

NET 1 UEPS TECHNOLOGIES INC
Form 10-Q
February 03, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **December 31, 2010**

OR

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

For the transition period from _____ To _____

Commission file number: **000-31203**

NET 1 UEPS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction
of incorporation or organization)

98-0171860
(IRS Employer
Identification No.)

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

(Address of principal executive offices, including zip code)

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

Not Applicable

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

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

YES NO

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

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

YES [] NO []

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(do not check if a smaller reporting company)

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

YES NO

As of January 31, 2011 (the latest practicable date), 45,535,353 shares of the registrant's common stock, par value \$0.001 per share, net of treasury shares, were outstanding.

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NET 1 UEPS TECHNOLOGIES, INC.

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Part I. Financial Information

Item 1. Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.
Condensed Consolidated Balance Sheets

| | Unaudited December 31, 2010 | (A) June 30, 2010 |
|------------------------------------------------------------------------------------------------------|-----------------------------------|-------------------------|
| (In thousands, except share data) | | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 71,383 | \$ 153,742 |
| Pre-funded social welfare grants receivable (Note 3) | 4,772 | 6,660 |
| Accounts receivable, net of allowances of December: \$1,687; June: \$807 | 76,308 | 41,854 |
| Finance loans receivable, net of allowances of December: \$-; June: \$- | 9,511 | 4,221 |
| Inventory (Note 4) | 6,986 | 3,622 |
| Deferred income taxes | 17,655 | 16,330 |
| Total current assets before settlement assets | 186,615 | 226,429 |
| Settlement assets | 157,448 | 83,661 |
| Total current assets | 344,063 | 310,090 |
| PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION OF December: \$43,635; June: \$35,271 | 32,738 | 7,286 |
| EQUITY-ACCOUNTED INVESTMENTS (Note 4) | 2,452 | 2,598 |
| GOODWILL (Note 6) | 184,215 | 76,346 |
| INTANGIBLE ASSETS, NET OF ACCUMULATED AMORTIZATION OF December: \$48,034; June: \$34,226 (Note 6) | 192,022 | 68,347 |
| OTHER LONG-TERM ASSETS, including available for sale securities (Note 5) | 15,016 | 7,423 |
| TOTAL ASSETS | 770,506 | 472,090 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Bank overdraft | 420 | - |
| Accounts payable | 13,410 | 3,596 |
| Other payables | 72,941 | 50,855 |
| Current portion of long-term borrowings (note 8) | 7,166 | - |
| Income taxes payable | 5,553 | 3,476 |
| Total current liabilities before settlement obligations | 99,490 | 57,927 |
| Settlement obligations | 157,448 | 83,661 |
| Total current liabilities | 256,938 | 141,588 |
| DEFERRED INCOME TAXES | 62,052 | 38,858 |
| LONG-TERM BORROWINGS (note 8) | 107,934 | - |
| OTHER LONG-TERM LIABILITIES, including non-controlling interest loans | 5,219 | 4,343 |
| TOTAL LIABILITIES | 432,143 | 184,789 |
| COMMITMENTS AND CONTINGENCIES | - | - |
| EQUITY | | |
| NET1 EQUITY: | | |
| COMMON STOCK (Note 9) | 59 | 59 |

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| | | |
|------------------------------------------------------------------|------------|------------|
| Authorized: 200,000,000 with \$0.001 par value; | | |
| Issued and outstanding shares, net of treasury - December: | | |
| 45,535,353; | | |
| June: 45,378,397 | | |
| PREFERRED STOCK | | |
| Authorized shares: 50,000,000 with \$0.001 par value; | | |
| Issued and outstanding shares, net of treasury: 2010: -; 2009: - | - | - |
| ADDITIONAL PAID-IN-CAPITAL | 137,614 | 133,543 |
| TREASURY SHARES, AT COST: December: 13,149,042; June: | | |
| 13,149,042 | (173,671) | (173,671) |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | (38,381) | (66,396) |
| RETAINED EARNINGS | 409,720 | 392,343 |
| TOTAL NET1 EQUITY | 335,341 | 285,878 |
| NON-CONTROLLING INTEREST | 3,022 | 1,423 |
| TOTAL EQUITY | 338,363 | 287,301 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 770,506 | \$ 472,090 |

(A) Derived from audited financial statements

See Notes to Unaudited Condensed Consolidated Financial Statements

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

| | Three months ended | | Six months ended | |
|--------------------------------------------------------------------------------------|---------------------------------------|-------------|---------------------------------------|-------------|
| | December 31, | | December 31, | |
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands, except per share data) | | (In thousands, except per share data) | |
| REVENUE | \$ 89,011 | \$ 73,864 | \$ 153,294 | \$ 139,378 |
| EXPENSE | | | | |
| Cost of goods sold, IT processing, servicing and support | 29,182 | 20,915 | 47,249 | 37,742 |
| Selling, general and administration | 28,763 | 18,866 | 59,089 | 36,606 |
| Depreciation and amortization | 9,092 | 4,664 | 13,996 | 9,243 |
| OPERATING INCOME | 21,974 | 29,419 | 32,960 | 55,787 |
| INTEREST (EXPENSE) INCOME, net | (2,080) | 1,893 | 756 | 4,264 |
| INCOME BEFORE INCOME TAXES | 19,894 | 31,312 | 33,716 | 60,051 |
| INCOME TAX EXPENSE (Note 13) | 9,836 | 11,492 | 16,043 | 22,523 |
| NET INCOME FROM CONTINUING OPERATIONS BEFORE LOSS FROM EQUITY- ACCOUNTED INVESTMENTS | 10,058 | 19,820 | 17,673 | 37,528 |
| LOSS FROM EQUITY-ACCOUNTED INVESTMENTS (Note 5) | (166) | (270) | (382) | (381) |
| NET INCOME | 9,892 | 19,550 | 17,291 | 37,147 |
| (ADD) LESS: NET (LOSS) INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST | (56) | 266 | (86) | (78) |
| NET INCOME ATTRIBUTABLE TO NET1 | \$ 9,948 | \$ 19,284 | \$ 17,377 | \$ 37,225 |
| Net income per share, in United States dollars (Note 10) | | | | |
| Basic earnings attributable to Net1 shareholders | \$ 0.22 | \$ 0.43 | \$ 0.38 | \$ 0.79 |
| Diluted earnings attributable to Net1 shareholders | \$ 0.22 | \$ 0.42 | \$ 0.38 | \$ 0.79 |

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Statement of Changes in Equity (in thousands)
Net 1 UEPS Technologies, Inc. Shareholder

| | Number of Shares | Amount | Number of Treasury Shares | Treasury Shares | Additional Paid-In Capital | Retained Earnings | Accumulated other comprehensive (loss) income | Total Net1 Equity | c |
|----------------------------------------------------------------------|------------------------|--------|------------------------------------|--------------------|----------------------------------|----------------------|-----------------------------------------------------------|-------------------------|----|
| Balance July 1, 2010 | 58,527,439 | \$ 59 | (13,149,042) | \$ (173,671) | \$ 133,543 | \$ 392,343 | \$ (66,396) | \$ 285,878 | \$ |
| Restricted stock granted | 156,956 | | | | | | | | |
| Loan portion related to options | | | | | 20 | | | 20 | |
| Stock-based compensation charge | | | | | 2,996 | | | 2,996 | |
| Utilization of APIC pool related to vested restricted stock | | | | | (160) | | | (160) | |
| Acquisition of KSNET (note 2) | | | | | | | | - | |
| Acquisition of 19.90% non-controlling interest (note 2) | | | | | 1,215 | | (290) | 925 | |
| Comprehensive income (loss), net of taxes: | | | | | | | | | |
| Net income (loss) | | | | | | 17,377 | | 17,377 | |
| Other comprehensive income (loss): | | | | | | | | | |
| Movement in foreign currency translation reserve | | | | | | | 28,305 | 28,305 | |
| Balance December 31, 2010 | 58,684,395 | \$ 59 | (13,149,042) | \$ (173,671) | \$ 137,614 | \$ 409,720 | \$ (38,381) | \$ 335,341 | \$ |

See Notes to Unaudited Condensed Consolidated Financial Statements

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

| | Three months ended | | Six months ended | |
|-------------------------------------------------------------------------------|---------------------------|-------------|-------------------------|-------------|
| | December 31, | | December 31, | |
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | (In thousands) | |
| Net income | \$ 9,948 | \$ 19,284 | \$ 17,377 | \$ 37,225 |
| Other comprehensive income, net of taxes: | | | | |
| Net unrealized loss on asset available for sale, net of tax | - | (684) | - | (684) |
| Movement in foreign currency translation reserve | 815 | (997) | 28,305 | 12,490 |
| Total other comprehensive income, net of taxes | 815 | (1,681) | 28,305 | 11,806 |
| Comprehensive income | 10,763 | 17,603 | 45,682 | 49,031 |
| (Add) Less comprehensive loss (gain) attributable to non-controlling interest | (170) | (227) | (311) | 19 |
| Comprehensive income attributable to Net1 | \$ 10,933 | \$ 17,830 | \$ 45,993 | \$ 49,012 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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

