NET 1 UEPS TECHNOLOGIES INC
Form 10-K
August 26, 2010

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

FORM 10-K

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

For the fiscal year ended June 30, 2010

or

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

For the transition period from _____to_____

Commission file number: **000-31203**

NET 1 UEPS TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filings requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [ ] No [ ]

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of December 31, 2009 (the last business day of the registrant s most recently completed second fiscal quarter), based upon the closing price of the common stock as reported by The Nasdaq Global Select Market on such date, was $ 734,410,823. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of August 27, 2009, 45,378,397 shares of the registrant s common stock, par value $0.001 per share were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the definitive Proxy Statement to be delivered to shareholders in connection with the 2010 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

NET 1 UEPS TECHNOLOGIES, INC.

INDEX TO ANNUAL REPORT ON FORM 10-K
Year Ended June 30, 2010

PART I

FORWARD LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties that could cause our actual results to differ materially from those projected, anticipated or implied in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in Item 1A. Risk Factors. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, would, expects, plans, intends, antic estimates, predicts, potential or continue or the negative of such terms and other comparable terminology. You sho not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Annual Report. We undertake no obligation to release publicly any revisions to the forward-looking statements after the date of this Annual Report. You should carefully review the risk factors described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by us in our 2011 fiscal year, which runs from July 1, 2010 to June 30, 2011.

ITEM 1. BUSINESS

Overview

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

We also focus on the development and provision of secure transaction technology, solutions and services, and offer transaction processing, financial and clinical risk management solutions to both funders and providers of healthcare. Our core competencies around secure online transaction processing, cryptography and integrated circuit card (chip/smart card) technologies are principally applied to electronic commerce transactions in the telecommunications, banking, payroll, retail, health care, petroleum and utility industries.

Our technology is widely used in South Africa today, where we distribute pension and welfare payments to over 3.2 million recipients in five of South Africa s nine provinces, process debit and credit card payment transactions on behalf of retailers that we believe represent nearly 65% of retailers within the formal retail sector in South Africa through our EasyPay (Proprietary) Limited, or EasyPay system, process value added service such as bill payments and prepaid electricity for the major bill issuers and local councils in South Africa and provide mobile telephone top-up transactions for two of South Africa s three mobile carriers. We are the largest provider of third party payroll payments in South Africa through our Net1 FIHRST Holdings (Proprietary) Limited, trading as FIHRST Management Services, or FIHRST, service that processes monthly payments for approximately 700 employers representing over 750,000 employees. Our MediKredit Integrated Healthcare Solutions (Proprietary) Limited, or MediKredit, service provides the majority of funders and providers of healthcare in South Africa with an on-line real-time management system for healthcare transactions.

We generate revenue primarily by charging transaction fees to governmental agencies, employers, merchants and other financial services providers and by selling hardware, software and related technology. During fiscal 2010, 2009 and 2008, we had revenue of $280.4 million, $246.8 million and $254.1 million, respectively and operating income of $69.8 million, $93.4 million and $110.4 million, respectively. Revenues derived from our South African operations were $267.5 million, $220.4 million and $238.9 million in fiscal 2010, 2009 and 2008, respectively. Revenues derived from our operations in Europe were $12.3 million, $19.6 million and nil, in fiscal 2010, 2009 and 2008, respectively and revenues derived from our operations in the rest of the world were $0.6 million, $6.9 million and $15.2 million in fiscal 2010, 2009 and 2008, respectively.

We analyze our business in terms of four inter-related independent operating segments: (1) transaction-based activities, (2) smart card accounts, (3) financial services, and (4) hardware, software and related technology sales. We discuss these segments in detail under Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. In addition, note 17 to our consolidated financial statements included in this annual report contains detailed financial information about these operating segments for fiscal 2010, 2009 and 2008.

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

Market Opportunity

Services for the Under-banked: According to the United States Census Bureau, the world s population currently exceeds 6.9 billion people. Yet of this total, it has been reported that over four billion people earn less than the purchasing parity equivalent of two dollars per day. In general, these people either have no bank account or very limited access to formal financial services. This situation arises when either banking fees are too high relative to an individual s income, a bank account provides little or no meaningful benefit or there is insufficient infrastructure to provide financial services economically in the individual s geographic location. We refer to these people as the unbanked and the under-banked. These individuals typically receive wages, welfare benefits, money transfers or loans in the form of cash, and conduct commercial transactions, including the purchase of food and clothing, in cash.

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

With over 25 million cardholders in more than 20 developing countries around the world, our track record and scale uniquely positions us to continue further geographical penetration of our technology in additional emerging countries.

Online transaction processing services: The rapid global growth of retail credit and debit card transactions is reflected in the May 2009 Nilson Report, according to which worldwide annual general purpose card purchase volume increased 10% to $6.7 trillion in 2008. General purpose cards include the major card network brands such as MasterCard, Visa and American Express. We operate the largest bank-independent transaction processing service in South Africa through EasyPay, where we have developed a suite of value-added services such as bill payment, airtime top-up, gift card, money transfer and pre-paid utility purchases that we offer as a complete solution to merchants and retailers. Our expertise in on-line transaction processing and value-added services provides us with the opportunity to participate globally in this rapidly growing market segment.

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

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

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

By combining Net1 s payment expertise with MediKredit s real-time claims processing technology, we are able to offer governments, funders and providers of healthcare with a comprehensive solution that offers a completely automated system, reducing both cost and time.

Our Off-line Transacting Solution

We believe that we are the first company to enable the affordable delivery of financial products and services to the world s unbanked and under-banked people. Our approach takes full advantage of moving processing away from a centralized point to the computer chip embedded on a smart card. A smart card reader, a point of service or POS device, is used to enable communication between smart cards in real-time during a transaction and indirectly with our mainframe computer at a later time. This architecture has significant implications in terms of the products and services that we can deliver compared to those offered by banking institutions or other card providers.

First, our system enables offline transactions, which is essential in serving the unbanked and under-banked. Second, while offline, the smart card can engage in sophisticated transaction processing, using data encryption and biometric fingerprint protection to ensure security. In fact, our smart cards can calculate the interest owed to the card holder for having funds recorded onto our system without ever coming online. Third, with all of the software and transaction records on the smart card, the POS device itself requires far fewer components, circuitry and memory, substantially reducing costs. Fourth, each transaction is recorded on both participating smart cards, copied in subsequent transactions to additional smart cards, and ultimately reported to our mainframe computer. This creates a full audit trail that significantly reduces the potential for corruption, theft and fraud. Lastly, instead of having to build the overall system to handle peak loads, our system further reduces costs by smoothing the transaction flow over time.

