
Number of shares, net of treasury excluding non-vested equity shares that have not vested	46,265,624	45,397,564

Common stock repurchases and transaction with non-controlling interests

The Company did not repurchase any of its shares during the three and nine months ended March 31, 2015 and 2014, under its share repurchase authorization. However, on August 27, 2014, the Company entered into a Subscription and Sale of Shares Agreement with Business Venture Investments No 1567 Proprietary Limited (RF) (BVI), one of the Company's BEE partners, in preparation for any new potential SASSA tender. Pursuant to the agreement: (i) the Company repurchased BVI's remaining 1,837,432 shares of the Company's common stock for approximately ZAR 97.4 million in cash (\$9.2 million translated at exchange rates prevailing as of August 27, 2014) and (ii) BVI has subscribed for new ordinary shares of Cash Paymaster Services (Pty) Ltd (CPS) representing approximately 12.5% of CPS' ordinary shares outstanding after the subscription for ZAR 15.0 million in cash (approximately \$1.4 million translated at exchange rates prevailing as of August 27, 2014). In connection with transactions described above, the CPS shareholder agreement that was negotiated as part of the original December 2013 Relationship Agreement became effective.

Acquisition of KSNET non-controlling interests

During the nine months ended March 31, 2014, the Company acquired all of the issued share capital of KSNET, Inc. that it did not previously own for approximately \$2.0 million in cash. The transaction was accounted for as an equity transaction with a non-controlling interest and accordingly, no gain or loss was recognized in the Company's consolidated statement of operations. The carrying amount of the non-controlling interest was adjusted to reflect the change in ownership interest in KSNET. The difference between the fair value of the consideration paid and the amount by which the non-controlling interest was adjusted, of \$1.5 million, was recognized in equity attributable to Net1.

11. Accumulated other comprehensive loss

The table below presents the change in accumulated other comprehensive (loss) income per component during the nine months ended March 31, 2015:

	Accumulated Foreign currency translation reserve	Nine months ended March 31, 2015 Accumulated Net unrealized income (loss) on asset available for sale, net of tax	Total
Balance as of June 30, 2014	\$ (83,359)	\$ 618	\$ (82,741)
Movement in foreign currency translation reserve	(49,096)	-	(49,096)
Unrealized gain on asset available for sale, net of tax of \$97	-	422	422
Balance as of March 31, 2015	\$ (132,455)	\$ 1,040	\$ (131,415)

There were no reclassifications from accumulated other comprehensive loss to comprehensive (loss) income during the three and nine months ended March 31, 2015 or 2014, respectively.

12. Stock-based compensation**Stock option and restricted stock activity***Options*

The following table summarizes stock option activity for the nine months ended March 31, 2015 and 2014:

	Number of shares	Weighted average exercise price (\$)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (\$ 000)	Weighted Average Grant Date Fair Value (\$)
Outstanding June 30, 2014	2,710,392	14.16	5.38	3,909	
Granted under Plan: August 2014	464,410	11.23	10.00	2,113	4.55
Exercised	(748,633)	8.64		3,750	
Outstanding March 31, 2015	2,426,169	15.30	4.99	4,570	
Outstanding June 30, 2013	2,648,583	15.15	5.98	313	
Granted under Plan: August 2013	224,896	7.35	10.00	568	2.53
Exercised	(10,000)	8.75		12	
Forfeited	(136,420)	23.51			
Outstanding March 31, 2014	2,727,059	14.12	5.63	2,290	

The fair value of each option is estimated on the date of grant using the Cox Ross Rubinstein binomial model that uses the assumptions noted in the following table. The estimated expected volatility is calculated based on the Company's 250 day volatility. The estimated expected life of the option was determined based on historical behavior of employees who were granted options with similar terms. The Company has estimated no forfeitures for options awarded in August 2013 and 2014, respectively.

12. Stock-based compensation (continued)**Stock option and restricted stock activity (continued)***Options (continued)*

The table below presents the range of assumptions used to value options granted during the nine months ended March 31, 2015 and 2014:

	Nine months ended March 31,	
	2015	2014
Expected volatility	60%	50%
Expected dividends	0%	0%
Expected life (in years)	3	3
Risk-free rate	1.0%	0.9%

There were no forfeitures during the three and nine months ended March 31, 2015. During the three and nine months ended March 31, 2014, terminated employees forfeited 136,420 stock options.

The following table presents stock options vested and expecting to vest as of March 31, 2015:

		Number of shares	Weighted average exercise price (\$)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (\$ 000)
Vested and expecting to vest	March 31, 2015	2,426,169	15.30	4.99	4,570

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

The following table presents stock options that are exercisable as of March 31, 2015:

		Number of shares	Weighted average exercise price (\$)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (\$ 000)
Exercisable	March 31, 2015	1,668,163	17.71	3.24	1,775

No stock options became exercisable during the three months ended March 31, 2015 and 2014, respectively. During the nine months ended March 31, 2015 and 2014, respectively, 330,967 and 358,333 stock options became exercisable. During the three months ended March 31, 2015, the Company received approximately \$0.8 million from 60,000 stock options exercised. During the nine months ended March 31, 2015, the Company received approximately \$1.8 million from 176,395 stock options exercised. The remaining 572,238 stock options were exercised through recipients delivering 336,584 shares of the Company's common stock to the Company on September 9, 2014, to settle the exercise price due. During the three and nine months ended March 31, 2014, the Company received approximately \$0.1 million from 10,000 stock options exercised. The Company issues new shares to satisfy stock option exercises.

12. Stock-based compensation (continued)**Stock option and restricted stock activity (continued)***Restricted stock*

The following table summarizes restricted stock activity for the nine months ended March 31, 2015 and 2014:

		Number of Shares of Restricted Stock	Weighted Average Grant Date Fair Value (\$ 000)
Non-vested	June 30, 2014	385,778	3,534
Granted	August 2014	141,707	581
Granted	November 2014	71,530	229
Vested	August 2014	(74,152)	828
Vested	February 2015	(183,334)	2,400
Non-vested	March 31, 2015	341,529	1,759
Non-vested	June 30, 2013	405,226	4,393
Granted	August 2013	187,963	1,382
Vested	August 2013	(16,907)	161
Vested	February 2014	(183,333)	1,742
Forfeitures	October 2013	(7,171)	84
Non-vested	March 31, 2014	385,778	3,534

The August 2014 grants comprise 127,626 and 14,081 shares of restricted stock awarded to employees and non-employee directors, respectively. All of the November 2014 grants were awarded to employees. The 127,626 and 71,530 shares of restricted stock will vest in full only on the date, if any, the following conditions are satisfied: (1) the closing price of the Company's common stock equals or exceeds \$19.41 (subject to appropriate adjustment for any stock split or stock dividend) for a period of 30 consecutive trading days during a measurement period commencing on the date that the Company files its Annual Report on Form 10-K for the fiscal year ended 2017 and ending on December 31, 2017 and (2) the recipient is employed by the Company on a full-time basis when the condition in (1) is met. If either of these conditions is not satisfied, then none of the shares of restricted stock will vest and they will be forfeited. The \$19.41 price target represents a 20% increase, compounded annually, in the price of the Company's common stock on Nasdaq over the \$11.23 closing price on August 27, 2014.