| | Three months ended | | Six months ended | |
|-----------------------------------------------------------------------------------------------------------|---------------------------|----------------|-------------------------|------------------|
| | December 31, | | December 31, | |
| | 2010 | 2009 | 2010 | 2009 |
| | (In thousands) | | (In thousands) | |
| Cash flows from operating activities | | | | |
| Net income | \$ 9,892 | \$ 19,550 | \$ 17,291 | \$ 37,147 |
| Depreciation and amortization | 9,092 | 4,664 | 13,996 | 9,243 |
| Loss from equity-accounted investments | 166 | 270 | 382 | 381 |
| Fair value adjustments | 3,344 | (29) | 238 | (171) |
| Interest payable | 67 | 77 | 140 | 155 |
| Profit on disposal of property, plant and equipment | (3) | 3 | (8) | 2 |
| Stock-based compensation charge | 1,558 | 1,432 | 2,996 | 2,854 |
| Decrease in accounts receivable, pre-funded social welfare grants receivable and finance loans receivable | (13,563) | 491 | (2,608) | 5,990 |
| (Increase) Decrease in inventory | 2,168 | 1,671 | 66 | 2,686 |
| Increase in accounts payable and other payables | (2,248) | (9,367) | 3,777 | (9,342) |
| Increase in taxes payable | (6,364) | (6,527) | (1,230) | (316) |
| (Decrease) Increase in deferred taxes | (12,165) | 1,536 | (12,938) | 2,111 |
| Net cash (used in) provided by operating activities | (8,056) | 13,771 | 22,102 | 50,740 |
| Cash flows from investing activities | | | | |
| Capital expenditures | (4,011) | (685) | (4,779) | (1,326) |
| Proceeds from disposal of property, plant and equipment | 11 | 13 | 18 | 62 |
| Advance of loans to equity-accounted investment | - | - | (375) | - |
| Repayment of loan by equity-accounted investment | 34 | - | 407 | - |
| Acquisition of KSNET, net of cash acquired | (230,225) | - | (230,225) | - |
| Net change in settlement assets | (31,641) | - | (47,185) | - |
| Net cash used in investing activities | (265,832) | (672) | (282,139) | (1,264) |
| Cash flows from financing activities | | | | |
| Loan portion related to options | - | - | 20 | 720 |
| Treasury stock acquired | - | - | - | (126,304) |
| Long-term borrowings obtained (Note 8) | 116,353 | - | 116,353 | - |
| Acquisition of remaining 19.9% of Net1 UTA | (594) | - | (594) | - |
| Repayment of short-term borrowings | 419 | - | 419 | (137) |
| Net change in settlement obligations | 31,641 | - | 47,185 | - |
| Net cash generated from (used in) financing activities | 147,819 | - | 163,383 | (125,721) |
| Effect of exchange rate changes on cash | (2,709) | 460 | 14,295 | 8,330 |
| Net (decrease) increase in cash and cash equivalents | (128,778) | 13,559 | (82,359) | (67,915) |
| Cash and cash equivalents beginning of period | 200,161 | 139,312 | 153,742 | 220,786 |

| | | | | | | | | | |
|----------------------------------|----------------------|----|--------|----|---------|----|--------|----|---------|
| Cash and cash equivalents | end of period | \$ | 71,383 | \$ | 152,871 | \$ | 71,383 | \$ | 152,871 |
|----------------------------------|----------------------|----|--------|----|---------|----|--------|----|---------|

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.

**Notes to the Unaudited Condensed Consolidated Financial Statements
for the Three and Six Months Ended December 31, 2010 and 2009**

(All amounts stated in thousands of United States Dollars, unless otherwise stated)

1. Basis of Presentation and Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements include all majority-owned subsidiaries over which the Company exercises control and have been prepared in accordance with US generally accepted accounting principles (GAAP) and the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q and include all of the information and disclosures required for interim financial reporting. The results of operations for the three and six months ended December 31, 2010 and 2009 are not necessarily indicative of the results for the full year. The Company believes that the disclosures are adequate to make the information presented not misleading.

These financial statements should be read in conjunction with the financial statements, accounting policies and financial notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2010 and the financial statements, accounting policies and financial notes thereto of KSNET, Inc. (KSNET) included in the Company s Current Report on Form 8-K/A filed on January 12, 2011. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair representation of financial results for the interim periods presented.

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

The Company has included updates to its revenue recognition and income taxes accounting policies as a result of its acquisition of KSNET.

Revenue recognition

Card VAN

Card value added network (VAN) services consist of services relating to authorization of credit card transactions including transmission of transaction details (Authorization Service), and collection of receipts associated with the credit card transactions (Collection Service). With its Authorization Service, the Company connects credit card companies with merchants online when a customer uses his/her credit card via terminals installed at merchants sites and the Company s central processing server for approval of credit card transactions. Immediately after approval of credit card transactions, the Company transmits details of the transactions to credit card companies online for processing payments. Collection Service captures the transaction data and gathers receipts as documented evidence and provides them to credit card companies upon request. The Company earns service fees based on the number of transactions processed for credit card companies when services are rendered in accordance with the contracts entered into between credit card companies and the Company. The Company bills for its service charges to credit card companies each month. Each service could be provided either individually or collectively, based on terms of contracts.

The Company charges commission fees to credit card companies for the Authorization Service provided based on the number of approvals transferred. The right to receive a service fee is due once a credit card transaction has been approved and details of the transaction are transmitted by the Company. Therefore, revenues from the Authorization Service are recognized when the credit card transactions are authorized and details of the transactions are transmitted.

The Company earns a Collection Service fee once it has provided settled funds to the credit card companies. Therefore, revenue from the Collection Service is recognized when the Company collects the receipts and provides them to the card companies.

For multi-element arrangements, the Company has identified two deliverables. The first deliverable is the Authorization Service, and the second deliverable is the Collection Service. The Company evaluates each deliverable in an arrangement to determine whether it represents a separate unit of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value and there are no customer-negotiated refunds or return rights for the delivered elements. If the arrangement includes a customer-negotiated refund or return right relative to the delivered item and the delivery and performance of the undelivered item is considered probable and substantially in the Company's control, the delivered element constitutes a separate unit of accounting. In instances when the aforementioned criteria are not met, the deliverable is combined with the undelivered elements and the allocation of the arrangement consideration and revenue recognition is determined for the combined unit as a single unit. Allocation of the consideration is determined at arrangement inception on the basis of each unit's relative selling price. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence of selling price (TPE), and (iii) best estimate of the selling price (ESP).

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

Revenue recognition (continued)

Card VAN (continued)

VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company's best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis. Because the Company has neither VSOE nor TPE for the two deliverables, the allocation of revenue has been based on the Company's ESPs. Amounts allocated to the Authorization and the Collection Service are recognized at the time of service provided the other conditions for revenue recognition have been met.

The Company's process for determining its ESP for deliverables without VSOE or TPE considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable. Key factors considered by the Company in developing the ESPs include prices charged by the Company, historical pricing practices and controls, range of prices for various customers and the nature of the services. Consideration is also given to market conditions such as competitor pricing strategies and market perception.

Banking VAN

Banking VAN is a division supporting a company's fund management business (large payment transfers, collections, etc.) by relaying financial transactions between client companies and financial institutions. Financial transactions between two or more business enterprises, or between business enterprises and their customers, are conducted through the transaction-processing network established between the Company and the banks. Revenue from the Banking VAN service is recognized when the service is rendered by the Company.

Payment Gateway service (PG service)

With its PG service, the Company provides the Internet-based settlement service between an on-line shopping mall and a credit card company when a customer uses his/her credit card, debit card or on-line payment to pay for goods or services. The Company receives fees for carrying out settlements for electronic transactions. Revenue from the PG service is recognized when the service is rendered by the Company.

Sale of merchandise

The Company buys terminals from manufacturers, and subsequently sells them through its agencies. Revenue is recognized when significant risks and rewards of ownership of terminals have passed to the buyer, usually on delivery of the terminals to the buyer.

Income taxes

Under the Corporate Income Tax Law in the Republic of Korea, corporate taxpayers are subject to corporate income taxes on taxable income at 22% (10% is applicable to the first KRW 200 million of taxable income) in tax year ended 2010. On top of the corporate income tax, a 10% resident surtax is also assessed on the corporate income tax rate; thus the statutory tax rate becomes 24.2% or 11% depending on the amount of taxable income; therefore, the income tax rate during the periods ended December 31, 2010, was 24.2%.

Translation of foreign currencies

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

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

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

Recent accounting pronouncements adopted

On July 1, 2010, the Company adopted the new Financial Accounting Standards Board (FASB) guidance on the consolidation of variable interest entities. This guidance changed how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. The guidance also requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to such involvement. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements.

On July 1, 2010, the Company adopted the new FASB guidance issued on the accounting for transfers of financial assets. This guidance requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special-purpose entity, changes the requirements for de-recognizing financial assets, and requires additional disclosures. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements.

On July 1, 2010, the Company adopted the new FASB guidance on revenue recognition in multiple-deliverable revenue arrangements. The guidance amended the existing guidance on allocating consideration received between the elements in a multiple-deliverable arrangement and established a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on VSOE if available, third-party evidence if VSOE is not available, or estimated selling price if neither VSOE nor third-party evidence is available. The guidance replaced the term "fair value" in the revenue allocation with "selling price" to clarify that the allocation of revenue is based on entity specific assumptions rather than the assumptions of a market place participant. The guidance eliminates the residual method of allocation and requires that arrangement consideration be allocated using the relative selling price method. It also significantly expands the disclosures related to a vendor's multiple-deliverable revenue arrangements. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements for the periods presented.

On July 1, 2010, the Company adopted the new FASB guidance which amended the scope of existing software revenue recognition accounting. Tangible products containing software components and non-software components that function together to deliver the product's essential functionality would be scoped out of the accounting guidance on software and accounted for based on other appropriate revenue recognition guidance. This guidance must be adopted in the same period that the company adopts the amended guidance for arrangements with multiple deliverables described in the preceding paragraph. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements for the periods presented.

On July 1, 2010, the Company adopted new FASB guidance on the effect of denominating the exercise price of a share-based payment award in the currency of the market in which the underlying equity security trades. This guidance clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements for the periods presented.

Recent accounting pronouncements not yet adopted as of December 31, 2010

In December 2010, the FASB issued guidance related to disclosure of supplementary pro forma information for business combinations. The guidance specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company will adopt this guidance prospectively.

In December 2010, the FASB issued guidance regarding *Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts*. The guidance modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts and requires the company to perform Step 2 if it is more likely than not that a goodwill impairment may exist. The guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Company will adopt the authoritative guidance on July 1, 2011 and is currently assessing the impact on its condensed consolidated financial statements.

2. Acquisitions

2011 acquisitions

98.73% of KSNET

On October 29, 2010, the Company acquired KSNET for KRW 270 billion (approximately \$241 million based on exchange rates on October 29, 2010), subject to post-closing working capital adjustment which is still being discussed between the Company and the former shareholders of KSNET. The acquisition of KSNET expands the Company's international footprint as well as diversifies the Company's revenue, earnings and product portfolio. The combination is expected to capitalize on multiple revenue synergies and provide an established base in Asia for further business development activities in the region.