We believe that our solution delivers benefits to each of the users of our system, including:

Individuals. There is no minimum income requirement for individuals to use our smart card, making our solution universally accessible. It is also inexpensive since the overall cost of the system is much less than widely available solutions, including cash, bank accounts and bank cards that require online access. Our solution additionally has the advantage of working everywhere, including remote areas where many unbanked and under-banked people live. Equally important, our solution is secure and smart cards are replaceable. This means that individuals do not have to fear that their money will be stolen or that they will be charged for fraudulent transactions as all transactions are verified biometrically through fingerprints. Since the smart card performs all of the required computing processing and contains all of the different service features, the smart card can be tailored to meet the needs of the individual. Card holders can also receive interest on their card balances, a benefit not available to them when transacting solely in cash. We believe our solution has the potential to enhance significantly the living standards of the unbanked and under-banked by reducing transaction costs and providing them with new and additional financial products and services, which are otherwise largely procured from the informal sector.

Merchants and Financial Service Providers. Merchants derive multiple benefits from our system. Our system decreases the amount of cash they must hold, improving security and reducing expenses, such as cash deposit fees and cash losses. By providing financial services through our POS devices, merchants also benefit from new income streams at no additional incremental cost. In addition, our system provides a record of transactions that is useful for administrative purposes. For formal financial service providers, the use of smart cards provides opportunities to directly sell products and services to a market that was previously difficult to reach. For instance, insurance companies can offer their products with the premium deducted directly from the individual s smart card. In the case of lending, administrative costs are decreased along with the expense of holding cash. Again, the collection of payments can occur directly from the smart card, reducing credit risk and helping to establish credit history.

Employers. Our system enables employers to eliminate cash from the wage payment process. This reduces expenses by avoiding cash handling and management, the need to insure, secure and transport that cash and the bank transaction fees associated with obtaining cash in the first place. The process of paying employees using cash is also time consuming, taking up to half a day per pay period in some instances. The use of our system eliminates this process and thereby increases productivity. In addition, because cash payments are distributed in packets to employees, disputes can arise as to the amount of cash in the packet. Our system also addresses this issue as the amount reflected on the card holders accounts are recorded on the back-end system and then distributed on the smart

cards. Finally, employers frequently provide additional services to their employees out of necessity, particularly loans. Our system enables other service providers to deliver these products.

Government Agencies. A fundamental policy goal for almost any government is to enhance the welfare of the poorest citizens in the country. Yet the use of cash is a poor method for delivering social welfare grants since it is difficult to track, and the recipients endure a range of expenses and dangers that reduce their options. By using our system, government agencies enjoy reduced costs in the delivery of benefits to recipients by eliminating the use of cash while increasing the options available to the recipient. This use of our system intrinsically increases the welfare that government agencies can provide from the same amount of taxes collected. Our system also has the potential to increase the amount of taxes collected by bringing informal businesses into the formal economy. The presence of a full audit trail also means that government agencies can combat corruption. Moreover, the use of smart cards for the delivery of additional services, including insurance products, means that regulatory bodies can expand their oversight of transactions for individuals who are frequently least able to protect themselves. In regard to medical benefits, our system provides comprehensive inventory management and has the potential to improve the treatment of patients significantly.

The UEPS Technology

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

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

System Components

Our platform consists of three fundamental components: (1) our funds transfer system, or FTS, intellectual property (2) our UEPS/DUET software and (3) our security protocol.

FTS. Our FTS intellectual property allows funds to be transferred from one smart card to another in a secure and offline manner. The term offline refers to transactions that are effected without the need to contact or communicate with the issuer when the transactions occur, as the smart cards themselves perform the authorizations required. The FTS also describes how smart cards can be loaded or re-loaded with funds and how these can be redeemed for value in either banking or non-banking environments.

UEPS / DUET. Our UEPS is a suite of software programs that make use of the FTS methodology to deliver an integrated information, payment, switching and settlement environment that underpins our transaction processing system. Our software principally runs on three devices: the smart card, the POS device and the back-end system mainframe. When we sell a complete system to a customer or license our technology, we provide all of the software required to operate the UEPS, including the smart card functionality, the POS devices that allow our smart cards to transact with each other in an offline manner and our back-end system that primarily stores an audit trail of all transactions effected.

The primary strengths of the UEPS are its affordability, security and flexibility. The system is affordable because the computer chips on the smart cards contain all the software necessary to process UEPS transactions, thereby allowing the POS devices required to conduct these transactions to contain far fewer components and less circuitry than traditional POS devices. There is also a reduced need for processing power and on-board memory given that online communication is not necessary. This eliminates the need for an internal or external modem and its associated hardware, maintenance and call costs. As a result, the UEPS terminals are relatively inexpensive and do not require specialized technical expertise for installation. The UEPS also reduces or eliminates the need for national infrastructures, including electricity, telephone or data transmission. The UEPS is secure because the funds in each smart card are protected from illegal access through biometric fingerprint technology. In addition, every transaction is verified by the two smart cards involved in the transaction using state-of-the-art cryptographic systems in conjunction with protocols and techniques that we have developed. Finally, our UEPS is flexible because transactions are completed offline, eliminating virtually all restrictions where verified transactions can occur.

Security Protocol. Our security protocol was designed to prevent opportunistic fraud and enforce the correct transaction flow. The symmetric triple data encryption standard, or DES, is used extensively in association with a native random number generator that ensures that all transactions are performed by using a random session key pair. The DES encryption algorithm can be easily modified to use alternative symmetric or asymmetric encryption algorithms such as the Rivest, Shamir and Adleman or elliptic curves. Each message exchanged during a transaction names both transacting parties, includes unique information to guarantee freshness and depends explicitly on all the messages that occur before it.

Our Payment System Platform

The following diagram depicts how our UEPS platform is constructed.

UEPS / DUET PLATFORM
Fully-functional and integrated payment and settlement system, capable of operating all UEPS and DUET products and systems.

COMPLETE SYSTEMS
Combination of products meeting a client s particular requirements.

STAND-ALONE PRODUCTS
Financial transaction applications (S2S products).

FUNCTIONALITY
Combination of Hardware and Operating Systems on smart cards enable the creation of UEPS applications which can be customized for the particular needs of a client.

OPERATING SYSTEMS	
Third-party software.	UEPS / DUET software programmed by us.

SMART CARDS / SIM CARDS (Hardware)
Cards sourced from third-party vendors.

HARDWARE

POS devices, ATMs, mobile phones, back-end computer systems sourced from third-party vendors.