The 127,626 and 71,530 shares of restricted stock are effectively forward starting knock-in barrier options with a strike price of zero. The fair value of these shares of restricted stock was calculated utilizing an adjusted Monte Carlo simulation discounted cash flow model which was developed for the purpose of the valuation of these shares. For each simulated share price path, the market share price condition was evaluated to determine whether or not the shares would vest under that simulation. The adjustment to the Monte Carlo simulation model incorporates a jump diffusion process to the standard Geometric Brownian Motion simulation, in order to capture the discontinuous share price jumps observed in the Company's share price movements on stock exchanges on which it is listed. Therefore, the simulated share price paths capture the idiosyncrasies of the observed Company share price movements.

In scenarios where the shares do not vest, the final vested value at maturity is zero. In scenarios where vesting occurs, the final vested value on maturity is the share price on vesting date. The value of the grant is the average of the discounted vested values. The Company used an expected volatility of 76.01%, an expected life of approximately three years, a risk-free rate of 1.27% and no future dividends in its calculation of the fair value of the 127,626 shares of restricted stock. The Company used an expected volatility of 63.73%, an expected life of approximately three years,

a risk-free rate of 1.21% and no future dividends in its calculation of the fair value of the 71,530 shares of restricted stock. Estimated expected volatility was calculated based on the Company's 30 day VWAP share price using the exponentially weighted moving average of returns.

The fair value of restricted stock vesting during the three months ended March 31, 2015 and 2014, respectively, was \$2.4 million and \$1.7 million. The fair value of restricted stock vesting during the nine months ended March 31, 2015 and 2014, respectively, was \$3.2 million and \$1.9 million. The fair value of restricted stock is based on the closing price of the Company's stock quoted on The Nasdaq Global Select Market on the date of grant.

12. Stock-based compensation (continued)**Stock-based compensation charge and unrecognized compensation cost**

The Company has recorded a stock-based compensation charge of \$0.7 million and \$0.9 million, respectively, during the three months ended March 31, 2015 and 2014, which comprised:

	Total charge	Allocated to cost of goods sold, IT processing, servicing and support	Allocated to selling, general and administration
Three months ended March 31, 2015			
Stock-based compensation charge	\$ 731	\$ -	\$ 731
Total three months ended March 31, 2015	\$ 731	\$ -	\$ 731
Three months ended March 31, 2014			
Stock-based compensation charge	\$ 922	\$ -	\$ 922
Total three months ended March 31, 2014	\$ 922	\$ -	\$ 922

The Company has recorded a stock-based compensation charge of \$2.7 million and \$2.8 million, respectively, during the nine months ended March 31, 2015 and 2014, which comprised:

	Total charge	Allocated to cost of goods sold, IT processing, servicing and support	Allocated to selling, general and administration
Nine months ended March 31, 2015			
Stock-based compensation charge	\$ 2,682	\$ -	\$ 2,682
Total nine months ended March 31, 2015	\$ 2,682	\$ -	\$ 2,682
Nine months ended March 31, 2014			
Stock-based compensation charge	\$ 2,826	\$ -	\$ 2,826
Reversal of stock compensation charge related to restricted stock forfeited	(6)	-	(6)
Total nine months ended March 31, 2014	\$ 2,820	\$ -	\$ 2,820

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

As of March 31, 2015, the total unrecognized compensation cost related to stock options was approximately \$2.1 million, which the Company expects to recognize over approximately three years. As of March 31, 2014, the total unrecognized compensation cost related to restricted stock awards was approximately \$1.3 million, which the Company expects to recognize over approximately two years.

As of March 31, 2015 and June 30, 2014, respectively, the Company has recorded a deferred tax asset of approximately \$1.3 million and \$1.6 million related to the stock-based compensation charge recognized related to employees and directors of Net1 as it is able to deduct the grant date fair value for taxation purposes in the United States.

13. Earnings per share

Basic earnings per share include shares of restricted stock that meet the definition of a participating security because these shares are eligible to receive non-forfeitable dividend equivalents at the same rate as common stock. Basic earnings per share have been calculated using the two-class method and basic earnings per share for the three and nine months ended March 31, 2015 and 2014, reflects only undistributed earnings. The computation below of basic earnings per share excludes the net income attributable to shares of unvested restricted stock (participating non-vested restricted stock) from the numerator and excludes the dilutive impact of these unvested shares of restricted stock from the denominator.

13. Earnings per share (continued)

Diluted earnings per share has been calculated to give effect to the number of shares of additional common stock that would have been outstanding if the potential dilutive instruments had been issued in each period. Stock options are included in the calculation of diluted earnings per share utilizing the treasury stock method and are not considered to be participating securities as the stock options do not contain non-forfeitable dividend rights. The calculation of diluted earnings per share includes the dilutive effect of a portion of the restricted stock granted to employees in February 2012, August 2013, August 2014 and November 2014 as these shares of restricted stock are considered contingently returnable shares for the purposes of the diluted earnings per share calculation and the vesting conditions in respect of a portion of the restricted stock had been satisfied. The vesting conditions are discussed in Note 18 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2014.

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

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2015	2014	2015	2014
	(in thousands except percent and per share data)		(in thousands except percent and per share data)	
Numerator:				
Net income attributable to Net1	\$ 24,358	\$ 17,182	\$ 70,821	\$ 41,527
Undistributed earnings	24,358	17,182	70,821	41,527
Percent allocated to common shareholders (Calculation 1)	99%	99%	99%	99%
Numerator for earnings per share: basic and diluted	\$ 24,102	\$ 16,944	\$ 70,011	\$ 40,917
Denominator:				
Denominator for basic earnings per share: weighted-average common shares outstanding	46,071	45,142	46,235	45,070
Effect of dilutive securities:				
Stock options	178	91	137	106
Denominator for diluted earnings per share: adjusted weighted average common shares outstanding and assumed conversion	46,249	45,233	46,372	45,176
Earnings per share:				
Basic	\$ 0.52	\$ 0.38	\$ 1.51	\$ 0.91
Diluted	\$ 0.52	\$ 0.37	\$ 1.51	\$ 0.90

(Calculation 1)

Basic weighted-average common shares outstanding (A)	46,071	45,142	46,235	45,070
Basic weighted-average common shares outstanding and unvested restricted shares expected to vest (B)	46,561	45,776	46,770	45,742
Percent allocated to common shareholders (A) / (B)	99%	99%	99%	99%

Options to purchase 1,798,853 shares of the Company's common stock at prices ranging from \$11.23 to \$24.46 per share were outstanding during the three and nine months ended March 31, 2015, but were not included in the

computation of diluted earnings per share because the options' exercise price were greater than the average market price of the Company's common stock. The options, which expire at various dates through August 27, 2024, were still outstanding as of March 31, 2015.

14. Supplemental cash flow information

The following table presents supplemental cash flow disclosures for the three and nine months ended March 31, 2015 and 2014:

	Three months ended March 31,		Nine months ended March 31,	
	2015	2014	2015	2014
Cash received from interest	\$ 4,200	\$ 3,422	\$ 11,940	\$ 9,886
Cash paid for interest	\$ 915	\$ 1,651	\$ 3,328	\$ 5,317
Cash paid for income taxes	\$ 3,086	\$ 1,570	\$ 28,639	\$ 16,097

The sale of the Company's NUETS business is described in Note 19 to its audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2014. The Company received cash sale proceeds of \$1.9 million related to this transaction in July 2014.