Most of KSNET's revenue is derived from the provision of payment processing services to approximately 200,000 merchants and to card issuers in Korea through its VAN. KSNET has a diverse product offering and the Company believes is the only total payments solutions provider offering card VAN, payment gateway and banking VAN services in Korea, which differentiates KSNET from other Korean payment solution providers and allows it to cross-sell its products across its customer base.

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

| | | |
|----------------------------------------------------------------------------|----|----------|
| Cash and cash equivalents | \$ | 10,507 |
| Accounts receivable, net | | 28,748 |
| Inventory | | 2,788 |
| Settlement assets | | 13,164 |
| Long-term receivable, | | 288 |
| Property, plant and equipment, net | | 24,052 |
| Goodwill (note 6) | | 98,247 |
| Intangible assets, net (note 6) | | 127,796 |
| Other long-term assets | | 6,263 |
| Trade payables | | (9,643) |
| Other payables | | (10,527) |
| Income taxes payable | | (2,428) |
| Settlement obligations | | (13,164) |
| Long-term deferred income tax liabilities | | (31,063) |
| Other long-term liabilities | | (1,199) |
| Total net assets of KSNET attributable to shareholders, including goodwill | | 243,829 |
| Less attributable to non-controlling interest | | (3,097) |
| Total purchase price | \$ | 240,732 |

The preliminary purchase price allocation is based on management estimates as of December 31, 2010, and may be adjusted up to one year following the closing of the acquisition. The purchase price allocation has not been finalized, as management has not yet analyzed in detail the assets acquired and liabilities assumed. The Company expects to finalize the purchase price allocation on or before June 30, 2011.

The Company incurred transaction-related expenditures of \$1.7 million and \$5.1 million, respectively, during the three and six months ended December 31, 2010, related to this acquisition and expects to incur some additional expenses during the three months ending March 31, 2011. The Company is currently unable to quantify the amount of these additional expenditures.

2. Acquisitions (continued)**2011 acquisitions (continued)*****98.73% of KSNET (continued)***

The results of KSNET's operations are reflected in the Company's financial statements from November 1, 2010. The following pro forma revenue, net income and per share information has been prepared as if the acquisition of KSNET had occurred on July 1, 2010 and 2009, respectively:

| | Three months ended December 31, | | Six months ended December 31, | |
|-------------------------------------------------------|--------------------------------------------|-------------|------------------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue | \$ 98,914 | \$ 97,570 | \$ 185,405 | \$ 179,621 |
| Net income | \$ 6,865 | \$ 14,166 | \$ 17,013 | \$ 29,400 |
| Earnings per share - basic in United States dollars | 0.15 | 0.31 | 0.37 | 0.62 |
| Earnings per share - diluted in United States dollars | 0.15 | 0.31 | 0.37 | 0.62 |

The pro forma financial information presented above includes the business combination accounting and other effects from the acquisition including (1) intangibles asset amortization expense related to acquired intangibles and the related deferred tax effects; (2) the loss of interest income, net of taxation, as a result of funding a portion of the purchase price in cash; (3) an increase in interest expense resulting from the long-term borrowing obtained to fund a portion of the purchase price and (4) an adjustment to exclude all applicable transaction-related costs recognized in our condensed consolidated statements of operations. The pro forma net income and per share information presented above does not include any cost savings or other synergies that may result from the acquisition.

The pro forma information as presented above is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had occurred on these dates.

19.9% of Net1 UTA

On December 23, 2010, the Company acquired the remaining 19.9% of the issued share capital of Net 1 Universal Technologies (Austria) AG (Net1 UTA) for \$0.6 million in cash. The Company now owns 100% of Net1 UTA.

3. Pre-funded social welfare grants receivable

Pre-funded social welfare grants receivable represents amounts pre-funded by the Company to certain merchants participating in the merchant acquiring system. The January 2011 payment service commenced during the last four days of December 2010 and was offered at merchant locations only.

4. Inventory

The Company's inventory comprised the following categories as of December 31, 2010 and June 30, 2010.

| December 31, 2010 | June 30, 2010 |
|------------------------------|--------------------------|
|------------------------------|--------------------------|

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| | | | | |
|----------------|----|-------|----|-------|
| Raw materials | \$ | 139 | \$ | 75 |
| Finished goods | | 6,847 | | 3,547 |
| | \$ | 6,986 | \$ | 3,622 |

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5. Fair value of financial instruments and equity-accounted investments

Fair value of financial instruments

Risk management

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

Currency exchange risk

The Company is subject to currency exchange risk because it purchases inventories that it is required to settle in other currencies, primarily the euro and US dollar. The Company uses foreign exchange forward contracts in order to limit its exposure in these transactions to fluctuations in exchange rates between the South African rand, on the one hand, and the US dollar and the euro, on the other hand. In addition, during September 2010, the Company entered into foreign exchange forward contracts, which matured in October 2010, in order to hedge the fluctuations in the ZAR/ US dollar related to the anticipated flow of funds from South Africa to the United States to fund a portion of the KSNET purchase price.

The Company's outstanding foreign exchange contracts are as follows: As of December 31, 2010 None As of December 31, 2009

| | Notional amount | | Strike price | | Fair market value price | Maturity |
|-----|------------------------|-----|---------------------|-----|--------------------------------|------------------|
| USD | 1,000,000 | EUR | 1.4391 | EUR | 1.4318 | January 4, 2010 |
| EUR | 719,400 | ZAR | 10.9306 | ZAR | 10.7468 | January 29, 2010 |

Translation risk

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

Interest rate risk

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

Credit risk

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

With respect to credit risk on financial instruments, the Company maintains a policy of entering into such transactions only with South African and European financial institutions that have a credit rating of BBB or better, as

determined by credit rating agencies such as Standard & Poor's, Moody's and Fitch Ratings.

5. Fair value of financial instruments and equity-accounted investments (continued)

Fair value of financial instruments (continued)

Risk management (continued)

Equity price and liquidity risk

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

Financial instruments

The following section describes the valuation methodologies the Company uses to measure is significant financial asset at fair value.

Investments in common stock

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

The Company's Level 3 asset represents an investment of 84,632,525 shares of common stock of Finbond. The Company's ownership interest in Finbond as of December 31, 2010, is approximately 22%. The Company has no rights to participate in the financial, operating, or governance decisions made by Finbond. The Company also has no participation on Finbond's board of directors whether through contractual agreement or otherwise. Consequently, the Company has concluded that it does not have significant influence over Finbond and therefore equity accounting is not appropriate.

Finbond's shares are traded on the JSE Limited (JSE) and the Company has designated such shares as available for sale investments. The Company has concluded that the market for Finbond shares is not active and consequently has employed alternative valuation techniques in order to determine the fair value of such stock. Currently, the operations of Finbond include primarily mortgage brokering services, property investment and microlending. In determining the fair value of Finbond, the Company has considered amongst other things Finbond's historical financial information (including its most recent public accounts), press releases issued by Finbond and its published net asset value. The Company believes that the best indicator of fair value of Finbond is its published net asset value and has used this value to determine the fair value.

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 according to the fair value hierarchy:

Quoted

| | Price in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------|--------------|
| Assets | | | | |
| Investment in common stock (available for sale assets included in OTHER LONG-TERM ASSETS) | - | \$ 88 | \$ 8,404 | \$ 8,492 |
| Total assets at fair value | - | \$ 88 | \$ 8,404 | \$ 8,492 |

5. Fair value of financial instruments and equity-accounted investments (continued)

Financial instruments (continued)

The following table presents the Company's assets measured at fair value on a recurring basis as of December 31, 2009 according to the fair value hierarchy:

| | Quoted Price in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|-------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------|--------------|
| Assets | | | | |
| Investment in common stock (available for sale assets included in OTHER LONG-TERM ASSETS) | - | - | \$ 6,732 | \$ 6,732 |
| Total assets at fair value | - | - | \$ 6,732 | \$ 6,732 |
| Liabilities | | | | |
| Foreign exchange contracts | - | \$ 28 | - | \$ 28 |
| Total liabilities at fair value | - | \$ 28 | - | \$ 28 |

Assets and liabilities measured at fair value on a nonrecurring basis

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

The Company reviews the carrying values of its investments when events and circumstances warrant and considers all available evidence in evaluating when declines in fair value are other-than-temporary. The fair values of the Company's investments are determined using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost of the investment exceeds its fair value and the excess is determined to be other-than-temporary. The Company has not recorded any impairment charges during the reporting periods presented herein.

During the three and six months ended December 31, 2010, SmartSwitch Namibia repaid outstanding loans, including outstanding interest. The repayments received have been allocated to the equity-accounted investments presented in our condensed consolidated balance sheet as of December 31, 2010, and reduce this balance. The cash inflow from principal repayments have been allocated to cash flows from investing activities and the cash inflow from the interest repayments have been included in cash flow from operating activities in our condensed consolidated statement of cash flows for the three and six months ended December 31, 2010.

In July 2010, the Company provided additional loan funding of \$375,000 for a specific growth initiative at VTU Colombia. As of December 31, 2010, the Company's share in VTU Colombia's accumulated losses continued to exceed its investment. VTU Colombia's other shareholders are providing short-term funding for continued operations and the Company has no obligation to provide any additional funding at this stage.

The Company has sold hardware, software and/or licenses to SmartSwitch Namibia and SmartSwitch Botswana and defers recognition of 50% of the net income after tax related to these sales until SmartSwitch Namibia and SmartSwitch Botswana has used the purchased asset or has sold it to a third party. The deferral of the net income after

tax is shown in the Elimination column in the table below.

The functional currency of the Company's equity-accounted investments is not the US dollar and thus the investments are restated at the period end US dollar/foreign currency exchange rate with an entry against accumulated other comprehensive loss. The functional currency of SmartSwitch Namibia is the Namibian dollar, the functional currency of SmartSwitch Botswana is the Botswana pula, the functional currency of VTU Colombia is the Colombian peso and the functional currency of Vinapay is the Vietnamese dong.