The UEPS we sell to clients is a platform with the potential to provide all of the products we develop which, when grouped together, form complete systems serving the specific needs of various business segments. Depending on the requirements of a particular customer, we assist the customer in the setup of its application which is tailored to provide only the products and services initially required, although the UEPS can later be updated to provide additional products. We outsource the manufacturing of the hardware components of our system, including smart cards, POS devices, automated teller machines, or ATMs, PCs and back-end mainframes. However, we have developed all of our application software modules so that they will run on different hardware platforms which allow us to be hardware-independent and to provide our customers with the latest and most economical hardware solutions.

Scalability. Our UEPS can be implemented in different environments, from small closed systems to national implementations. In closed-system environments, the UEPS front-end equipment is personal computer-based and can therefore be implemented at relatively low cost. In these instances, we provide the back-end system on a transaction fee basis, thus limiting the overall set up cost. This approach can also be used whenever larger implementations are required but where the customer prefers to focus on marketing and selling its products rather than initially concentrating on operating the back-end system. The cost to entry can thus be greatly reduced as the operations can first become profitable before expending large amounts of capital. On the other hand, large governmental institutions, financial institutions or medical insurers typically prefer to maintain control over the entire payment system and therefore invest in a full system implementation. The time to launch these projects tends to be longer due to the time that is required to train the end-user to operate the system.

Once a UEPS is installed on behalf of a customer, we believe that we are well-positioned to benefit from the scalability of the system as minimal changes are required to be made to the application base for the system to manage significantly greater numbers of users. We can therefore provide additional smart cards while leveraging the existing cost base in a market. In addition, we have a dedicated team of technicians and developers and an infrastructure capable of supporting a significant volume of customers and their transactions. As a result, we expect to benefit from economies of scale that pertain to increases in the number of products and services using the infrastructures we sell and/or implement.

Our Business Strengths

We believe our business strengths include:

Technology Leadership. We believe that we are the leader in developing, implementing and operating affordable, flexible and secure electronic payment systems for the unbanked and under-banked that work offline. Of equal importance, our smart cards are secured through biometric fingerprint authentication and have a broad range of additional functionality through the use of wallets that can be turned on as needed or as services become available. We can deliver these services to the unbanked population at a fraction of the cost of traditional systems. Our ability to implement an HIV/AIDS administrative system on the same smart card as financial services demonstrates the flexibility of our approach. In addition, we have validated the security of our smart cards along with our overall system, forming the foundation for a trusted solution. Independent third parties have reviewed and published our security protocols and we have refined our system in a way to provide system integrity over the life of the smart cards. From our inception in 1989 to date, we have not suffered any security breaches or losses of transactions or funds on our system. In addition, we have well-established core cryptography, software, hardware, embedded chip, wireless and payment expertise.

Proven Solution. Our system is proven and is widely used by over 25 million of cardholders in more than 20 countries.

Versatile Application. Once an individual begins using our smart card, we become a logical provider of a broad range of additional products and services. For instance, a card holder using our system for the administration of medical treatment can also use the same smart card for receiving welfare payments or wages as well as making

purchases. Because use of each smart card is secured biometrically, the smart card can also be used for identification and voting. The additional uses mean that once we have enrolled and delivered a smart card to an individual, our revenue potential increases significantly beyond the initial service for which that individual has signed up.

Broad Appeal that Drives Opportunities. Because our system provides economic benefits to all participants, we believe there are strong incentives for government agencies and private sector companies to adopt our system in many developing countries. Our solution is also appealing because a single deployment enables the delivery of a broad array of new services to those who are potentially most in need of them, often at a lower cost than alternative distribution methods.

Increasing Returns to Scale. The initial establishment of our system in a province or country requires upfront expenditures for computers, distribution infrastructure and card holder registration. Once in place, though, the cost to us of supplying additional products to users is low. For instance, if a customer receives welfare payments on one of our smart cards and then chooses to purchase insurance through our system, there is almost no additional expense for us to deduct the insurance premium regularly. As a result, the operating margin for that customer increases significantly, offset only by any marketing or administrative costs associated with that product.

Our Strategy

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

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

Realigning management responsibilities and internal systems on a geographic basis to maximize our ability to target more markets simultaneously The new UEPS systems that we have launched outside South Africa have received a high level of attention from governments and central banks, among others, and we are continually being presented with opportunities to discuss the implementation of new systems in countries around the world. In addition, as a result of our August 2008 acquisition of Net1 Universal Technologies (Austria) AG, or Net1 UTA, we now provide smart card-based payment systems in Russia and other members of the Commonwealth of Independent States, or CIS, as well as several other countries. We believe that we can accelerate our expansion into new markets while making the most efficient use of our senior management, marketing and information technology personnel by creating separate clusters and within those clusters, business units, each of which is devoted to a particular geographic area and/or specific technologies, products and services, and we have recently completed the process of defining and creating those groups.

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

Our Business in South Africa

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

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

Government focus on expansion of social benefits As a result of the South African government s focus on the provision of social grants as a core element of its social assistance and poverty alleviation policies, we believe that we

remain well-positioned to continue to provide our payment services to the government and beneficiaries. We believe that there is a compelling argument for the South African Social Security Agency, or SASSA, and other government agencies to utilize our innovative, off-line, secure, efficient and low-cost payment solution to reach beneficiaries across the country, even in the most remote and deep rural areas where the communication and electricity infrastructure is sparse or non-existent. On August 24, 2010, we signed a new service level agreement with SASSA that expires on March 31, 2011. We discuss this new agreement in more detail elsewhere in this Annual Report, including under Item 9B. Other Information.

Increasing adoption of existing services Our technology supports a variety of other products and smart card to smart card, or S2S, services that expand the use of our technology and provide us with new sources of transaction-based revenues. During the last several years, we have introduced these new products and services in South Africa for existing and newly-enrolled cardholders. We have installed our POS terminals in thousands of mostly rural merchant locations throughout the country which allows beneficiaries to receive their grants at these locations and transact business with the retailers using our smart card. During fiscal 2010, we processed 18.4 million transactions with a total value of ZAR 11.7 billion at these merchant locations. In addition, during fiscal 2010, we began implementing our wage payment solution which provides for secure payroll distribution through our smart card.

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

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

Merchant processing through EasyPay EasyPay is the largest independent financial switch and merchant processor in South Africa for credit and debit card transactions. EasyPay processed 655.2 million transactions with a total value of ZAR 143.8 billion during fiscal 2010. Our technology also allows us to provide a variety of additional, value-added payment services, such as bill payment, prepaid mobile top-up, prepaid utility services and gift cards, that we can sell into our existing card holder base as well as to new customers. We have integrated our propriety UEPS software with these services to create a larger, seamless, value-added payments eco-system.