As discussed in Note 12, during the nine months ended March 31, 2015, employees exercised stock options through the delivery 336,584 shares of the Company's common stock at the closing price on September 9, 2014 or \$13.93 under the terms of their option agreements. These shares are included in the Company's total share count and amount reflected as treasury shares on the unaudited condensed consolidated balance sheet as of March 31, 2015 and unaudited condensed consolidated statement of changes in equity for the nine months ended March 31, 2015.

15. Operating segments

The Company discloses segment information as reflected in the management information systems reports that its chief operating decision maker uses in making decisions and to report certain entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets or reports material revenues. A description of the Company's operating segments is contained in Note 23 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2014.

The reconciliation of the reportable segments revenue to revenue from external customers for the three months ended March 31, 2015 and 2014, respectively, is as follows:

	Revenue		
	Reportable Segment	Inter- segment	From external customers
South African transaction processing	\$ 57,999	\$ 5,359	\$ 52,640
International transaction processing	38,311	-	38,311
Financial inclusion and applied technologies	66,830	6,660	60,170
Total for the three months ended March 31, 2015	163,140	12,019	151,121
South African transaction processing	57,397	3,886	53,511
International transaction processing	35,245	-	35,245
Financial inclusion and applied technologies	56,226	6,856	49,370
Total for the three months ended March 31, 2014	\$ 148,868	\$ 10,742	\$ 138,126

The reconciliation of the reportable segments revenue to revenue from external customers for the nine months ended March 31, 2015 and 2014, respectively, is as follows:

	Revenue		
	Reportable	Inter-	From external

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	Segment		segment		customers
South African transaction processing	\$ 176,678		\$ 15,917		\$ 160,761
International transaction processing	121,981		-		121,981
Financial inclusion and applied technologies	199,558		20,607		178,951
Total for the nine months ended March 31, 2015	\$ 498,217		\$ 36,524		\$ 461,693

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15. Operating segments (continued)

	Revenue		
	Reportable Segment	Inter- segment	From external customers
South African transaction processing	\$ 173,312	\$ 6,866	\$ 166,446
International transaction processing	110,524	-	110,524
Financial inclusion and applied technologies	143,502	21,569	121,933
Total for the nine months ended March 31, 2014	\$ 427,338	\$ 28,435	\$ 398,903

The Company does not allocate interest income, interest expense or income tax expense to its reportable segments. The Company evaluates segment performance based on segment operating income before acquisition-related intangible asset amortization which represents operating income before acquisition-related intangible asset amortization and allocation of expenses allocated to Corporate/Eliminations, all under GAAP. The reconciliation of the reportable segments measure of profit or loss to income before income taxes for the three and nine months ended March 31, 2015 and 2014, respectively, is as follows:

	Three months ended March 31,		Nine months ended March 31,	
	2015	2014	2015	2014
Reportable segments measure of profit or loss	\$ 37,703	\$ 30,238	\$ 112,751	\$ 80,590
Operating income:	(5,737)	(6,289)	(16,845)	(21,439)
Corporate/Eliminations				
Interest income	4,211	3,438	11,888	9,993
Interest expense	(941)	(1,734)	(3,360)	(5,712)
Income before income taxes	\$ 35,236	\$ 25,653	\$ 104,434	\$ 63,432

The following tables summarize segment information which is prepared in accordance with GAAP for the three and nine months ended March 31, 2015 and 2014:

	Three months ended March 31,		Nine months ended March 31,	
	2015	2014	2015	2014
Revenues				
South African transaction processing	\$ 57,999	\$ 57,397	\$ 176,678	\$ 173,312
International transaction processing	38,311	35,245	121,981	110,524
Financial inclusion and applied technologies	66,830	56,226	199,558	143,502
Total	163,140	148,868	498,217	427,338
Operating income (loss)				
South African transaction processing	13,218	9,137	39,740	22,726
International transaction processing	6,579	4,642	19,671	15,305
Financial inclusion and applied technologies	17,906	16,459	53,340	42,559
Subtotal: Operating segments	37,703	30,238	112,751	80,590
Corporate/Eliminations	(5,737)	(6,289)	(16,845)	(21,439)
Total	31,966	23,949	95,906	59,151

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Depreciation and amortization					
South African transaction	1,726		1,653	5,271	5,475
processing					
International transaction	4,560		3,959	13,224	11,822
processing					
Financial inclusion and applied	207		172	589	495
technologies					
Subtotal: Operating segments	6,493		5,784	19,084	17,792
Corporate/Eliminations	3,567		4,658	11,307	12,453
Total	\$ 10,060	\$	10,442	\$ 30,391	\$ 30,245

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15. Operating segments (continued)

	Three months ended March 31,		Nine months ended March 31,	
	2015	2014	2015	2014
Expenditures for long-lived assets				
South African transaction processing	\$ 1,514	\$ 303	\$ 3,678	\$ 2,903
International transaction processing	4,561	4,231	20,167	13,747
Financial inclusion and applied technologies	232	314	977	659
Subtotal: Operating segments	6,307	4,848	24,822	17,309
Corporate/Eliminations	-	-	-	-
Total	\$ 6,307	\$ 4,848	\$ 24,822	\$ 17,309

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**Income tax in interim periods**

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

For the three and nine months ended March 31, 2015, the tax charge was calculated using the expected effective tax rate for the year. The Company's effective tax rate for the three and nine months ended March 31, 2015, was 29.2% and 30.8%, respectively, and was higher than the South African statutory rate primarily as a result of non-deductible expenses (including consulting and legal fees and interest expense related to the Company's long-term Korean borrowings).

The Company's effective tax rate for the three and nine months ended March 31, 2014, was 33.3% and 34.9%, respectively, and was higher than the South African statutory rate primarily as a result of non-deductible expenses (including interest expense related to the Company's long-term Korean borrowings and stock-based compensation charges).

Uncertain tax positions

The Company increased its unrecognized tax benefits by \$1.2 million during the three and nine months ended March 31, 2015. As of March 31, 2015, the Company had accrued interest related to uncertain tax positions of approximately \$0.2 million on its balance sheet.

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

As of March 31, 2015 and June 30, 2014, the Company has unrecognized tax benefits of \$2.3 million and \$1.2 million, respectively, all of which would impact the Company's effective tax rate. The Company files income tax returns mainly in South Africa, South Korea, Austria, Botswana and in the US federal jurisdiction. As of March 31, 2015, the Company's South African subsidiaries are no longer subject to income tax examination by the South African Revenue Service for periods before June 30, 2010. The Company is subject to income tax in other jurisdictions outside South Africa, none of which are individually material to its financial position, results of operations or cash flows.

17. Commitments and contingencies

Guarantees

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

Nedbank has issued guarantees to these third parties amounting to ZAR 135.0 million (\$11.2 million, translated at exchange rates applicable as of March 31, 2015) and thereby utilizing part of the Company's short-term facility. The Company in turn has provided nonrecourse, unsecured counter-guarantees to Nedbank for ZAR 125.0 million (\$10.3 million, translated at exchange rates applicable as of March 31, 2015). The Company pays commission of between 0.2% per annum to 2.0% per annum of the face value of these guarantees and does not recover any of the commission from third parties.