5. Fair value of financial instruments and equity-accounted investments (continued)**Financial instruments (continued)***Assets and liabilities measured at fair value on a nonrecurring basis (continued)*

Summarized below is the Company's interest in equity-accounted investments as of June 30, 2010 and December 31, 2010:

| | Equity | Loans | Earnings (Loss) | Elimination | Total |
|---------------------------------------------------|---------------|--------------|----------------------------|--------------------|--------------|
| Balance as of June 30, 2010 | \$ 3,549 | \$ 2,512 | \$ (3,905) | \$ 442 | \$ 2,598 |
| Loans provided | | 375 | | | 375 |
| Loan repaid | | (476) | | | (476) |
| (Loss) Earnings from equity-accounted investments | - | - | (554) | 172 | (382) |
| SmartSwitch Namibia ⁽¹⁾ | - | - | 42 | 44 | 86 |
| SmartSwitch Botswana ⁽¹⁾ | - | - | (94) | 128 | 34 |
| VTU Colombia | - | - | (449) | - | (449) |
| VinaPay | - | - | (53) | - | (53) |
| Foreign currency adjustment ⁽²⁾ | 248 | 238 | (81) | (68) | 337 |
| Balance as of December 31, 2010 | \$ 3,797 | \$ 2,649 | \$ (4,540) | \$ 546 | \$ 2,452 |

(1) includes the recognition of realized net income.

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

Summarized below is the Company's equity-accounted (loss) earnings for the three months ended December 31, 2010:

| | Loss | Elimination | Total |
|---------------------------------------------------|-------------|--------------------|--------------|
| (Loss) Earnings from equity-accounted investments | \$ (252) | \$ 86 | \$ (166) |
| SmartSwitch Namibia | 22 | 20 | 42 |
| SmartSwitch Botswana | (40) | 66 | 26 |
| VTU Colombia | (204) | - | (204) |
| VinaPay | \$ (30) | \$ - | \$ (30) |

There were no significant sales to these investees that require elimination during the three and six months ended December 31, 2010 and 2009.

6. Goodwill and intangible assets**Goodwill**

Summarized below is the movement in the carrying value of goodwill for the six months ended December 31, 2010.

| | Carrying value |
|-----------------------------|---------------------------|
| Balance as of June 30, 2010 | \$ 76,346 |

| | | |
|--------------------------------------------|----|---------|
| Acquisitions ⁽¹⁾ | | 98,247 |
| Foreign currency adjustment ⁽²⁾ | | 9,622 |
| Balance as of December 31, 2010 | \$ | 184,215 |

(1) represents goodwill arising from the acquisition of KSNET and has been translated at the foreign exchange rates applicable on the date the transactions became effective. This goodwill has been allocated to the International transaction-based activities operating segment.

(2) the foreign currency adjustment represents the effects of the fluctuations between the ZAR and KRW against the US dollar on the carrying value of goodwill.

6. Goodwill and intangible assets (continued)**Goodwill (continued)**

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

| | As of December 31, 2010 | As of June 30, 2010 |
|-------------------------------------------------|----------------------------------------|------------------------------------|
| SA transaction-based activities | \$ 43,257 | \$ 37,568 |
| International transaction-based activities | 97,189 | - |
| Smart card accounts | - | - |
| Financial services | - | - |
| Hardware, software and related technology sales | 43,769 | 38,778 |
| Total | \$ 184,215 | \$ 76,346 |

Intangible assets

Summarized below is the carrying value and accumulated amortization of the intangible assets as of December 31, 2010 and June 30, 2010:

| | As of December 31, 2010 | | | As of June 30, 2010 | | |
|-------------------------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|
| | Gross carrying value | Accumulated amortization | Net carrying value | Gross carrying value | Accumulated amortization | Net carrying value |
| Finite-lived intangible assets: | | | | | | |
| Customer relationships (1) | \$ 179,452 | \$ (31,299) | \$ 148,153 | \$ 77,452 | \$ (22,519) | \$ 54,933 |
| Software and unpatented technology (1) | 40,810 | (4,603) | 36,207 | 11,047 | (1,343) | 9,704 |
| FTS patent | 5,765 | (5,667) | 98 | 5,007 | (4,880) | 127 |
| Exclusive licenses | 4,506 | (4,265) | 241 | 4,506 | (3,941) | 565 |
| Trademarks (1) | 8,608 | (1,895) | 6,713 | 3,766 | (1,411) | 2,355 |
| Customer database | 915 | (305) | 610 | 795 | (132) | 663 |
| Total finite-lived intangible assets | \$ 240,056 | \$ (48,034) | \$ 192,022 | \$ 102,573 | \$ (34,226) | \$ 68,347 |

(1) Includes the customer relationships, software and unpatented technology and trademarks acquired as part of the KSNET acquisition in October 2010.

Aggregate amortization expense on the finite-lived intangible assets for the three and six months ended December 31, 2010, was approximately \$6.1 million and \$10.3 million, respectively (three and six months ended December 31, 2009, was approximately \$3.7 million and \$7.3 million, respectively).

Future estimated annual amortization expense for the next five fiscal years, assuming exchange rates prevailing on December 31, 2010, is presented in the table below. Actual amortization expense in future periods could differ

from this estimate as a result of acquisitions, changes in useful lives, exchange rate fluctuations and other relevant factors.

| | | |
|------|----|--------|
| 2011 | \$ | 24,124 |
| 2012 | | 27,682 |
| 2013 | | 25,982 |
| 2014 | | 23,137 |
| 2015 | \$ | 23,137 |

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7. Short-term facilities

As of December 31, 2010, the Company had a short-term facility in South African rand of approximately \$37.6 million, translated at exchange rates applicable as of December 31, 2010, with Nedbank Limited (Nedbank). As of December 31, 2010, the overdraft rate on this facility was 7.85% . Certain of the Company's South African subsidiaries have provided a cross deed of suretyship whereby each of these companies has bound itself as surety and co-principal debtor with each other for the fulfillment of each other's obligations under the facility. These South African subsidiaries have agreed that any debit and credit bank account balances with Nedbank may be set off against each other. Certain South African subsidiaries have ceded trade receivables with an aggregate value of approximately \$19.6 million, translated at exchange rates applicable as of December 31, 2010, as security for the facility as well as the Company's investment in Cash Paymaster Services (Proprietary) Limited, a wholly owned South African subsidiary. As of December 31, 2010, the Company had utilized none of its South African short-term facility.

In addition, Net1 UTA had short-term facilities of approximately \$1.3 million, translated at exchange rates applicable as of December 31, 2010, with each of two of Austria's largest banks. These facilities are available to the Company. The interest rate applicable to these short-term facilities is negotiated when the facilities are utilized. As of December 31, 2010, the Company had utilized none of its Austrian short-term facilities.

Management believes that the Company's current short-term facilities are sufficient in order to meet its future obligations as they arise.

8. Long-term borrowings

The Company financed a portion of the KSNET acquisition price and related transaction expenses with the proceeds of a KRW 130.5 billion (approximately \$115.9 million based on October 29, 2010 exchange rates) five-year senior secured loan facility provided by a consortium of banks under a facilities agreement (the Facilities Agreement). The Facilities Agreement provides for three separate facilities: a Facility A loan to the Company's wholly owned subsidiary, Net1 Applied Technologies Korea (Net1 Korea), of up to KRW 130.5 billion (divided into Facility A1 (KRW 65.5 billion) and Facility A2 (KRW 65.0 billion)) and a Facility B loan to KSNET of up to KRW 65.0 billion. The Facility B loan, if drawn, must be used to repay the Facility A2 loan and may be borrowed only if Net1 Korea and KSNET complete a merger transaction with each other. Interest on the loans is payable quarterly and is based on the Korean CD rate in effect from time to time plus a margin of 4.10% for Facility A loans and 3.90% for the Facility B loan. The CD rate was 2.8% on December 31, 2011. Interest of approximately \$1.3 million, translated at exchange rates applicable as of December 31, 2010, has been accrued as of December 31, 2010.

The Facility A1 loan matures on the fifth anniversary of the initial drawdown with no required principal prepayments. Principal on the Facility A2 loan and Facility B loan is repayable in scheduled installments, beginning twelve months after initial drawdown and thereafter, semi-annually with final maturity scheduled for 54 months after initial drawdown. The first scheduled installment of \$7.2 million, translated at exchange rates applicable as of December 31, 2010, is due on October 29, 2011, and has been classified as current in our condensed consolidated balance sheet.

The loans are secured by substantially all of KSNET's assets, a pledge by Net1 Korea of its entire equity interest in KSNET and a pledge by the immediate parent of Net1 Korea (also one of the Company's subsidiaries) of its entire equity interest in Net1 Korea. The Facilities Agreement contains customary covenants that require Net1 Korea and its consolidated subsidiaries to maintain certain specified financial ratios (including a leverage ratio and a debt service coverage ratio) and restrict their ability to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make capital expenditures above specified levels, engage in certain business combinations and engage in other corporate activities. The loans under the Facilities Agreement are without recourse to, and the covenants and other agreements contained therein do not apply to, the Company or any of our subsidiaries (other than Net1 Korea and its subsidiaries, including KSNET).

9. Capital structure

The Company's capital structure is described in Note 11 to the Company's audited consolidated financial statements included within the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2010.

Common stock repurchases

During the three and six months ended December 31, 2010, the Company did not repurchase any shares. On July 28, 2009, the Company repurchased an aggregate of 9,221,526 shares of its common stock from two shareholders, who originally acquired their shares in connection with the Aplitec transaction. The purchase price was \$13.50 (ZAR 105.98) per share and was paid from the Company's cash reserves in ZAR for an aggregate purchase price of \$124.5 million (ZAR 977.3 million).

10. Earnings per share

Basic earnings per share includes restricted stock awards that meet the definition of a participating security. Restricted stock awards are eligible to receive non-forfeitable dividend equivalents at the same rate as common stock. Basic earnings per share have been calculated using the two-class method and basic earnings per share for the three and six months ended December 31, 2010 and 2009, reflects only undistributed earnings.