Third party payments from payroll processing through FIHRST Through our FIHRST service, we offer employers an easy and flexible method of making payments to employees and payroll-related creditors. During the three months ended June 30, 2010, FIHRST processed 5.3 million transactions with a total value of ZAR 14.1 billion. The FIHRST system enables human resources departments to achieve greater levels of efficiency and employee service. FIHRST is recognized by and works in partnership with the majority of third-party payroll organizations, including pension fund and medical aid administrators.

On-line real-time management of healthcare transactions processing through MediKredit Through our MediKredit service we provide both funders and providers of healthcare on-line real-time management of healthcare transactions. During the six months ended June 30, 2010, MediKredit processed 14.8 million transactions. Our dynamic healthcare claims processing and managed care services are designed to accommodate our clients unique benefit designs and processing needs.

The African Continent and Iraq

During the last five years, we have embarked on an international expansion program to provide a UEPS-based solution in developing economies outside South Africa where we see significant growth opportunities, typically in those countries that have a significant unbanked or under-banked population. Consistent with our first wave/second wave approach, in each market, we seek to identify one or more specific applications for our technology and then determine how best to create a card holder base to whom we can then provide, at a low incremental cost to us, additional products and services for which we can charge transaction fees. We are currently targeting services such as payment schemes for welfare distribution, healthcare services, banking services, transportation services, bill payments, mobile communication services, payroll, remittances and e-commerce.

We are in varying stages of implementing this expansion and employ a variety of business models, depending on the market, including providing outsourced transaction processing services, licensing our UEPS system or creating joint ventures with local partners and service providers.

Some examples of our current and future expansion activities across the African continent include:

Ghana We were awarded a contract by the Central Bank of Ghana to create the Ghanaian National Switch and Smart Card Payment System, which was officially launched in April 2008. All Ghanaian banks are required to participate in the system and issue our smart cards to their customers. The system creates interoperability between ATMs, POS and teller terminals owned by the individual banks.

Iraq We have implemented a customized UEPS banking and payment system that enables offline and online retail payment transactions in Iraq. This system provides interoperability between ATMs, POS devices and bank branches and facilitates the distribution of cash disbursements in Iraq (including the payment of social grants to war victims, employee salary/wage payments, banking products and other financial services).

Joint ventures in Botswana, Namibia and Nigeria We own 50% of SmartSwitch Botswana and SmartSwitch Namibia, which license our UEPS software and buy cards and terminals from us. These entities contract to provide our technology to various users, such as to the Botswana Department of Social Services, which distributes government grants and NamPost, a Namibian governmental entity which provides post office and banking services. In Nigeria, SmartSwitch Nigeria, of which we own 80%, has provided 50,000 smart cards to one of Nigeria s largest banking institutions for its initial deployment into village community banks. Expected applications for the UEPS technology in Nigeria include banking, health care, money transfers, pre-paid utilities and telephony and voting.

Other African countries We are currently exploring opportunities with governments, as well as banks and merchants in other African countries, to establish alternate payment systems in these countries using our UEPS technology.

Russia and Other CIS Members

Through our majority-owned subsidiary, Net1 UTA, which we acquired in August 2008, we provide smart card-based payment systems under the DUET name to banks, enterprises and government authorities in Russia, Ukraine, Uzbekistan, Mongolia, Vietnam, India and Oman. The DUET system was developed by Net1 UTA as a derivative of the first version of our UEPS technology that we licensed to Net1 UTA in 1993. Net1 UTA provides the DUET system to Sberbank, the largest financial institution in Russia, which owns the remaining minority interest in Net1 UTA. One of our primary reasons for acquiring Net1 UTA was to obtain immediate access to the large Sberbank cardholder base. While Net1 UTA s business model has historically been based primarily on the sale of cards and hardware, we intend to transition the business into more of a transaction processing services provider over time by leveraging Net1 UTA s management, sales force and customer base to sell the UEPS platform and its suite of processing services.

Emerging Growth Opportunities

We believe that an area for significant potential growth is the opportunity to introduce some of our new technologies, such as our MediKredit, Net1 Virtual Card and mobile payment applications, in the more developed economies of the United States and Western Europe and to leverage the flexibility and multi-application capabilities of our UEPS technology to capture extensive, country-specific applications in less developed countries.

New technologies Our Net1 Virtual Card application is designed to reduce the higher levels of fraud associated with card-not-present credit card transactions without the need for additional infrastructure or any changes to existing infrastructures. This application creates a one time-use digital card generated on demand (off-line) from a mobile phone. As opposed to a physical credit card, our virtual card is only valid for a specific value and cannot be used more than once. It contains no personal user information such as a bank account or telephone number. We believe that strong growth trends in e-commerce and the rapidly increasing adoption of mobile commerce, such as downloaded ring tones, mobile applications and mobile payment services, will present significant opportunities for our Net1 Virtual Card technology.

Mobile payment applications in Latin America and Asia We have entered the Latin American market by offering our VTU system and services through VTU Colombia, of which we own 37.50% . The joint venture provides virtual prepaid mobile top-up services for two of Colombia s three largest mobile operators. We plan to expand this service into new areas of Colombia and other markets in Latin America. In addition, through our 30% equity stake in VinaPay, we are providing our VTU system and services in Vietnam.

Country-specific applications We are also pursuing discrete opportunities to create unique country-specific applications, such as a national identification card with multiple applications like a contactless transport card.

Our Business Units and Technologies

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

Transactional Solutions Cluster

Cash Paymaster Services (CPS)

Our CPS business unit deploys our UEPS Social Grant Distribution technology to distribute social welfare grants on a monthly basis to roughly 3.2 million beneficiaries in five provinces out of the nine South African provinces. These social welfare grants are distributed on behalf of SASSA. During our 2010, 2009 and 2008 fiscal years, we derived 66%, 65% and 67% of our revenues respectively, from CPS social welfare grant distribution business. As discussed above, on August 24, 2010, we signed a new service level agreement with SASSA.

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

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

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

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

EasyPay

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

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

The EasyPay suite of services includes:

- EFT - EasyPay switches credit, debit and fleet card transactions for leading South African retailers and petroleum companies;
- EasyPay Bill Payment - As part of its value-added services offering, EasyPay has developed and operates a consumer bill payment service introduced at retail point-of sale over 11 years ago. Known and marketed as EasyPay , the service is integrated into a large number of national retailers and mobile channels and is available over the internet at www.easypay.co.za. EasyPay processes monthly account payment transactions

for over 300 different bill issuers including major local authorities, telephone companies, utilities, medical service providers, traffic departments, mail order companies, banks and insurance companies;

- EasyPay Prepaid Electricity - This service enables local utility companies such as Eskom Holdings Limited and a growing number of local authorities on a national basis to sell prepaid electricity to their customers;
- Prepaid Airtime - EasyPay vends airtime at retail POS terminals for all the South African network operators;
- Electronic Gift Voucher - EasyPay supports the electronic generation, issuance and redemption of paper or card- based gift vouchers;
- EasyPay Licenses - EasyPay enables the issuance of new South African Broadcasting television licenses and the capturing of existing license details within retail environments via a web-based user interface;
- Third Party Switching and Processing Support EasyPay switches transactions from retail POS systems to the relevant back-end systems; and
- Hosting Services - EasyPay s infrastructure supports the hosting of payment servers and applications on behalf of third parties, including financial institutions.