The Company has not recognized any obligation related to these counter-guarantees in its consolidated balance sheet as of March 31, 2015 and June 30, 2014. The maximum potential amount that the Company could pay under these guarantees is ZAR 135.0 million (\$11.2 million, translated at exchange rates applicable as of March 31, 2015). The guarantees have reduced the amount available for borrowings under the Company's short-term credit facility described in Note 8.

Contingencies

Securities Litigation

On March 6, 2015, the plaintiff filed an opposition to the Company's motion to dismiss its complaint and the Company filed a reply brief on March 27, 2015.

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

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

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

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended June 30, 2014, and the unaudited condensed consolidated financial statements and the accompanying notes included in this Form 10-Q.

Forward-looking statements

Some of the statements in this Form 10-Q constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, implied or inferred by these forward-looking statements. Such factors include, among other things, those listed under Item 1A. Risk Factors and elsewhere in our Annual Report on Form 10-K for the year ended June 30, 2014, and Item 1A. Risk Factors and elsewhere in this Form 10-Q. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, would, expects, plans, intends, anticipates, believes, estimates, or the negative of such terms and other comparable terminology.

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

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

Recent Developments

Update on SASSA tender process

As ordered by the South African Constitutional Court in its April 2014 ruling, SASSA initiated a new tender process for a five-year contract relating to the payment of social grants by issuing an initial Request for Proposal, or RFP, in October 2014. Following a detailed analysis of the tender specifications, we concluded that the tender specifications were not sufficiently clear regarding a number of critical points and failed to comply with the RFP requirements specified in the Court's ruling and, in November 2014, we applied to the Court for an order setting aside the RFP and directing SASSA to issue a corrected RFP. Although the Court did not set aside the RFP, it did order SASSA to issue a draft amended RFP. SASSA issued amended RFPs on two separate occasions (in December 2014 and February 2015). We continued to object to deficiencies in the amended RFPs and made further applications to the Court setting forth our objections. In February 2015, SASSA applied to the Court for an extension of time to address our objections.

In orders dated March 19 and 24, 2015, the Court ordered SASSA to effect further amendments to the RFP to address our objections. The Court ordered that, absent further objections (1) SASSA must circulate a further amended draft RFP by April 17, 2015; (2) all bids must be submitted by May 17, 2015 and (3) SASSA shall award the new tender by October 15, 2015. The Court's April 2014 ruling does not require SASSA to award a new tender, though we expect that any decision not to make an award would be subject to judicial review and scrutiny. On April 17, 2015, SASSA issued and circulated an amended RFP to all prospective bidders. The amended RFP specifies that bidders

must submit their proposals to SASSA on or before May 18, 2015 and also states that no part of the contents of the RFP may be used, copied, disclosed or conveyed in whole or in part to any party in any manner whatsoever other than for the purpose of the proposal.

We are currently analyzing the RFP to determine whether it is in the best interest of the Company to participate in the tender process or to focus on our other financial services businesses without being a contractor to SASSA. We have not yet made a final determination but expect to do so by the tender deadline. In any event, we cannot predict what the timing or ultimate outcome of the tender process will be, or if a new tender award will be made at all after the process is complete.

See Part II, Item 1A. Risk Factors, for additional details.

ATMs in South Africa

We have deployed ATMs, which are both EMV- and UEPS-compliant, and provide biometric verification as well as proof of life functionality, in South Africa. We have been able to expand our customer base because our ATMs accept all EMV-compliant cards. We currently have approximately 400 operational ATMs and we are actively deploying more ATMs in high demand areas. We have placed these ATMs with our merchant partners and within our own branches, creating a new delivery channel that did not exist before. Although capital intensive, our ATM rollout has already begun to make a positive contribution to our reported results.

ZAZOO

We established ZAZOO to oversee the global expansion of our mobile payments and value-added services businesses, including the activities currently conducted through our N1MS business unit. ZAZOO's management is focused on worldwide growth opportunities, especially in the UK, Europe, the USA, India and other developed and emerging markets. ZAZOO coordinates all research and development, operations and marketing activities associated with N1MS' mobile businesses.

ZAZOO entered into strategic collaborations with Uber, Microsoft and Cell C (one of South Africa's largest mobile operators) during the third quarter of fiscal 2015 for our VCPay mobile application. VCPay is a mobile phone-based application that generates transaction specific virtual MasterCards that can be used for online purchases, or in brick-and-mortar retailers, that accept manual Card-Not-Present payments. Users can also send a virtual card to friends or family anywhere via email, SMS, MMS or WhatsApp, making it simpler than ever before to send money to third parties. VCPay is fully interoperable and does not require merchants to change the way in which payments are accepted online or via mobile applications, like Uber. We believe that VCPay bridges the electronic payment requirement gap for online or in-application payments by providing an immediate, safe and secure payment solution to anybody, regardless of their banking status.

Under the collaboration with Uber in South Africa, people who do not own credit cards are now able to use VCPay to pay for the Uber service.

Under the collaboration with Microsoft and Cell C, ZAZOO agreed to sponsor a R250 VCPay voucher to consumers who purchase the new Microsoft Lumia 535 on a Cell C contract. The new device became available on Cell C's talk and data contracts beginning February 1, 2015, and the initial batch was packaged with the VCPay voucher for new owners to use in completing a purchase of their choice when using our VCPay service.

World Food Program

The Southern Africa Regional Office of the United Nations World Food Program, or the WFP, has awarded us a tender for 12 countries that are members of the Southern African Development Community. The contract is for the distribution of cash and food grants to hundreds of thousands of WFP beneficiaries in these territories.

Our technology makes use of any infrastructure present in each territory, and allows for the biometric verification of all beneficiaries regardless of the infrastructure being utilized even when such infrastructure is not biometrically enabled. In these scenarios, we utilize our patented variable PIN technology in conjunction with fingerprint or voice verification methods using any mobile phone. We do not expect that this socially responsible initiative will necessarily translate into a meaningful financial contributor for us in the short term, but we strongly believe that the exposure and credibility associated with winning and operating a project of this nature and scale will create further opportunities for us to implement the same or similar solutions in other contexts. We are currently finalizing our deployment contract with the WFP office based in South Africa.

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, 2014:

- Business combinations and the recoverability of goodwill;
- Intangible assets acquired through acquisitions;
- Deferred taxation;
- Stock-based compensation and equity instrument issued pursuant to BEE transaction;
- Accounts receivable and allowance for doubtful accounts receivable; and
- Research and development.

Recent accounting pronouncements adopted

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

Recent accounting pronouncements not yet adopted as of March 31, 2015

Refer to Note 1 to our unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of March 31, 2015, including the expected dates of adoption and effects on our financial condition, results of operations and cash flows.