Diluted earnings per share have been calculated to give effect to the number of additional shares of common stock that would have been outstanding if the potential dilutive instruments had been issued in each period. The calculation of diluted earnings per share for the three and six months ended December 31, 2010 and 2009, includes the dilutive effect of a portion of the restricted stock awards granted to employees as these restricted stock awards are considered contingently issuable shares for the purposes of the diluted earnings per share calculation and as of December 31, 2010 and 2009, the vesting conditions in respect of a portion of the awards had not been satisfied.

The following table details the weighted average number of outstanding shares used for the calculation of earnings per share for the three and six months ended December 31, 2010 and 2009.

| | Three months ended December 31, | | Six months ended December 31, | |
|--------------------------------------------------|------------------------------------|-------------|----------------------------------|-------------|
| | 2010 000 | 2009 000 | 2010 000 | 2009 000 |
| Weighted average number of outstanding shares of | | | | |
| common stock basic | 45,433 | 45,378 | 45,409 | 47,097 |
| Weighted average effect of dilutive securities: | | | | |
| employee stock options | 61 | 210 | 46 | 157 |
| Weighted average number of outstanding shares of | | | | |
| common stock diluted | 45,494 | 45,588 | 45,455 | 47,254 |

11. Stock-based compensation

Stock option and restricted stock activity

Options

The following table summarizes stock option activity for the three and six months ended December 31, 2010, and 2009:

| | | Number of shares | Weighted average exercise price | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value | Weighted Average Grant Date Fair Value |
|-------------|--------------------|---------------------|------------------------------------------|-----------------------------------------------------------------------|---------------------------------|----------------------------------------------------|
| Outstanding | July 1, 2010 | 1,813,656 | \$ 19.76 | 7.41 | \$ 585 | |
| | Granted under Plan | 307,000 | 10.59 | 10.00 | | \$ 801 |
| Outstanding | December 31, 2010 | 2,120,656 | \$ 18.44 | 7.32 | \$ 908 | |
| Outstanding | July 1, 2009 | 1,896,994 | \$ 19.03 | 8.30 | \$ 1,576 | |
| | Exercised | (83,338) | - | - | \$ 1,667 | |

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| | | | | | | | |
|-------------|-------------------|-----------|----|-------|------|----|-------|
| Outstanding | December 31, 2009 | 1,813,656 | \$ | 19.76 | 7.92 | \$ | 4,195 |
|-------------|-------------------|-----------|----|-------|------|----|-------|

No stock options became exercisable during the three and six months ended December 31, 2010 and 2009.

No stock options were exercised during the three and six months ended December 31, 2010. During the six months ended December 31, 2009, the Company received approximately \$0.3 million from stock options exercised and approximately \$0.4 million from repayment of stock option-related loans. The Company issues new shares to satisfy stock option exercises.

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

The following table summarizes restricted stock activity for the three and six months ended December 31, 2010, and 2009:

| | | Number of Shares of Restricted Stock | Weighted Average Grant Date Fair Value |
|------------|-------------------|---------------------------------------------------------|---------------------------------------------------------------|
| Non-vested | July 1, 2010 | 407,828 | - |
| Granted | August 2010 | 13,956 | \$185 |
| Granted | October 2010 | 60,000 | \$740 |
| Granted | November 2010 | 83,000 | \$879 |
| Vested | September 2010 | (201,704) | - |
| Non-vested | December 31, 2010 | 363,080 | - |
| Non-vested | July 1, 2009 | 597,162 | - |
| Granted | August 2009 | 10,098 | \$185 |
| Vested | September 2009 | (198,338) | - |
| Non-vested | December 31, 2009 | 408,922 | - |

The fair value of restricted stock vested during the six months ended December 31, 2010 and 2009, was \$2.3 million and \$3.8 million, respectively.

Stock-based compensation charge and unrecognized compensation cost

The Company has recorded a stock compensation charge of \$1.6 million and \$1.4 million for the three months ended December 31, 2010 and 2009, respectively, which comprised:

| | Total charge | Allocated to cost of goods sold, IT processing, servicing and support | Allocated to selling, general and administration |
|---------------------------------------------|-------------------------|--------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| Three months ended December 31, 2010 | | | |
| Stock-based compensation charge | \$ 1,558 | \$ 51 | \$ 1,507 |
| Total three months ended December 31, 2010 | \$ 1,558 | \$ 51 | \$ 1,507 |
| Three months ended December 31, 2009 | | | |
| Stock-based compensation charge | \$ 1,431 | \$ 51 | \$ 1,380 |
| Total three months ended December 31, 2009 | \$ 1,431 | \$ 51 | \$ 1,380 |

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

The Company has recorded a stock compensation charge of \$3.0 million and \$2.9 million for the six months ended December 31, 2010 and 2009, respectively, which comprised:

| | Total charge | Allocated to cost of goods sold, IT processing, servicing and support | Allocated to selling, general and administration |
|-------------------------------------------------|-------------------------|--------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| Six months ended December 31, 2010 | | | |
| Stock-based compensation charge | \$ 2,996 | \$ 102 | \$ 2,894 |
| Total Six months ended December 31, 2010 | \$ 2,996 | \$ 102 | \$ 2,894 |
| Six months ended December 31, 2009 | | | |
| Stock-based compensation charge | \$ 2,854 | \$ 102 | \$ 2,752 |
| Total Six months ended December 31, 2009 | \$ 2,854 | \$ 102 | \$ 2,752 |

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

As of December 31, 2010, the total unrecognized compensation cost related to stock options was approximately \$4.2 million, which the Company expects to recognize over approximately three and a half years. As of December 31, 2010, the total unrecognized compensation cost related to restricted stock awards was approximately \$4.0 million, which the Company expects to recognize over approximately four years.

As of December 31, 2010, the Company has recorded a deferred tax asset of approximately \$0.9 million related to the stock-based compensation charge recognized related to employees of Net1 as it is able to deduct the grant date fair value for taxation purposes in the United States.

12. Operating segments

The Company discloses segment information as reflected in the management information systems reports that its chief operating decision makers use in making decisions and to report certain entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets or reports material revenues.

Effective October 1, 2010, the Company allocated its international transaction-based activities to a new operating segment, namely International transaction-based activities. This operating segment comprises the transaction processing activities of KSNET, Net1 Virtual Card, and NUETS transaction processing activities for its initiative in Iraq. Segment results for fiscal 2010 have not been restated due to the insignificance of the transaction processing activities of Net1 Virtual Card, and NUETS transaction processing activities for its initiative in Iraq. However, for comparative purposes in future periods, the Company's reported results for the six months ended December 31, 2010, include all legacy international transaction-processing activities from July 1, 2010 and include KSNET from November 1, 2010.

The Company currently has five reportable segments: SA transaction-based activities, International transaction-based activities, Smart card accounts, Financial services and Hardware, software and related technology sales. Each segment, other than International transaction-based activities and the Hardware, software and related technology sales segment, operates mainly within South Africa. The Company's reportable segments offer different products and services and require different resources and marketing strategies and share the Company's assets.

The SA transaction-based activities segment currently consists mainly of a state pension and welfare benefit distribution service provided to the South African government and transaction processing for retailers, utilities, medical-related claim service customers and banks. Fee income is earned based on the number of beneficiaries included in the government pay-file as well as from merchants and card holders using the Company's merchant retail application. In addition, utility providers and banks are charged a fee for transaction processing services performed on their behalf at retailers. This segment has individually significant customers that each provides more than 10% of the total revenue of the Company. For the three and six months ended December 31, 2010, there was one such customer providing 45% and 51%, respectively, of total revenue (the three and six months ended December 31, 2009: there was one such customer providing 63% and 67%, respectively, of total revenue).

12. Operating segments (continued)

The International transaction-based activities segment currently consists mainly of KSNET which generates revenue from the provision of payment processing services to merchants and card issuers through its VAN. This segment generates fee revenue from the provision of payment processing services and to a lesser extent from the sale of goods, primarily point of sale terminals to customers in Korea. The segment also generates transaction fee revenue from transaction processing of UEPS-enabled smartcards through NUETS initiative in Iraq.

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

The Financial services segment provides short-term loans as a principal and life insurance products on an agency basis and generates initiation and services fees.

The Hardware, software and related technology sales segment markets, sells and implements the UEPS as well as develops and provides Prism secure transaction technology, solutions and services. The segment also includes the operations of Net1 UTA, which comprise mainly hardware sales and licenses of the DUET system. The segment undertakes smart card system implementation projects, delivering hardware, software and business solutions in the form of customized systems. Sales of hardware, SIM cards, cryptography services, SIM card licenses and other software licenses are recorded within this segment. This segment also generates rental income from hardware provided to merchants enrolled in the Company's merchant retail application.

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

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

| | Three months ended | | Six months ended | |
|-------------------------------------------------|---------------------------|-------------|-------------------------|-------------|
| | December 31, | | December 31, | |
| | 2010 | 2009 | 2010 | 2009 |
| Revenues to external customers | | | | |
| SA transaction-based activities | \$ 46,588 | \$ 45,415 | \$ 91,010 | \$ 90,393 |
| International transaction-based activities | 16,950 | - | 17,420 | - |
| Smart card accounts | 8,434 | 8,137 | 16,404 | 16,211 |
| Financial services | 1,623 | 858 | 2,871 | 1,650 |
| Hardware, software and related technology sales | 15,416 | 19,454 | 25,589 | 31,124 |
| Total | 89,011 | 73,864 | 153,294 | 139,378 |
| Inter-company revenues | | | | |
| SA transaction-based activities | 1,002 | 1,020 | 1,938 | 2,051 |
| International transaction-based activities | - | - | - | - |
| Smart card accounts | - | - | - | - |
| Financial services | - | - | - | - |
| Hardware, software and related technology sales | 730 | 366 | 992 | 884 |
| Total | 1,732 | 1,386 | 2,930 | 2,935 |
| Operating income | | | | |
| SA transaction-based activities | 18,547 | 26,733 | 35,986 | 53,401 |
| International transaction-based activities | 327 | - | 116 | - |
| Smart card accounts | 3,832 | 3,699 | 7,454 | 7,369 |
| Financial services | 1,231 | 546 | 2,160 | 1,077 |