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

The business unit has been allocated to our transaction-based activities reporting segment.

Net1 Austria

Our Net1 Applied Technologies Austria GmbH, or Net1 Austria, incorporating Net1 UTA, business unit provides smart card-based payment systems to banks, enterprises and government authorities in Russia, Ukraine, Uzbekistan, India and Oman. Net1 UTA is headquartered in Vienna, Austria, and has subsidiaries in India and Russia.

Net1 UTA is a market leader in smart card-based payment systems in the CIS with the national interbank payment system in Uzbekistan and a nationwide smart card payment system in Russia. Net1 UTA has historically employed a business model which focused on selling its product offering into various countries. In contrast, our service-based business model focuses on generating recurring revenues from our cardholder base through transaction-based fees, financial services and value-added products. We believe that the geographical footprint of Net1 Austria is now large enough to allow us to overlay our service-based model onto the various DUET systems operating in Russia and other countries, thereby creating new revenue streams for Net1 UTA and system operators.

Since we acquired Net1 Austria in August 2008, it has enhanced its product offering by leveraging our group technology platforms and information technology development resources. We believe that our technological leadership in fields such as biometric identification and in the integration of our UEPS technology with global systems for mobile communications, or GSM, will allow us to create new business opportunities for Net1 UTA such as national identification, voting and welfare distribution systems and mobile payment solutions. We expect that the addition of Net1 UTA s skilled human resources in the information technology area will greatly assist us in the ongoing development of our technologies and maintenance of our existing systems. Net1 Austria focuses its marketing efforts on markets in Central and Eastern Europe, Russia and other CIS members, the Middle East (excluding Iraq), India and Asia.

Net1 UTA s revenue has declined unexpectedly as a result of the difficult market and trading conditions in its traditional markets. These recent difficulties resulted in indefinite delays in the conclusion of certain expected significant business development opportunities.

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

MediKredit

MediKredit is an independent technology company that offers financial and clinical risk management solutions to both funders and providers of healthcare, through online real-time, or OLRT, management of healthcare transactions. Our adaptable healthcare claims processing and managed care services are designed to accommodate the complex benefit design as well as other processing requirements of our clients. MediKredit s healthcare claims processing functionality extends to all healthcare claim types, including pharmacy, doctor, public and private hospital claims. This is enabled by MediKredit s innovative proprietary claims processing and managed care systems which lie at its core.

The business unit has been allocated to our transaction-based activities reporting segment.

FIHRST

FIHRST offers South African employers an easy and flexible method of making payments to creditors, arising from payroll processing. We currently process payments utilizing FIHRST s system on behalf of our clients, enabling salaries departments to achieve greater levels of efficiency and employee service. FIHRST is recognized by and works in partnership with the majority of third party payroll organizations including pension fund and medical aid administrators.

We believe that FIHRST s cost effective technology enhances the electronic movement of money in the business and financial community, assisting our clients to manage nett paid to employees, third party deductions, garnishee orders and creditor payments correctly, promptly and securely. We believe that the true value of the FIHRST service offering is not only to cost effectively move employer funds, but to provide the relevant information to the recipient organization via predefined schedules or payment remittance advices, thus reducing the reconciliation process from days to hours.

The business unit has been allocated to our transaction-based activities reporting segment.

Universal Electronic Technological Solutions (UETS)

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

The UETS sales and marketing approach is to sell the following solutions and products:

- The UEPS national switching, settlement, clearing and smart card solutions offering interoperability with existing banking infrastructure. We have sold such systems to the Central Bank of Ghana and the Reserve Bank of Malawi in the past;
- Wave 2 opportunities such as financial services sold via the existing UEPS infrastructure, such as loans and insurance to UEPS cardholders in Botswana;
- Individual stand-alone UEPS applications, with processing outsourced to Net1 regional offices, similar to the model deployed for the payment of welfare grants in Iraq;
- UEPS mobile banking solutions targeted at banks and/or mobile operators;
- E-Government applications such as multi-purpose national identity cards;
- Health care applications for countries seeking an electronic solution for the identification, benefit contribution monitoring and access control of patients in government hospitals,; and
- Secure verification of existing EMV Debit / credit card transactions using Net1 s biometric identification technology.

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

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

Virtual Card

Our Virtual Card business unit is responsible for the commercialization of our latest invention the Net1 Virtual Card. This business unit operates from Johannesburg, South Africa and from Dallas, Texas. Net1 Virtual Card is a solution designed for bank card issuers to protect and grow their share of the remote transactions or card not present payment market.

The Net1 Virtual Card solution utilizes existing and traditional payment methods but enhances them by replacing plastic card data with a one-time-use virtual card data, hence eliminating the risk of theft, phishing, skimming, spoofing, etc. The virtual card data replaces digit-for-digit the credit (or debit) card number, the expiration date and the card verification value, or CVV, with only the Issuer Bank Identification Number (first 6-digit) remaining constant.

The Net1 Virtual Card solution uses the mobile phone to generate virtual cards. The mobile phone is the most available, cost-effective, secure and portable platform for generating virtual cards for remote payments (online, phone and catalogue orders). Following a simple registration process, the virtual card application is activated over-the-air, enabling the phone to generate virtual card numbers completely off-line.

Consumers can easily generate a new card on their mobile phone to shop on the internet, to fill-up a catalogue order, or to place a telephone order. Virtual cards are completely secure and can also be sent in a single click to family, friends, and service providers. Once the authorization request reaches the issuing bank processor, our servers decrypt the virtual card data, authenticate the consumer and pass the transaction request to the Card Issuer for authorization.

The benefits of the Net1 Virtual Card include, for:

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

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

Hardware and Software Sales Cluster

Cryptographic Solutions

Our Triple Data Encryption Standard, or TDES, and EMV security initiatives are conducted by a specialized business unit through close collaboration with suppliers of payment processing devices to help their technologies meet the stringent security standards required by the card associations.