Currency Exchange Rate Information

Actual exchange rates

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

Table 1	Three months ended		Nine months ended		Year ended
	March 31,		March 31,		June 30,
	2015	2014	2015	2014	2014
ZAR : \$ average exchange rate	11.7422	10.8622	11.2377	10.3375	10.3798
Highest ZAR : \$ rate during period	12.4792	11.2667	12.4792	11.2667	11.2579
Lowest ZAR : \$ rate during period	11.3622	10.4848	10.5128	9.6324	9.6259
Rate at end of period	12.0907	10.5833	12.0907	10.5833	10.5887
KRW : \$ average exchange rate	1,101	1,071	1,072	1,083	1,068
Highest KRW : \$ rate during period	1,139	1,089	1,139	1,168	1,147
Lowest KRW : \$ rate during period	1,077	1,053	1,009	1,052	1,014
Rate at end of period	1,106	1,071	1,106	1,071	1,014

ZAR: US \$ Exchange Rates

KRW: US \$ Exchange Rates

Translation exchange rates for financial reporting purposes

We are required to translate our results of operations from ZAR and KRW to US dollars on a monthly basis. Thus, the average rates used to translate this data for the three and nine months ended March 31, 2015 and 2014, vary slightly from the averages shown in the table above. The translation rates we use in presenting our results of operations are the rates shown in the following table:

Table 2	Three months ended		Nine months ended		Year ended
	March 31,		March 31,		June 30,
	2015	2014	2015	2014	2014
Income and expense items: \$1 = ZAR	11.7218	10.8743	11.2251	10.3801	10.3966
Income and expense items: \$1 = KRW	1,101	1,070	1,064	1,076	1,049
Balance sheet items: \$1 = ZAR	12.0907	10.5833	12.0907	10.5833	10.5887
Balance sheet items: \$1 = KRW	1,106	1,071	1,106	1,071	1,014

Results of operations

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

Fiscal 2015 does not include MediKredit and the NUETS business and fiscal 2014 includes MediKredit and the NUETS business for the entire period.

Our operating segment revenue presented in Results of operations by operating segment represents total revenue per operating segment before inter-segment eliminations. A reconciliation between total operating segment revenue and revenue presented in our consolidated financial statements is included in Note 15 to those statements.

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

Third quarter of fiscal 2015 compared to third quarter of fiscal 2014

The following factors had a significant influence on our results of operations during the third quarter of fiscal 2015 as compared with the same period in the prior year:

- **Unfavorable impact from the strengthening of the US dollar against the ZAR:** The US dollar appreciated by 8% against the ZAR during the third quarter of fiscal 2015, which negatively impacted our reported results;
- **Increased contribution by KSNET:** Our results were positively impacted by growth in our Korean operations and a refund of \$1.7 million that had been paid several years ago in connection with industry-wide litigation that has now been finalized;

- ***Increase in the number of SASSA grants paid:*** Our revenue and operating income have increased as a result of the higher number of SASSA UEPS/EMV cardholders paid during fiscal 2015 compared with 2014; and
- ***Continued growth in financial inclusion services:*** We continued to grow our financial inclusion services offerings during the third quarter of fiscal 2015, which has resulted in higher revenues and operating income from more sales of low-margin prepaid airtime and UEPS-based lending.

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:

	In United States Dollars (US GAAP)		
	Three months ended March 31,		
	2015	2014	\$ %
	\$ 000	\$ 000	change
Revenue	151,121	138,126	9%
Cost of goods sold, IT processing, servicing and support	71,094	63,149	13%
Selling, general and administration	38,001	40,586	(6%)
Depreciation and amortization	10,060	10,442	(4%)
Operating income	31,966	23,949	33%
Interest income	4,211	3,438	22%
Interest expense	941	1,734	(46%)
Income before income tax expense	35,236	25,653	37%
Income tax expense	10,305	8,535	21%
Net income before earnings from equity-accounted investments	24,931	17,118	46%
Earnings from equity-accounted investments	65	52	25%
Net income	24,996	17,170	46%
Less (Add) net income (loss) attributable to non-controlling interest	638	(12)	nm
Net income attributable to us	24,358	17,182	42%

	In South African Rand (US GAAP)		
	Three months ended March 31,		
	2015	2014	ZAR %
	ZAR	ZAR	change
	000	000	
Revenue	1,771,411	1,502,024	18%
Cost of goods sold, IT processing, servicing and support	833,350	686,701	21%
Selling, general and administration	445,440	441,345	1%
Depreciation and amortization	117,921	113,549	4%
Operating income	374,700	260,429	44%
Interest income	49,360	37,386	32%
Interest expense	11,030	18,856	(42%)
Income before income tax expense	413,030	278,959	48%
Income tax expense	120,793	92,812	30%
Net income before earnings from equity-accounted investments	292,237	186,147	57%
Earnings from equity-accounted investments	762	565	35%
Net income	292,999	186,712	57%
	7,479	(130)	nm

Less (Add) net income (loss) attributable to non-controlling interest

Net income attributable to us	285,520	186,842	53%
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The increase in revenue was primarily due to higher prepaid airtime sales, more low-margin transaction fees generated from beneficiaries using the South African National Payment System, an increase in the number of UEPS-based loans, an increase in the number of SASSA UEPS/ EMV cardholders paid, a higher contribution from KSNET and more ad hoc terminal and card sales.

The increase in cost of goods sold, IT processing, servicing and support was primarily due to higher expenses incurred from increased usage of the South African National Payment System by beneficiaries and more prepaid airtime sold.

In ZAR, our selling, general and administration expense increased due to increases in goods and services purchased from third parties.

Our operating income margin for third quarter of fiscal 2015 and 2014 was 21% and 17%, respectively. We discuss the components of operating income margin under Results of operations by operating segment. The increase is primarily attributable to higher transaction volumes in South Africa, including prepaid airtime sales, lending and SASSA grants paid.

Depreciation and amortization were higher primarily as a result of an increase in depreciation related to more terminals used to provide transaction processing in Korea, which was partially offset by no Eason intangible asset amortization as these intangible assets were fully amortized at the end of June 2014.

Interest on surplus cash increased to \$4.2 million (ZAR 49.4 million) from \$3.4 million (ZAR 37.4 million), due primarily to higher average daily ZAR cash balances.

Interest expense decreased to \$0.9 million (ZAR 11.0 million) from \$1.7 million (ZAR 18.9 million), due to a lower average long-term debt balance on our South Korean debt and a lower interest rate.

Fiscal 2015 tax expense was \$10.3 million (ZAR 120.8 million) compared to \$8.5 million (ZAR 92.8 million) in fiscal 2014. Our effective tax rate for fiscal 2015, was 29.2% and was higher than the South African statutory rate as a result of non-deductible expenses (including consulting and legal fees and the interest expense related to our long-term South Korean borrowings). Our effective tax rate for fiscal 2014, was 33.3% and was higher than the South African statutory rate as a result of non-deductible expenses (including interest expense related to our long-term Korean borrowings and stock-based compensation charges).