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| | | | | |
|-------------------------------------------------|----------|----------|----------|----------|
| Hardware, software and related technology sales | (319) | 1,660 | (2,979) | (53) |
| Corporate/Eliminations | (1,644) | (3,219) | (9,777) | (6,007) |
| Total | 21,974 | 29,419 | 32,960 | 55,787 |
| Interest earned | | | | |
| SA transaction-based activities | - | - | - | - |
| International transaction-based activities | - | - | - | - |
| Smart card accounts | - | - | - | - |
| Financial services | - | - | - | - |
| Hardware, software and related technology sales | - | - | - | - |
| Corporate/Eliminations | 1,350 | 2,160 | 4,434 | 4,807 |
| Total | \$ 1,350 | \$ 2,160 | \$ 4,434 | \$ 4,807 |

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12. Operating segments (continued)

| | Three months ended | | Six months ended | |
|-------------------------------------------------|---------------------------|-------------|-------------------------|-------------|
| | December 31, | | December 31, | |
| | 2010 | 2009 | 2010 | 2009 |
| Interest expense | | | | |
| SA transaction-based activities | \$ 192 | \$ 257 | \$ 348 | \$ 522 |
| International transaction-based activities | 109 | - | 179 | - |
| Smart card accounts | - | - | - | - |
| Financial services | - | - | - | 1 |
| Hardware, software and related technology sales | 27 | 2 | 28 | 4 |
| Corporate/Eliminations | 3,102 | 8 | 3,123 | 16 |
| Total | 3,430 | 267 | 3,678 | 543 |
| Depreciation and amortization | | | | |
| SA transaction-based activities | 2,298 | 963 | 4,471 | 2,444 |
| International transaction-based activities | 3,885 | - | 3,899 | - |
| Smart card accounts | - | - | - | - |
| Financial services | 138 | 128 | 271 | 251 |
| Hardware, software and related technology sales | 2,561 | 3,278 | 4,982 | 5,964 |
| Corporate/Eliminations | 210 | 295 | 373 | 584 |
| Total | 9,092 | 4,664 | 13,996 | 9,243 |
| Income taxation expense | | | | |
| SA transaction-based activities | 5,140 | 7,494 | 9,979 | 15,006 |
| International transaction-based activities | 182 | - | 303 | - |
| Smart card accounts | 1,073 | 1,035 | 2,087 | 2,062 |
| Financial services | 344 | 152 | 604 | 301 |
| Hardware, software and related technology sales | 19 | 479 | (577) | 513 |
| Corporate/Eliminations | 3,078 | 2,332 | 3,647 | 4,641 |
| Total | 9,836 | 11,492 | 16,043 | 22,523 |
| Net income | | | | |
| SA transaction-based activities | 13,215 | 19,039 | 25,660 | 38,005 |
| International transaction-based activities | 3 | - | (367) | - |
| Smart card accounts | 2,759 | 2,663 | 5,369 | 5,306 |
| Financial services | 885 | 393 | 1,554 | 774 |
| Hardware, software and related technology sales | (435) | 1,139 | (2,496) | (594) |
| Corporate/Eliminations | (6,479) | (3,950) | (12,343) | (6,266) |
| Total | 9,948 | 19,284 | 17,377 | 37,225 |
| Segment assets | | | | |
| Total | 770,506 | 423,765 | 770,506 | 423,765 |
| Expenditures for long-lived assets | | | | |
| SA transaction-based activities | 742 | 598 | 1,284 | 1,014 |
| International transaction-based activities | 3,087 | - | 3,238 | - |
| Smart card accounts | - | - | - | - |
| Financial services | 157 | 58 | 216 | 118 |
| Hardware, software and related technology sales | 25 | 29 | 41 | 194 |

Corporate/Eliminations

| | | | | |
|-------|----------|--------|----------|----------|
| | - | - | - | - |
| Total | \$ 4,011 | \$ 685 | \$ 4,779 | \$ 1,326 |

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

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

13. Income tax in interim periods

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

For the three and six months ended December 31, 2010, the tax charge was calculated using the expected effective tax rate for the year. The Company's effective tax rate for the three and six months ended December 31, 2010, was 49.4% and 47.6%, respectively, as a result of non-deductible expenses, including transaction-related expenses and interest expense related to the acquisition of KSNET.

The Company increased its unrecognized tax benefits by \$0.1 million and \$0.2 million, respectively, during the three and six months ended December 31, 2010. As of December 31, 2010, the Company had accrued interest related to uncertain tax positions of approximately \$0.2 million on its balance sheet.

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

The Company files income tax returns mainly in South Africa, Korea, Austria, the Russian Federation and in the US federal jurisdiction. As of December 31, 2010, the Company is no longer subject to income tax examination by the South African Revenue Service for years before December 31, 2007. In 2007, the Korea National Tax Service had effectively completed the examination of the Company's returns in Korea related to years 2002 through 2006. The Company is subject to income tax in other jurisdictions outside South Africa and Korea, none of which are individually material to its financial position, statement of cash flows, or results of operations.

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

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

Forward-looking statements

Some of the statements in this Quarterly Report on Form 10-Q constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, implied or inferred by these forward-looking statements. Such factors include, among other things, those listed under **Risk Factors** and elsewhere in our Annual Report on Form 10-K for the year ended June 30, 2010 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010. In some cases, you can identify forward-looking statements by terminology such as *may*, *will*, *should*, *could*, *would*, *expects*, *plan*, *anticipates*, *believes*, *estimates*, *predicts*, *potential* or *continue* or the negative of such terms and other common terminology.

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

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

Business Developments During the Second Quarter of Fiscal 2011

South Africa

SASSA contract extension

We recently received a six month extension of our current SASSA contract on the same terms and conditions. As a result of this extension, the contract now runs through September 30, 2011, unless it is further extended. SASSA has indicated that it intends to commence a new tender process and requested the extension to allow it to conclude the tender process. For a more detailed discussion of our SASSA contract and risks associated therewith, we refer you to the first two risk factors contained in our Annual Report on Form 10-K for the year ended June 30, 2010. Under our SASSA contract, we provide our social welfare grants distribution service to SASSA in five of South Africa's nine provinces (KwaZulu-Natal, Limpopo, North West, Northern Cape and Eastern Cape). The 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.

EasyPay Kiosk pilot project extended to end of fiscal 2011

In September 2010, we launched our EasyPay Kiosk, or EP Kiosk, pilot project at select locations in the Gauteng province of South Africa. The EP Kiosk enables users to purchase prepaid electricity and airtime and perform

any post paid bill payment service requirements using the interactive user-friendly touch screen kiosk interface. The user will also be able to transfer prepaid voucher value to other mobile phone users. Users can register their own prepaid voucher wallet on the EP Kiosk, with access to the wallet guaranteed via biometric identification of the user at time of registration. A five digit personal identification number, or PIN, is also required by the user so as to facilitate transactions done via their own mobile phones or via the website.

The EP Kiosk is a cash-acceptor and does not issue change in cash, rather it issues a prepaid value voucher in lieu of change which can be used to purchase prepaid electricity and airtime or perform any post paid bill payment service requirements through an EP Kiosk or via the mobile phone site or the internet.

The pilot project showed good momentum during the second quarter of fiscal 2011 and has been extended until the end of the fourth quarter of fiscal 2011 at which time we will assess whether the EP Kiosk is a viable business medium.

Outside South Africa

Acquisition of KSNET in the Republic of Korea

On October 29, 2010, we acquired 98.73% of KSNET, Inc., or KSNET, a leading Republic of Korea payment processor, for KRW 270 billion (approximately \$240 million based on October 29, 2010 exchange rates). Most of KSNET's revenue is derived from the provision of payment processing services to approximately 200,000 merchants and to card issuers in Korea through its value-added network, or VAN. KSNET has a diverse product offering and we believe it is the only total payments solutions provider offering card VAN, payment gateway and banking VAN services in Korea, which differentiates KSNET from other Korean payment solution providers and allows it to cross-sell its products across its customer base.

The acquisition of KSNET expands our international footprint as well as diversifies our revenue, earnings and product portfolio. The combination is expected to capitalize on multiple revenue synergies and provide an established base in Asia for further business development activities in the region.

The African Continent and Iraq

During the second quarter of fiscal 2011, Net1 Universal Electronic Technological Solutions (Proprietary) Limited, or NUETS, received an order for an additional 2,000 EFTPOS devices for deployment in Iraq, bringing the total number of EFTPOS devices ordered to date to 5,050.

It also recorded revenue from transaction fees and the delivery of UEPS-enabled smartcards under its contract with the government of Iraq. NUETS expects to generate ongoing revenues from transaction fees under the Iraqi contract and from EFTPOS sales during the third quarter of fiscal 2011. NUETS has entered the second phase of its initiative in Ghana and now generates recurring income in the form of hardware and software maintenance fees.

NUETS continued to service its current customers on the African continent and in Iraq and continued its business development efforts in multiple new countries on the African continent during the quarter.

During the second quarter of fiscal 2011, SmartSwitch Namibia generated incremental transaction fees from transactions conducted between Namibian merchants and UEPS-enabled smartcards. SmartSwitch Botswana generated transaction fees during the second quarter of fiscal 2011 from the payment of food voucher grants. We expect SmartSwitch Namibia and Botswana to continue generating transaction fees during the third quarter of fiscal 2011.

Net 1 Universal Technologies (Austria) AG, or Net1 UTA

During the second quarter of fiscal 2011, we acquired the remaining 19.9% of Net1 UTA for \$0.6 million, and now own 100% of Net1 UTA.

During the second quarter of fiscal 2011, Net1 UTA received an order from the leading banks of Uzbekistan for the delivery of 1.1 million smart cards and 2,500 EFTPOS terminals during 2011. Growth at Net1 UTA continued to be adversely impacted by our transitioning of its business model from a hardware and software sale-oriented model to one which generates recurring transaction fees, as well as by challenging economic conditions in Eastern Europe. During the second quarter of fiscal 2011 Net1 UTA sold hardware and software licenses to a customer in Uzbekistan.

Net1 Virtual Card

We launched our VCPay™, offering in the United States during the second quarter of fiscal 2011. Our mobile phone-based virtual payment card application is designed to eliminate fraud in Card-Not-Present (CNP) transactions.