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

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

Chip and GSM Licensing

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

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

POS Solutions

Our POS Solutions business unit is responsible for marketing in South Africa our secure, integrated POS payment products and systems, including:

- FlexiLANE An in-store controller ideally suited to multi-lane retail and petroleum station environments. The in- store controller forms an interfacing and concentration layer between a group of distributed terminal devices and a centralized payment and value added service, or VAS, aggregator. This helps large retailers and petroleum companies to overcome the challenges associated with processing multiple transactions from multiple access devices using multiple tender types;
- FlexiGATE A terminal and payment gateway that manages the routing of all FlexiLANE traffic and enables retailers to supply VAS such as airtime top-up, electricity payment and bill payment;
- FlexiPOS An innovative retail solution that allows the retailer's various payment and VAS solution requirements to be streamlined into a single payment terminal. FlexiPOS transforms the POS terminal into a convenient and consumer friendly place of purchase, place of payment and place of service; and
- EMV Net1 s payment expertise helps ensure that retailers together with their acquirers meet the requirements of upgrading software, terminals and security for conformity with the latest international chip card standards.
- Ingenico POS equipment

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

VTU

Our VTU business unit is responsible for marketing our VTU solution, which facilitates mobile phone-based prepaid airtime vending. The VTU technology enables prepaid cell phone users to purchase additional airtime simply, securely and conveniently. The vendor uses its GSM handset to purchase bulk airtime from a mobile network operator. Airtime value, as opposed to a virtual voucher, is then transferred directly from the vendor s cellular handset to that of the customer. When the vendor runs out of airtime value, it is a simple task to purchase more to resell to customers.

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

Financial Services Cluster

Finance Holdings

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

Our wage payment system offers wage earners a UEPS card that allows them to receive payment, transact and access other financial services in a secure, cost-effective way. The target markets for our wage payment system are the unbanked and underbanked wage earners in South Africa, estimated at five million people. These wage earners are typically paid in cash and thus have all the risks associated with carrying cash but none of the benefits associated with having a formal bank account. In January 2007, we signed a co-operation agreement with Grindrod Bank, a fully registered bank in South Africa, for the establishment of a retail banking division within Grindrod Bank that will focus on deploying our wage payment solution in South Africa.

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

Corporate Cluster

The Corporate Cluster provides global support services to the Net1 business units, joint ventures and investments for the following activities:

The Group Executive is responsible for the overall group management, defining the group s global strategy, investor relations and corporate finance activities.

The Finance and administration unit provides group support in the areas of accounting, treasury, human resources, administration, legal, secretarial, taxation, compliance and internal audit.

The Group Information Technology unit defines the group IT strategy and the overall systems architecture and is responsible for the identification and management of the group s research and development activities.

The Joint Ventures and Investments unit provides governance support to our joint ventures and assists with the evaluation of new investment opportunities.

Competition

In addition to competition that we face from the use of cash, checks, credit and debit cards, existing payment systems and the providers of financial services, there are a number of other products that use smart card technology in connection with a funds transfer system. While it is impossible for us to estimate the total number of competitors in the global payments marketplace, we believe that the most competitive product in this marketplace is EMV, a system that is promoted by Visa Inc., MasterCard International and EuroPay International. In addition, the JCB International Credit Card Co. Ltd, Diners Club International and American Express Compare are currently among the largest global processors of payment transactions. The competitive advantage of our UEPS offering is that our technology can operate real-time, but in an off-line environment, using biometric identification instead of the standard personal identification number, or PIN, methodology employed by our competitors. We estimate that we process less than 1% of all global payment transactions in the international marketplace.

In South Africa, and specifically in the payment of social welfare grants, our competitors include AllPay Consolidated Investment Holdings (Pty) Ltd, or AllPay, which is responsible for social welfare payments in the Free State, Gauteng and Western Cape provinces and a small portion of the Eastern Cape province, and Empilweni Payout Services, or Empilweni, which is responsible for payments in the Mpumalanga province. The South African banks and the South African Post Office, or SAPO, also offer beneficiaries the option to open bank accounts that enable the beneficiaries to receive their welfare grants through the formal banking payment networks.

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

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

We own EasyPay, the largest bank-independent switch in South Africa. EasyPay s competitors include BankservAfrica, eCentric and EFT POS. BankservAfrica is the largest transaction processor in South Africa which processes all transactions on behalf of the South African banks and claims to process in excess of 2.5 billion transactions valued at ZAR 8.0 trillion annually. During fiscal 2010, EasyPay processed 655.2 million transactions with an approximate value of ZAR143.8 billion, or approximately 26% of the transaction volume processed by BankservAfrica.

We also may face competition from companies to which we have licensed rights to our technology. Moreover, as our product offerings increase and gain market acceptance, banks in South Africa and other jurisdictions in which we operate may seek governmental or other regulatory intervention if they view us as disrupting their EFT transacting businesses.

Research and Development

During fiscal 2010, 2009 and 2008, we incurred research and development expenditures of $7.6 million, $8.9 million and $5.7 million, respectively. These expenditures consist primarily of the salaries of our software engineers and developers. Our research and development activities relate primarily to the continual revision and improvement of our core UEPS software and its functionality and the design and development of our Mobile Virtual Card, or MVC, concept. For example, we continually advance our security protocols and algorithms as well as develop new UEPS features that we believe will enhance the attractiveness of our product and service offerings. Our research and development efforts also focus on taking advantage of improvements in the hardware platforms that are not proprietary to us but which form part of our system.

Intellectual Property

Our success depends in part on our ability to develop, maintain and protect our intellectual property. We rely on a combination of patents, copyrights, trademarks and trade secret laws, as well as non-disclosure agreements to protect our intellectual property.

Our FTS patents, which include aspects of the UEPS technology, are in effect in the United States, Hong Kong, South Africa, Botswana and Swaziland. The FTS patent in the United States was granted as US Patent No. 5,175,416 on December 29, 1992. The patent was reissued as US Patent No. RE36,788 on July 25, 2000, and will expire on May 17, 2011. The FTS patent in Hong Kong was granted on December 11, 1998, and expired in 2010. The FTS patents in

South Africa, Botswana, and Swaziland were granted on September 25, 1991, March 9, 1993, and December 9, 1992, respectively. Our FTS patents expire in September 2010 in South Africa and Swaziland and in March 2011 in Botswana.

During fiscal 2010, we continued the filing of the following three new patents on a world-wide basis:

PCT Patent Application No:	PCT Filing Date	Title
PCT/IB2007/054659	November 15, 2007	Verification of a transactor s identity
PCT/IB2007/054676	November 16, 2007	Designation of electronic financial transactions
PCT/IB2007/054678	November 16, 2007	Virtual Card

We hold a number of trademarks in various countries.

Financial Information about Geographical Areas and Operating Segments

During the last three fiscal years, we derived substantially all of our revenue from customers located in South Africa and substantially all of our assets were located in South Africa, except that in fiscal 2009 and 2008, respectively, we derived material revenues from a customer in Ghana and in 2009 from a customer in the Russian Federation and in fiscal 2010 and 2009, a material portion of our assets were located in Austria. See Note 17 to our consolidated financial statements for financial information about our operating segments.