Results of operations by operating segment

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

Operating Segment	2015 \$ 000	% of total	2014 \$ 000	% of total	% change
Revenue:					
South African transaction processing	57,999	38%	57,397	42%	1%
International transaction processing	38,311	25%	35,245	26%	9%
Financial inclusion and applied technologies	66,830	44%	56,226	41%	19%
Subtotal: Operating segments	163,140	107%	148,868	109%	10%
Intersegment eliminations	(12,019)	(7%)	(10,742)	(9%)	12%
Consolidated revenue	151,121	100%	138,126	100%	9%
Operating income (loss):					
South African transaction processing	13,218	41%	9,137	38%	45%
International transaction processing	6,579	21%	4,642	19%	42%
Financial inclusion and applied technologies	17,906	56%	16,459	69%	9%
Subtotal: Operating segments	37,703	118%	30,238	126%	25%
Corporate/Eliminations	(5,737)	(18%)	(6,289)	(26%)	(9%)
Consolidated operating income	31,966	100%	23,949	100%	33%

Table 6

In South African Rand (US GAAP)
Three months ended March 31,

Operating Segment	2015 ZAR 000	% of total	2014 ZAR 000	% of total	% change
Revenue:					
South African transaction processing	679,853	38%	624,153	42%	9%
International transaction processing	449,074	25%	383,265	26%	17%
Financial inclusion and applied technologies	783,368	44%	611,418	41%	28%
Subtotal: Operating segments	1,912,295	107%	1,618,836	109%	18%
Intersegment eliminations	(140,884)	(7%)	(116,812)	(9%)	21%
Consolidated revenue	1,771,411	100%	1,502,024	100%	18%
Operating income (loss):					
South African transaction processing	154,939	41%	99,359	38%	56%
International transaction processing	77,118	21%	50,478	19%	53%
Financial inclusion and applied technologies	209,891	56%	178,980	69%	17%
Subtotal: Operating segments	441,948	118%	328,817	126%	34%
Corporate/Eliminations	(67,248)	(18%)	(68,388)	(26%)	(2%)
Consolidated operating income	374,700	100%	260,429	100%	44%

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South African transaction processing

In ZAR, the increase in segment revenues was primarily due to more low-margin transaction fees generated from beneficiaries using the South African National Payment System and more inter-segment transaction processing activities. In addition, revenue from the distribution of social welfare grants grew modestly during the year and was in-line with the increase in unique welfare cardholder recipients, net of removal of invalid and fraudulent beneficiaries, partially offset by the loss of MediKredit revenue as a result of the sale of that business.

Our operating income margin for the third quarter of fiscal 2015 and 2014 was 23% and 16%, respectively, and has increased primarily due to more higher-margin inter-segment transaction processing activities, the elimination of MediKredit losses and an increase in the number of beneficiaries paid in fiscal 2015.

International transaction-based activities

Revenue increased primarily due to higher transaction volume at KSNET during the third quarter of fiscal 2015. Operating income during the year to date fiscal 2015 was higher due to increase in revenue contribution from KSNET, but partially offset by Zazoo start-up costs in the UK and India. Operating income and margin for the third quarter of fiscal 2015, was also positively impacted by a refund of approximately \$1.7 million that had been paid several years ago in connection with industry-wide litigation that has now been finalized. Operating income margin for the third quarter of fiscal 2015 and 2014 was 17% and 13%, respectively, and was higher in fiscal 2015 primarily due to the refund referred to above.

Financial inclusion and applied technologies

Financial inclusion and applied technologies revenue and operating income increased primarily due to higher prepaid airtime sales driven by the rollout of our prepaid airtime product, an increase in the number of UEPS-based loans as we rolled out our product nationally, more ad hoc terminal and card sales and, in ZAR, an increase in intersegment revenues. Smart Life did not contribute to operating income in fiscal 2015 and 2014 due to the FSB suspension of its license.

The South African National Credit Act, or NCA, made certain industry-wide amendments, which became effective March 13, 2015. These amendments were introduced primarily to address over-indebtedness of South African consumers and now require lenders to perform a stricter affordability assessment. We expect that compliance with the amended legislation will have a modest impact on our UEPS-based lending businesses in the fourth quarter of fiscal 2015.

Operating income margin for the Financial inclusion and applied technologies segment was 27% and 29%, respectively, during of the third quarter of fiscal 2015 and 2014, and has decreased primarily due to the sale of more low-margin prepaid airtime and the sale of competitively-priced financial inclusion products to address the needs of the broader market.

Corporate/ Eliminations

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

The decrease in our corporate expenses was primarily due to lower US government investigations-related and US lawsuit expenses, audit fees and other corporate head office-related expenses.

Year to date fiscal 2015 compared to year to date fiscal 2014

The following factors had a significant influence on our results of operations during the year to date fiscal 2015 as compared with the same period in the prior year:

- ***Unfavorable impact from the strengthening of the US dollar against the ZAR:*** The US dollar appreciated by 8% against the ZAR during the year to date fiscal 2015, which negatively impacted our reported results;
- ***Increased contribution by KSNET:*** Our results were positively impacted by growth in our Korean operations;
- ***Increase in the number of SASSA grants paid:*** Our revenue and operating income have increased as a result of the higher number of SASSA UEPS/EMV cardholders paid during fiscal 2015 compared with 2014; and
- ***Continued growth in financial inclusion services:*** We continued to grow our financial inclusion services offerings during the year to date fiscal 2015, which has resulted in higher revenues and operating income from more sales of low-margin prepaid airtime and UEPS-based lending.

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 7	In United States Dollars (US GAAP)		
	Nine months ended March 31,		
	2015	2014	\$ %
	\$ 000	\$ 000	change
Revenue	461,693	398,903	16%
Cost of goods sold, IT processing, servicing and support	217,274	187,591	16%
Selling, general and administration	118,122	121,916	(3%)
Depreciation and amortization	30,391	30,245	0%
Operating income	95,906	59,151	62%
Interest income	11,888	9,993	19%
Interest expense	3,360	5,712	(41%)
Income before income tax expense	104,434	63,432	65%
Income tax expense	32,156	22,119	45%
Net income before earnings from equity-accounted investments	72,278	41,313	75%
Earnings from equity-accounted investments	233	202	15%
Net income	72,511	41,515	75%
Less (add) net income (loss) attributable to non-controlling interest	1,690	(12)	nm
Net income attributable to us	70,821	41,527	71%

Table 8	In South African Rand (US GAAP)		
	Nine months ended March 31,		
	2015	2014	ZAR %
	ZAR 000	ZAR 000	change
Revenue	5,182,550	4,140,654	25%
Cost of goods sold, IT processing, servicing and support	2,438,922	1,947,214	25%
Selling, general and administration	1,325,932	1,265,501	5%
Depreciation and amortization	341,142	313,947	9%
Operating income	1,076,554	613,992	75%
Interest income	133,444	103,728	29%
Interest expense	37,716	59,291	(36%)
Income before income tax expense	1,172,282	658,429	78%
Income tax expense	360,954	229,597	57%
Net income before earnings from equity-accounted investments	811,328	428,832	89%
Earnings from equity-accounted investments	2,615	2,097	25%
Net income	813,943	430,929	89%
	18,970	(125)	nm

Less (add) net income (loss) attributable to non-controlling interest			
Net income attributable to us	794,973	431,054	84%

The increase in revenue was primarily due to higher prepaid airtime sales, more low-margin transaction fees generated from beneficiaries using the South African National Payment System, an increase in the number of UEPS-based loans, an increase in the number of SASSA UEPS/ EMV cardholders paid, a higher contribution from KSNET and more ad hoc terminal and card sales.