We have teamed up with MetroPCS Communications, Inc., or MetroPCS, The Bancorp Bank, a wholly-owned subsidiary of The Bancorp, Inc., FSV Payment Systems and MoneyGram International to offer a comprehensive card issuing, processing and distribution network to wireless subscribers in the United States.

MetroPCS offers our VCPay™ to its prepaid customers as an application that is pre-loaded on new Smartphones or can be downloaded on select existing devices. VCPay™ allows a subscriber to generate a unique, one-time use prepaid virtual card number to securely purchase goods and services or perform bill payments in any CNP environment. We believe that the VCPay™ application is the first mobile phone-based prepaid program with no requirement for the user to have a physical card or a bank account. Subscribers can load their prepaid virtual accounts with cash at any of MoneyGram's 40,000 U.S. agent locations, which are located in most communities including many grocery, pharmacy and convenience store chains, or electronically via their bank accounts or via direct deposit.

New International transaction-based activities operating segment

Effective October 1, 2010, we have allocated our international transaction-based activities to a new operating segment, namely International transaction-based activities. This operating segment comprises the transaction processing activities of KSNET, Net1 Virtual Card, and NUETS transaction processing activities for its initiative in Iraq.

KSNET currently contributes the majority of the revenue, operating income and net income of this segment.

Segment results for fiscal 2010 have not been restated due to the insignificance of the transaction processing activities of Net1 Virtual Card, and NUETS transaction processing activities for its initiative in Iraq. However, for comparative purposes in future periods, our reported results for the first half of fiscal 2011 include all legacy international transaction-processing activities from July 1, 2010 and include KSNET from November 1, 2010.

Critical Accounting Policies

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

Critical accounting policies are those that reflect significant judgments or uncertainties, and potentially may result in materially different results under different assumptions and conditions. Management has identified the following critical accounting policies that are described in more detail in our Annual Report on Form 10-K for the year ended June 30, 2010.

- Deferred taxation;
- Stock-based compensation;
- Intangible assets acquired through acquisitions;
- Accounts receivable and provision for doubtful debts; and
- Research and development.

Recent accounting pronouncements adopted

Refer to Note 1 of the unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements adopted as of December 31, 2010, including the expected dates of adoption and effects on financial condition, results of operations and cash flows.

Recent accounting pronouncements not yet adopted as of December 31, 2010

Refer to Note 1 of the unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of December 31, 2010, including the expected dates of adoption and effects on financial condition, results of operations and cash flows.

Currency Exchange Rate Information

Actual exchange rates

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

| Table 1 | Three months ended | | Six months ended | | Year ended |
|-------------------------------------|---------------------------|-------------|-------------------------|-------------|-------------------|
| | December 31, | | December 31, | | June 30, |
| | 2010 | 2009 | 2010 | 2009 | 2010 |
| ZAR : \$ average exchange rate | 6.9296 | 7.5212 | 7.1436 | 7.6741 | 7.6117 |
| Highest ZAR : \$ rate during period | 7.1754 | 8.2035 | 7.7809 | 8.3187 | 8.3187 |
| Lowest ZAR : \$ rate during period | 6.5708 | 7.2120 | 6.5708 | 7.2120 | 7.1731 |
| Rate at end of period | 6.6468 | 7.4174 | 6.6468 | 7.4174 | 7.6529 |

ZAR: US \$ Exchange Rates***Translation exchange rates***

We are required to translate our results of operations from ZAR to US dollars on a monthly basis. Thus, the average rates used to translate this data for the three and six months ended December 31, 2010 and 2009, vary slightly from the averages shown in the table above. The translation rates we use in presenting our results of operations are the rates shown in the following table:

| Table 2 | Three months ended December 31, | | Six months ended December 31, | | Year ended June 30, |
|---------------------------------------|--------------------------------------------|-------------|------------------------------------------|-------------|--------------------------------|
| | 2010 | 2009 | 2010 | 2009 | 2009 |
| Income and expense items: \$1 = ZAR . | 6.9402 | 7.5238 | 7.1410 | 7.6723 | 7.6092 |
| Balance sheet items: \$1 = ZAR | 6.6468 | 7.4174 | 6.6468 | 7.4174 | 7.6529 |

Results of operations

The discussion of our consolidated overall results of operations is based on amounts as reflected in Item 1 Financial Statements which are reported in US dollars and are prepared in accordance with US GAAP. Our discussion analyzes our results of operations both in US dollars and ZAR, because ZAR is the functional currency of the entities which contribute the majority of our profits and is the currency in which the majority of our transactions are initially incurred and measured. Due to the significant impact of currency fluctuations between the US dollar and ZAR on our reported results and because we use the US dollar as our reporting currency, we believe that the supplemental presentation of our results of operations in ZAR is useful to investors to understand the changes in the underlying trends of our business. The results of operations for the three and six months ended December 31, 2010, include the operations of MediKredit and FIHRST for the entire period (which operations have been allocated to our SA

transaction-based activities operating segment) and the operations of KSNET from November 1, 2010, (which operations have been allocated to our International transaction-based activities operating segment.)

We analyze our business and operations in terms of five inter-related but independent operating segments: (1) SA transaction-based activities, (2) International transaction-based activities, (3) smart card accounts, (4) financial services, and (5) hardware, software and related technology sales. In addition, corporate and corporate office activities that are impracticable to ascribe directly to any of the other operating segments, as well as any inter-segment eliminations, are included in corporate/eliminations.

Second quarter fiscal 2011 compared to the second quarter of fiscal 2010

The following factors had an influence on our results of operations during the second quarter of fiscal 2011 as compared with the same period in the prior year:

- **SASSA price and volume reductions:** Our new contract with SASSA has reduced our revenue and operating income as a result of the previously announced price and volume reductions;
- **Favorable impact from the weakness of the US dollar:** The US dollar depreciated by 8% compared to the ZAR during the second quarter of fiscal 2011 compared to fiscal 2010 which has had a positive impact on our reported results;
- **Increased revenue from KSNET at lower operating margins, before acquired intangible asset amortization, than our legacy business:** Our KSNET acquisition in October 2010 positively impacted our revenue during the second quarter of fiscal 2011, however, because KSNET has an operating margin, before acquired intangible asset amortization, that is lower than our legacy businesses, it negatively impacted our operating margin. The inclusion of KSNET in our results has also contributed to the increase in selling, general and administration and depreciation and amortization expenses;
- **Increased transaction volumes at EasyPay:** Our reported results were favorably impacted by increased transaction volumes at EasyPay resulting from growth in value-added services;
- **Increased revenue from MediKredit and FIRHST at lower operating margins than other SA transaction-based activity business:** Our MediKredit and FIRHST acquisitions positively impacted our revenue during the second quarter of fiscal 2011, however, because MediKredit generated a modest operating loss and FIRHST has operating margin that is lower than our other transaction-based activity businesses, they negatively impacted our operating margin. The inclusion of these businesses in our results has also contributed to the increase in selling, general and administration expense;
- **Increased user adoption in Iraq:** Our reported results were positively impacted by increased transaction revenues at NUETS from the adoption of our UEPS technology in Iraq;
- **Lower revenues and margins from hardware, software and related technology sales segment:** Our hardware, software and related technology sales segment was adversely impacted by lower revenues at Net1 UTA, offset by ad hoc hardware sales;
- **Intangible asset amortization related to acquisitions:** Our reported results were adversely impacted by additional intangible asset amortization of approximately \$2.0 million related to the acquisitions of KSNET in the second quarter of fiscal 2011, as well as MediKredit and FIRHST during the third quarter of fiscal 2010;
- **Lower interest income and increased interest expense resulting from KSNET acquisition:** Our reported results were adversely impacted by lower interest income due to the payment of a portion of the KSNET purchase price in cash and increased interest expense due to the payment of a portion of the KSNET purchase price utilizing long- term debt and facility fees of approximately \$1.7 million; and
- **Non-recurring items included in selling, general and administration expense:** During the second quarter of fiscal 2011, we recognized an unrealized foreign exchange gain of \$2.7 million and incurred transaction-related expenses of \$1.8 million, primarily for the acquisition of KSNET.

Consolidated overall results of operations

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

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

| | In United States Dollars | | |
|------------------------------------------------------------------------|----------------------------------------|---------------|---------------|
| | (US GAAP) | | |
| | Three months ended December 31, | | |
| | 2010 | 2009 | \$% |
| | \$ 000 | \$ 000 | change |
| Revenue | 89,011 | 73,864 | 21% |
| Cost of goods sold, IT processing, servicing and support | 29,182 | 20,915 | 40% |
| Selling, general and administration | 28,763 | 18,866 | 52% |
| Depreciation and amortization | 9,092 | 4,664 | 95% |
| Operating income | 21,974 | 29,419 | (25)% |
| Interest income, net | (2,080) | 1,893 | (210)% |
| Income before income taxes | 19,894 | 31,312 | (36)% |
| Income tax expense | 9,836 | 11,492 | (14)% |
| Net income before loss from equity-accounted investments | 10,058 | 19,820 | (49)% |
| Loss from equity-accounted investments | (166) | (270) | (39)% |
| Net income | 9,892 | 19,550 | (49)% |
| (Add) Less: net (loss) income attributable to non-controlling interest | (56) | 266 | (121)% |
| Net income attributable to us | 9,948 | 19,284 | (48)% |

| | In South African Rand | | |
|------------------------------------------------------------------------|----------------------------------------|-------------|---------------|
| | (US GAAP) | | |
| | Three months ended December 31, | | |
| | 2010 | 2009 | ZAR |
| | ZAR | ZAR | % |
| | 000 | 000 | change |
| Revenue | 617,754 | 555,738 | 11% |
| Cost of goods sold, IT processing, servicing and support | 202,529 | 157,359 | 29% |
| Selling, general and administration | 199,621 | 141,944 | 41% |
| Depreciation and amortization | 63,101 | 35,091 | 80% |
| Operating income | 152,503 | 221,344 | (31)% |
| Interest income, net | (14,436) | 14,243 | (201)% |
| Income before income taxes | 138,067 | 235,587 | (41)% |
| Income tax expense | 68,264 | 86,464 | (21)% |
| Net income before loss from equity-accounted investments | 69,803 | 149,123 | (53)% |
| Loss from equity-accounted investments | (1,152) | (2,031) | (43)% |
| Net income | 68,651 | 147,092 | (53)% |
| (Add) Less: net (loss) income attributable to non-controlling interest | (389) | 2,001 | (119)% |
| Net income attributable to us | 69,040 | 145,091 | (52)% |

Analyzed in ZAR, the increase in revenue for the second quarter of fiscal 2011, was primarily due to higher revenues from the inclusion of KSNET, FIHRST and MediKredit, increased transaction volumes at EasyPay and higher utilization of our UEPS system in Iraq, which was partially offset by our new SASSA contract, discussed under

Business Developments during the Second Quarter of Fiscal 2011 South Africa SASSA contract extension update and fewer sales of hardware, software and related technology. Analyzed in ZAR, cost of goods sold, IT processing, servicing and support for the second quarter of fiscal 2011 was higher primarily due to the inclusion of KSNET, FIHRST and MediKredit.