Employees

As of June 30, 2010, we had 2,192 employees. On a segmental basis, 232 employees were part of our management, 1,551 were employed in transaction-based activities, 2 were employed in financial services and 407 were employed in smart card, hardware, software and related technology sales and corporate activities.

On a functional basis, three of our employees were part of executive management, 84 were employed in sales and marketing, 139 were employed in finance and administration, 276 were employed in information technology and 1,690 were employed in operations.

As of June 30, 2010, approximately 114 of the 265 employees we have in the Limpopo Province who were performing transaction-based activities were members of the South African Commercial Catering and Allied Workers Union. We believe we have a good relationship with our employees and these unions.

Corporate history

Net1 was incorporated in Florida in May 1997. Until June 2004, Net1 was a development stage company and its business consisted only of acquiring a license to the US FTS patent and obtaining an exclusive marketing agreement for the UEPS technology outside South Africa, Namibia, Botswana and Swaziland. In June 2004, Net1 acquired Net1 Applied Technologies Holdings Limited, or Aplitec, a public company listed on the JSE Limited, or JSE. Aplitec owned the FTS patent in South Africa, Namibia, Botswana and Swaziland and one of its subsidiaries was the other party to the marketing agreement described above. The primary purpose of the Aplitec transaction was to consolidate into one group the intellectual property rights relating to the FTS patent and the UEPS technology, to establish a first-mover advantage in developing economies for the commercialization of the UEPS technology, and to exploit market opportunities for growth through strategic alliances and acquisitions. The transaction permitted Aplitec s shareholders to reinvest the sale proceeds in Net1, but under South African exchange control regulations, those shareholders were not permitted to hold Net1 s securities directly. In October 2008, Net1 listed on the JSE, in a secondary listing, which enabled the former Aplitec shareholders (as well as South African residents generally) to hold Net1 common stock directly. See Note 11 to our consolidated financial statements for information regarding the equity instruments held by Aplitec shareholders from June 2004 to October 2008.

Available information

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

Executive Officers and Significant Employees of the Registrant

Executive officers

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

Name	Age	Title
Dr. Serge C.P. Belamant	56	Chief executive officer, chairman and director
Mr. Herman G. Kotze	40	Chief financial officer, treasurer, secretary and director
Mr. Nitin Soma	42	Senior vice president information technology

Dr. Belamant has been our chief executive officer since October 2000 and the chairman of our board since February 2003. From June 1997 until June 2004, Dr. Belamant served as chief executive officer and a director of Net 1 Applied Technology Holdings, or Aplitec, whose business was acquired by Net1 in June 2004. From 1996 to 1997, Dr. Belamant served as a consultant in the development of Chip Off-Line Pre-Authorized Card, which is a Visa product. From October 1989 to September 1995, Dr. Belamant served as the managing director of Net 1 (Pty) Limited, a privately owned South African company specializing in the development of advanced technologies in the field of transaction processing and payment systems. Dr. Belamant also serves on the boards of a number of other companies that perform welfare distribution services and the provision of microfinance to customers. Dr. Belamant spent ten years working as a computer scientist for Control Data Corporation where he won a number of international awards. Later, he was responsible for the design, development, implementation and operation of the Saswitch ATM network in South Africa that rates today as the third largest ATM switching system in the world. Dr. Belamant has patented a number of inventions besides the FTS patent ranging from biometrics to gaming-related inventions. Dr. Belamant has more than 29 years of experience in the fields of operations research, security, biometrics, artificial intelligence and online and offline transaction processing systems. Dr. Belamant holds a PhD in Information Technology and Management.

Mr. Kotze has been our chief financial officer, secretary and treasurer since June 2004. From January 2000 until June 2004, he served on the board of Aplitec as group financial director. In mid-1997 until October 1998, Mr. Kotzé worked for the Industrial Development Corporation of South Africa Limited as a business analyst. Mr. Kotzé served his articles from 1994 to 1996 at KPMG in Pretoria, South Africa, and in 1997 he became the audit manager for several major corporations in the manufacturing, mining, retail and financial services industries. Mr. Kotzé joined Aplitec in November 1998 as a strategic financial analyst. Mr. Kotzé is a member of the South African Institute of Chartered Accountants.

Mr. Soma has served as our Senior Vice President of Information Technology since June 2004. Mr. Soma joined Aplitec in 1997. He specializes in transaction switching and interbank settlements. Mr. Soma represented Nedcor Bank in assisting with the technical specifications for the South African Interbank Standards. He is also responsible for the ATM settlement process to balance ATM s with the host as well as balance the host with different card users. Mr. Soma designed the Stratus Back-End System for Aplitec, and is responsible for the Nedbank Settlement System for the Point of Sales Devices. Mr. Soma has over 14 years of experience in the development and design of smart card payment systems.

Significant employees

Business Functions:

Dr. Gerhard Claassen (51): General Manager Cryptographic Solutions Dr. Claasen joined us in August 2000 and is responsible for the marketing and business development of our cryptographic solutions consisting of the internally developed Incognitorange of security solutions, as well as ToDos authenticators and the Cybertrust PKI products.

Leonid Delberg (64): Managing director: Net1 UTA Mr. Delberg has been the CEO of Net1 UTA since 1997. Net1 UTA is responsible for the marketing and business development of our payment solutions in Russia, the CIS, Oman, India and Asia.

Wimpie du Plessis (58): Managing director: MediKredit Mrs. du Plessis joined us in January 2010 and is responsible for the marketing and business development of our MediKredit offering worldwide.

Anton Kok (49): Business Unit Leader: Business Unit Leader: Financial Services Cluster Mr. Kok joined us in January 2010 and is responsible for the deployment of our wage payment solution and other financial services, such as insurance products and our UEPS-based microlending book.

Eric Meniere (44): Managing director: Virtual Card Mr. Meniere joined us in March 2008 and is responsible for the marketing and business development of our new Virtual Card product. Mr. Meniere was previously the chief executive officer of Gemplus South Africa.

Nanda Pillay (39): General Manager: CPS and EasyPay Mr. Pillay joined us in May 2000 and is responsible for our South African operations, consisting of CPS and EasyPay.

Richard Schweger (48): Financial & operations director: Net1 UTA Mr. Schweger has been the CFO and COO of Net1 UTA since 1997. Net1 UTA is responsible for the marketing and business development of our payment solutions in Russia, the CIS, Oman, India and Asia.

James Sneedon (42): Business Unit Leader: VTU Mr. Sneedon joined us January 2001 and is responsible for the marketing and business development of our Virtual Top UP products.