The increase in cost of goods sold, IT processing, servicing and support was primarily due to higher expenses incurred from increased usage of the South African National Payment System by beneficiaries and more prepaid airtime sold.

In ZAR, our selling, general and administration expense increased due to increases in goods and services purchased from third parties.

Our operating income margin for year to date fiscal 2015 and 2014 was 21% and 15%, respectively. We discuss the components of operating income margin under Results of operations by operating segment. The increase is primarily attributable to higher transaction volumes in South Africa, including prepaid airtime sales, lending and SASSA grants paid.

Depreciation and amortization were higher primarily as a result of an increase in depreciation related to more terminals used to provide transaction processing in Korea, which was partially offset by no Eason intangible asset amortization as these intangible assets were fully amortized at the end of June 2014.

Interest on surplus cash increased to \$11.9 million (ZAR 133.4 million) from \$10.0 million (ZAR 103.7 million), due primarily to higher average daily ZAR cash balances.

Interest expense decreased to \$3.4 million (ZAR 37.7 million) from \$5.7 million (ZAR 59.3 million), due to a lower average long-term debt balance on our South Korean debt and a lower interest rate.

Fiscal 2015 tax expense was \$32.2 million (ZAR 361.0 million) compared to \$22.1 million (ZAR 230.0 million) in fiscal 2014. Our effective tax rate for fiscal 2015, was 30.8% and was higher than the South African statutory rate as a result of non-deductible expenses (including consulting and legal fees and the interest expense related to our long-term South Korean borrowings). Our effective tax rate for fiscal 2014, was 34.9% and was higher than the South African statutory rate as a result of non-deductible expenses (including interest expense related to our long-term Korean borrowings and stock-based compensation charges).

Results of operations by operating segment

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

Operating Segment	<i>In United States Dollars (US GAAP)</i>				
	2015 \$ 000	% of total	2014 \$ 000	% of total	% change
Revenue:					
South African transaction processing	176,678	38%	173,312	43%	2%
International transaction processing	121,981	26%	110,524	28%	10%
Financial inclusion and applied technologies	199,558	43%	143,502	36%	39%
Subtotal: Operating segments	498,217	107%	427,338	107%	17%
Intersegment eliminations	(36,524)	(7%)	(28,435)	(7%)	28%
Consolidated revenue	461,693	100%	398,903	100%	16%
Operating income (loss):					
South African transaction processing	39,740	41%	22,726	38%	75%
International transaction processing	19,671	21%	15,305	26%	29%
Financial inclusion and applied technologies	53,340	56%	42,559	72%	25%
Subtotal: Operating segments	112,751	118%	80,590	136%	40%
Corporate/Eliminations	(16,845)	(18%)	(21,439)	(36%)	(21%)
Consolidated operating income	95,906	100%	59,151	100%	62%

Table 10

In South African Rand (US GAAP)
Nine months ended March 31,

Operating Segment	2015 ZAR 000	% of total	2014 ZAR 000	% of total	% change
Revenue:					
South African transaction processing	1,983,228	38%	1,798,996	43%	10%
International transaction processing	1,369,249	26%	1,147,251	28%	19%
Financial inclusion and applied technologies	2,240,059	43%	1,489,565	36%	50%
Subtotal: Operating segments	5,592,536	107%	4,435,812	107%	26%
Intersegment eliminations	(409,986)	(7%)	(295,158)	(7%)	39%
Consolidated revenue	5,182,550	100%	4,140,654	100%	25%
Operating income (loss):					
South African transaction processing	446,085	41%	235,898	38%	89%
International transaction processing	220,809	21%	158,867	26%	39%
Financial inclusion and applied technologies	598,747	56%	441,766	72%	36%
Subtotal: Operating segments	1,265,641	118%	836,531	136%	51%
Corporate/Eliminations	(189,087)	(18%)	(222,539)	(36%)	(15%)
Consolidated operating income	1,076,554	100%	613,992	100%	75%

South African transaction processing

In ZAR, the increase in segment revenues was primarily due to more low-margin transaction fees generated from beneficiaries using the South African National Payment System and more inter-segment transaction processing activities. In addition, revenue from the distribution of social welfare grants grew modestly during the year and was in-line with the increase in unique welfare cardholder recipients, net of removal of invalid and fraudulent beneficiaries, partially offset by the loss of MediKredit revenue as a result of the sale of that business.

Our operating income margin for the year to date fiscal 2015 and 2014 was 22% and 13%, respectively, and has increased primarily due to more higher-margin inter-segment transaction processing activities, the elimination of MediKredit losses and an increase in the number of beneficiaries paid in fiscal 2015.

International transaction-based activities

Revenue and operating income increased primarily due to higher transaction volume at KSNET during the year to date fiscal 2015. Operating income margin for the year to date fiscal 2015 and 2014, was 16% and 14%, respectively.

Financial inclusion and applied technologies

Financial inclusion and applied technologies revenue and operating income increased primarily due to higher prepaid airtime sales driven by the rollout of our prepaid airtime product, an increase in the number of UEPS-based loans as we rolled out our product nationally, and, in ZAR, an increase in intersegment revenues. Fiscal 2014 operating income includes expenses related to the national roll-out of our UEPS-based lending offering and the establishment of the allowance for doubtful finance loans in fiscal 2014. Smart Life did not contribute to operating income in fiscal 2015 and 2014 due to the FSB suspension of its license.

Notwithstanding the national roll-out expenses incurred in fiscal 2014, operating income margin for the Financial inclusion and applied technologies segment decreased to 27% from 30%, primarily as a result of more low-margin prepaid airtime and the sale of competitively-priced financial inclusion products to address the needs of the broader market.

Corporate/ Eliminations

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

The decrease in our corporate expenses was primarily due to lower US government investigations-related and US lawsuit expenses, audit fees and other corporate head office-related expenses.

Liquidity and Capital Resources

At March 31, 2015, our cash balances were \$111.0 million, which comprised mainly ZAR-denominated balances of ZAR 1.2 billion (\$103.6 million), KRW-denominated balances of KRW 1.6 billion (\$1.5 million) and US dollar-denominated balances of \$4.3 million and other currency deposits, primarily Botswana Pula, of \$1.7 million. The increase in our cash balances from June 30, 2014, was primarily due to the expansion of all of our core businesses, and to a lesser extent, to the cash conservation resulting from the sale of loss-incurring businesses, offset by provisional tax payments and the scheduled Korean debt repayment in October 2014.

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

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

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

We have a short-term South African credit facility with Nedbank Limited of ZAR 400 million (\$33.1 million). The short-term facility comprises an overdraft facility of up to ZAR 250 million and indirect and derivative facilities of up to ZAR 150 million, which includes letters of guarantee, letters of credit and forward exchange contracts. As of March 31, 2015, we have used none of the overdraft and ZAR 137.2 million (\$11.3 million) of the indirect and derivative facilities to obtain foreign exchange contracts and to support guarantees issued by Nedbank to various third parties on our behalf. Refer to Note 12 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended June 30, 2014, for additional information related to our short-term facilities.

As of March 31, 2015, we had outstanding long-term debt of KRW 66.4 billion (approximately \$60.0 million translated at exchange rates applicable as of March 31, 2015) under credit facilities with a group of South Korean banks. The loans bear interest at the South Korean CD rate in effect from time to time (2.12% as of March 31, 2015) plus a margin of 3.10% for one of the term loan facilities and the revolver and a margin of 2.90% for the other term loan facility. We repaid the KRW 15 billion other term loan facility in full in October 2014 in accordance with the repayment schedule. Scheduled remaining repayments of the term loans and loan under the revolving credit facility are as follows: April 2016, 2017 and 2018 (KRW 10 billion each) and October 2018 (KRW 30 billion plus all outstanding loans under our revolving credit facility). Refer to Note 9 to our unaudited condensed consolidated financial statements for the three and nine months ended March 31, 2015, for additional information related to our long-term borrowings.

Cash flows from operating activities

Third quarter of fiscal 2015 and 2014

Net cash provided by operating activities for the third quarter of fiscal 2015 was \$49.3 million (ZAR 578.0 million) compared to cash provided by operating activities of \$34.6 million (ZAR 376.2 million) for the third quarter of fiscal 2014. Excluding the impact of interest received, interest paid under our Korean debt and taxes presented in the table below, the increase in cash from operating activities resulted from improved trading activity during fiscal 2015.

We paid taxes totaling \$0.1 million (ZAR 1.6 million) in South Africa during the third quarter of fiscal 2015. We also paid taxes totaling \$3.0 million in other tax jurisdictions, primarily South Korea. We paid no taxes in South Africa during the third quarter of fiscal 2014. We paid provisional Korean taxes of \$1.6 million related to our tax year ended December 31, 2013.

Taxes paid during the third quarter of fiscal 2015 and 2014 were as follows:

	Three months ended March 31,			
	2015	2014	2015	2014
	\$	\$	ZAR	ZAR
	000	000	000	000
First provisional payments	135	-	1,564	-
Taxation refunds received	(40)	(36)	(468)	(400)
Total South African taxes paid	95	(36)	1,096	(400)
Foreign taxes paid: primarily Korea	2,991	1,606	36,042	17,330
Total tax paid	3,086	1,570	37,138	16,930

We expect to pay our second provisional payments in South Africa related to our 2015 tax year in the fourth quarter of fiscal 2015.

Year to date fiscal 2015 and 2014

Net cash provided by operating activities for the year to date fiscal 2015 was \$103.4 million (ZAR 1.2 billion) compared to cash provided by operating activities of \$5.7 million (ZAR 59.1 million) for the year to date fiscal 2014. Excluding the impact of interest received, interest paid under our Korean debt and taxes presented in the table below, the increase in cash from operating activities resulted from improved trading activity during fiscal 2015.

During the year to date fiscal 2015, we paid South African tax of \$18.9 million (ZAR 217.2 million) related to our 2015 tax year and \$2.4 million (ZAR 26.4 million) related to prior tax years. We also paid taxes totaling \$7.6 million in other tax jurisdictions, primarily South Korea. During the year to date fiscal 2014, we paid South African tax of \$13.3 million (ZAR 137.8 million) related to our 2014 tax year and \$0.2 million (ZAR 2.4 million) related to prior tax years. We also paid provisional Korean taxes of \$2.6 million related to our tax year ended December 31, 2013.

Taxes paid during the year to date fiscal 2015 and 2014 were as follows:

Table 12	Nine months ended March 31,			
	2015	2014	2015	2014
	\$	\$	ZAR	ZAR
	000	000	000	000
First provisional payments	18,910	13,292	217,241	137,773
Taxation paid related to prior years	2,408	228	26,395	2,360
Taxation refunds received	(317)	(36)	(3,533)	(400)
Total South African taxes paid	21,001	13,484	240,103	139,733
Foreign taxes paid: primarily Korea	7,638	2,613	86,857	27,507
Total tax paid	28,639	16,097	326,960	167,240
Cash flows from investing activities				

Third quarter of fiscal 2015 and 2014

Cash used in investing activities for the third quarter of fiscal 2015 includes capital expenditure of \$6.3 million (ZAR 74.1 million), primarily for the acquisition of payment processing terminals in Korea and the rollout of ATMs in South Africa.

Cash used in investing activities for the third quarter of fiscal 2014 includes capital expenditure of \$4.8 million (ZAR 52.7 million), primarily for the acquisition of payment processing terminals in Korea.

Year to date fiscal 2015 and 2014

Cash used in investing activities for the year to date fiscal 2015 includes capital expenditure of \$24.8 million (ZAR 278.9 million), primarily for the acquisition of payment processing terminals in Korea. We also received approximately \$1.9 million resulting from the sale of NUETS business.

Cash used in investing activities for the year to date fiscal 2014 includes capital expenditure of \$17.3 million (ZAR 178.9 million), primarily for the acquisition of payment processing terminals in Korea.

Cash flows from financing activities

Third quarter of fiscal 2015 and 2014

During the third quarter of fiscal 2015, we utilized approximately \$0.8 million of our Korean borrowings to pay quarterly interest due and received approximately \$0.8 million from the exercise of stock options. We also paid a dividend of \$1.0 million to certain of our non-controlling interests.

During the third quarter of fiscal 2014, we utilized approximately \$1.0 million of our Korean borrowings to pay quarterly interest due and received approximately \$0.1 million from the exercise of stock options.

Year to date fiscal 2015 and 2014

During the year to date fiscal 2015, we made a scheduled Korean debt repayment of \$14.1 million, repurchased BVI's remaining 1,837,432 shares of Net1 common stock for approximately \$9.2 million, received \$1.4 million from BVI for 12.5% of CPS issued and outstanding ordinary shares and paid a dividend of \$1.0 million to certain of our

non-controlling interests. We also utilized approximately \$3.0 million of our Korean borrowings to pay quarterly interest due and received approximately \$1.8 million from the exercise of stock options during the first quarter of fiscal 2015.

During the year to date fiscal 2014, we refinanced our Korean debt and received \$87 million from Korean banks. In October 2013, we used \$72.6 million of these new borrowings and \$14.4 million of our surplus cash to repay the \$87.0 million due under our old facility. In addition, we paid the facility fees related to our new Korean borrowings of approximately \$0.9 million. In January 2014, we utilized approximately \$1.0 million of these new borrowings to pay quarterly interest due in Korea.

We paid approximately \$2.0 million for all of the shares of KSNET we did not already own during the second quarter of fiscal 2014. We also utilized our South African short-term facility to fund our working capital requirements.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Capital Expenditures

We expect capital spending for the fourth quarter of fiscal 2015 to primarily include the acquisition of payment terminals for the expansion of our operations in Korea.

Our historical capital expenditures for the third quarter of fiscal 2015 and 2014 are discussed under **Liquidity and Capital Resources** Cash flows from investing activities. All of our capital expenditures for the past three fiscal years were funded through internally-generated funds. We had outstanding capital commitments as of March 31, 2015, of \$0.4 million related mainly to computer equipment. We expect to fund these expenditures through internally-generated funds.

Contingent Liabilities, Commitments and Contractual Obligations

The following table sets forth our contractual obligations as of March 31, 2015:

Table 13	Payments due by Period, as of March 31, 2015 (in \$ 000s)	
	Less	More
	than 1	