Brenda Stewart (52): Managing director: Net1 Universal Electronic Technological Solutions Mrs. Stewart joined us in 1997 and is responsible for the marketing and business development of our UEPS solutions in Africa (excluding South Africa), Iraq and the Philippines.

Mark Stuckenberg (48): Managing director: FIHRST Mr. Stuckenberg joined us in March 2010 and is responsible for the marketing and business development of our FIHRST offering.

Deon Visser (43): General Manager: Chip and GSM licensing Mr. Visser joined us in March 1997 and is responsible for the marketing and business development of our SIM card products and the licensing of our internally developed GSM masks.

Support functions:

Chris Britz (49): Vice President - Group production, repairs & maintenance Mr. Britz joined us in April 2001 and is responsible for the group s production facilities, as well as all internal and external repairs and maintenance of terminals and other hardware.

Lawrie Chalmers (49): Vice President - Group Human Resources Mr. Chalmers joined us in April 1998 and is responsible for the group s South African human resources activities, including recruitment, payroll, training and industrial relations.

Dhruv Chopra (36): Vice President: Investor Relations Mr. Chopra joined us in June 2009 and was previously an analyst at Morgan Stanley, specializing in the payment processing and IT services sectors.

Paul Encarnacao (34): Vice President Finance Mr. Encarnacao joined us in June 2004 and is responsible for the preparation of the group s generally accepted accounting principles in the United States of America, or US GAAP, consolidated accounts and statutory reports.

Warren Segall (45): Vice President: Compliance Mr. Segall joined us in July 2006 and is our compliance officer.

Trevor Smit (53): Vice President: Joint Ventures and Investments Mr. Smit joined us in May 2007 and provides governance support to our joint ventures as our representative on the various boards of directors.

Cara van Straaten (49): Group Financial Controller Ms. Van Straaten joined us in July 2004 and is responsible for the group s South African financial function, including financial accounting, taxation and statutory reporting.

ITEM 1A. RISK FACTORS

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

Risks Relating to Our Business

We currently derive approximately 65% of our revenues from the social welfare grants distribution service that we perform for SASSA. Our latest contract with SASSA, dated August 24, 2010, expires on March 31, 2011, and we may be required to bid with competitors for a new contract which may not be awarded to us. If we were to discontinue providing our distribution service to SASSA, we would lose all of these revenues.

We currently derive a substantial majority of our revenues from the social welfare grants distribution service that we perform for SASSA, whereby we distribute these grants in five of the nine provinces of South Africa. For the foreseeable future, our revenues, results of operations and cash flows will depend on this activity. During the years ended June 30, 2010, 2009 and 2008, we derived approximately 66%, 65% and 67%, respectively, of our revenues from our contract with SASSA to distribute social welfare grants. On August 24, 2010, we entered into a new service level agreement with SASSA which expires on March 31, 2011, and we expect that we may be required to bid with competitors for a new contract. If we are unsuccessful in obtaining a new contract and were to discontinue providing our distribution service to SASSA, we would lose all of these revenues.

In early 2007, SASSA commenced a national tender for the award of contracts to distribute social welfare grants throughout South Africa. We participated in the tender process and timely submitted proposals for each of South Africa s nine provinces, as well as a proposal for the entire country. There were a series of extensive delays during the tender process which resulted in numerous extensions of our bid proposals as well as an extension of our existing contracts. On November 3, 2008, SASSA notified bidders that it had terminated the tender process without awarding new contracts, citing a number of defects in the original request for proposal published by SASSA and in the bid evaluation process. In late March 2009, we signed a new one-year contract with SASSA which expired on March 31, 2010 and which was subsequently extended to June 30, 2010. We signed a new agreement with SASSA on August 24, 2010. SASSA has stated that it may commence a new tender process at any time.

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

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

process.

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

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

Our new contract with SASSA is less favorable to us than our previous contract which we expect to adversely affect our results of operations and cash flow for fiscal 2011. Furthermore, the terms of any further renewals or extensions or a contract awarded under a future tender process may be even less favorable to us than the current contract. To the extent that we are unsuccessful in diversifying our business and reducing our dependence on SASSA, our business and profitability will likely suffer.

On August 24, 2010, we entered into a new service level agreement with SASSA which replaces our previous SASSA contract that expired on June 30, 2010. The new agreement is retroactively effective from July 1, 2010, and expires on March 31, 2011. The new contract contains a standard pricing formula for all provinces based on a transaction fee per beneficiary paid, regardless of the number or amount of grants paid per beneficiary, calculated on a guaranteed minimum number of beneficiaries per month. However, the new contract provides for a reduction in both the level of the transaction fee per beneficiary paid and the guaranteed minimum number of beneficiaries. Because we continue to derive a substantial percentage of our revenues from our SASSA contract, we expect that the terms of the new contract will materially reduce our revenues, operating income, net income and cash flow for fiscal 2011. Further, as described in the preceding risk factor, it is possible that any further extension or renewal of the current contract or even a contract which we may be awarded under a future tender process may be even less favorable to us. While we are making significant efforts to reduce our dependence on our SASSA contract by diversifying our business in South Africa and expanding internationally, to the extent that these efforts are not successful, we may not be able to offset the effects of the current and possible future less favorable terms from SASSA which would have a material adverse effect on our results of operations, financial position and cash flows.

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

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

Acquisitions of businesses or other material operations and the integration of these acquisitions will require significant attention from our senior management which may divert their attention from our day to day business. The difficulties of integration may be increased by the necessity of coordinating geographically dispersed organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures. We also may not be able to maintain key employees or customers of an acquired business or realize cost efficiencies or synergies or other benefits that we anticipated when selecting our acquisition candidates. In addition, we may need to record write downs from future impairments of intangible assets, which could reduce our future reported earnings. As an example, we have determined to record a goodwill impairment charge of approximately $37.4 million related to our August 2008 acquisition of Net 1 UTA. Finally, acquisition candidates may have liabilities or adverse operating issues that we fail to discover through due diligence prior to the acquisition.

We have recorded and may need to record additional impairment charges relating to our businesses.

We assess the carrying value of goodwill for impairment annually, or more frequently, whenever events occur and circumstances change indicating potential impairment. We perform our annual impairment test as of June 30 of each year. For the fourth quarter of fiscal 2010, we recognized an impairment loss of approximately $37.4 million on goodwill allocated to the Hardware, software and related technology sales segment as a result of deteriorating trading

conditions of this segment, particularly at Net1 UTA, and uncertainty surrounding contract finalization dates which will impact future cash flows. A further deterioration in the Hardware, software and related technology sales segment, or in any other of our businesses, may lead to additional impairments in future periods.