Analyzed in ZAR, selling, general and administration expense increased during the second quarter of fiscal 2011 primarily due to increases in goods and services purchased from third parties and the inclusion of KSNET,

FIHRST and MediKredit operations. During the second quarter of fiscal 2011, selling, general and administration expense also included transaction-related costs of \$1.8 million (ZAR 12.3 million), primarily for the KSNET acquisition. Selling, general and administration was positively impacted by an unrealized gain of \$2.7 million (ZAR 19.1 million) on a foreign exchange contract related to an intercompany dividend from South Africa to the United States which was used to partially fund the acquisition of KSNET.

Our operating income margin for the second quarter of fiscal 2011 and 2010 was 25% and 40%, respectively. We discuss the components of the operating income margin under Results of operations by operating segment, however the significant decrease is attributable to the price and volumes reductions under our SASSA contract, lower margin contribution from KSNET and transaction-related costs.

Our direct costs of maintaining a listing on Nasdaq and the JSE, as well as compliance with the Sarbanes-Oxley Act of 2002, or Sarbanes, particularly Section 404 of Sarbanes, primarily includes independent directors' fees, legal fees, fees paid to Nasdaq and the JSE, investor relations expenses, our compliance officer's salary, fees paid to consultants who assist with Sarbanes compliance and fees paid to our independent accountants related to the audit and review process. This has resulted in expenditures of \$1.1 million (ZAR 7.8 million) and \$0.5 million (ZAR 3.7 million) during the second quarter of fiscal 2011 and 2010, respectively.

In ZAR, depreciation and amortization increased during fiscal 2011 primarily as a result of intangible asset amortization related to the KSNET, MediKredit and FIHRST acquisitions. The intangible asset amortization related to our various acquisitions has been allocated to our operating segments as presented in the tables below:

Table 5

| | Three months ended | |
|-----------------------------------------------------------------|---------------------------|---------------|
| | December 31, | |
| | 2010 | 2009 |
| | \$ 000 | \$ 000 |
| Amortization included in depreciation and amortization expense: | 5,914 | 3,436 |
| SA transaction-based activities | 1,437 | 807 |
| International transaction-based activities | 2,032 | - |
| Hardware, software and related technology | 2,445 | 2,629 |

Table 6

| | Three months ended | |
|-----------------------------------------------------------------|---------------------------|----------------|
| | December 31, | |
| | 2010 | 2009 |
| | ZAR 000 | ZAR 000 |
| Amortization included in depreciation and amortization expense: | 41,047 | 25,850 |
| SA transaction-based activities | 9,973 | 6,072 |
| International transaction-based activities | 14,102 | - |
| Hardware, software and related technology | 16,972 | 19,778 |

Interest on surplus cash for the second quarter of fiscal 2011 decreased to \$1.4 million (ZAR 9.4 million) from \$2.2 million (ZAR 16.3 million) for the second quarter of fiscal 2010. The decrease in interest on surplus cash held in South Africa was due to a lower average daily ZAR cash balance during the second quarter of fiscal 2011 compared with the second quarter of fiscal 2010 as a result of the payment of a portion of the KSNET purchase price in cash as well as lower deposit rates resulting from the adjustment in the South African prime interest rate from an average of approximately 10.50% per annum for the second quarter of fiscal 2010 to 9.27% per annum for the second quarter of fiscal 2011.

Interest expense increased during the second quarter of fiscal 2011 due to additional interest expense resulting from the utilizing of a long-term facility to fund a portion of the KSNET acquisition. Finance costs increased to \$3.4 million (ZAR 23.8 million) for the second quarter of fiscal 2011 from \$0.3 million (ZAR 2.0 million) for the second quarter of fiscal 2010.

Total tax expense for the second quarter of fiscal 2011 was \$9.8 million (ZAR 68.3 million) compared with \$11.5 million (ZAR 86.5 million) during the same period in the prior fiscal year. Our total tax expense decreased primarily due to lower taxable income resulting from the SASSA price and volume reductions and a decrease in overall profitability. Our effective tax rate for the second quarter of fiscal 2011 was 49.4%, compared to 36.7% for the second quarter of fiscal 2010. The change in our effective tax rate was primarily due to an increase in non-deductible

expenses, primarily related to the KSNET acquisition, during the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010.

Net loss from equity-accounted investments for the second quarter of fiscal 2011 decreased from the prior year primarily due to an increase in transaction fees generated by SmartSwitch Namibia and SmartSwitch Botswana. VTU Colombia and VinaPay continue to incur losses.

Results of operations by operating segment

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

Table 7

In United States Dollars (US GAAP)
Three months ended December 31,

| Operating Segment | 2010 \$ 000 | % of total | 2009 \$ 000 | % of total | % change |
|-------------------------------------------------|------------------------|-----------------------|------------------------|-----------------------|---------------------|
| Consolidated revenue: | | | | | |
| SA transaction-based activities | 46,588 | 52% | 45,415 | 61% | 3% |
| International transaction-based activities | 16,950 | 19% | | | nm |
| Smart card accounts | 8,434 | 9% | 8,137 | 11% | 4% |
| Financial services | 1,623 | 2% | 858 | 1% | 89% |
| Hardware, software and related technology sales | 15,416 | 17% | 19,454 | 27% | (21)% |
| Total consolidated revenue | 89,011 | 100% | 73,864 | 100% | 21% |
| Consolidated operating income (loss): | | | | | |
| SA transaction-based activities | 18,547 | 84% | 26,733 | 91% | (31)% |
| Operating income before amortization | 19,984 | | 27,540 | | (27)% |
| Amortization of intangible assets | (1,437) | | (807) | | 78% |
| International transaction-based activities | 327 | 1% | - | | nm |
| Operating income before amortization | 2,359 | | - | | |
| Amortization of intangible assets | (2,032) | | | | |
| Smart card accounts | 3,832 | 17% | 3,699 | 13% | 4% |
| Financial services | 1,231 | 6% | 546 | 2% | 125% |
| Hardware, software and related technology sales | (319) | (1)% | 1,660 | 6% | (119)% |
| Operating (loss) income before amortization . | 2,126 | | 4,289 | | (50)% |
| Amortization of intangible assets | (2,445) | | (2,629) | | (7)% |
| Corporate/eliminations | (1,644) | (7)% | (3,219) | (12)% | (49)% |
| Total consolidated operating income | 21,974 | 100% | 29,419 | 100% | (25)% |

Table 8

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

| Operating Segment | 2010 ZAR 000 | % of total | 2009 ZAR 000 | % of total | % change |
|-------------------------------------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|---------------------|
| Consolidated revenue: | | | | | |
| SA transaction-based activities | 323,330 | 52% | 341,694 | 61% | (5)% |
| International transaction-based activities | 117,636 | 19% | | | nm |
| Smart card accounts | 58,534 | 9% | 61,221 | 11% | (4)% |
| Financial services | 11,264 | 2% | 6,455 | 1% | 75% |
| Hardware, software and related technology sales | 106,990 | 17% | 146,368 | 27% | (27)% |
| Total consolidated revenue | 617,754 | 100% | 555,738 | 100% | 11% |
| Consolidated operating income (loss): | | | | | |
| SA transaction-based activities | 128,720 | 84% | 201,134 | 91% | (36)% |
| Operating income before amortization | 138,693 | | 207,206 | | (33)% |
| Amortization of intangible assets | (9,973) | | (6,072) | | 64% |
| International transaction-based activities | 2,269 | 1% | | | nm |
| Operating income before amortization | 16,371 | | - | | |
| Amortization of intangible assets | (14,102) | | | | |
| Smart card accounts | 26,595 | 17% | 27,831 | 13% | (4)% |

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| | | | | | |
|-------------------------------------------------|----------------|-------------|----------------|-------------|--------------|
| Financial services | 8,543 | 6% | 4,108 | 2% | 108% |
| Hardware, software and related technology sales | (2,214) | (1)% | 12,490 | 6% | (118)% |
| Operating (loss) income before amortization | 14,758 | | 32,268 | | (54)% |
| Amortization of intangible assets | (16,972) | | (19,778) | | (14)% |
| Corporate/eliminations | (11,410) | (7)% | (24,219) | (12)% | (53)% |
| Total consolidated operating income | 152,503 | 100% | 221,344 | 100% | (31)% |

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SA transaction-based activities

In ZAR, the decreases in revenue were primarily due to the new SASSA contract at lower economics, which was partially offset by increased transaction volumes at EasyPay and the inclusion of MediKredit and FIHRST.

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

Operating income margin of our SA transaction-based activities decreased to 40% from 59% a year ago. The decrease was primarily due to the lower revenues generated under our SASSA contract, additional intangible asset amortization related to the acquisition of MediKredit and FIHRST and lower margins in our recently-acquired transaction processing operations compared with legacy SA transaction-based activities.

Pension and welfare operations:

Our revenue and operating income related to our pension and welfare operations were impacted by our new contract discussed under Business Developments during the Second Quarter of Fiscal 2011 South Africa SASSA contract extension. Our pension and welfare operations continue to generate the majority of our revenues and operating income in this operating segment and for us as a whole.

South African transaction processors:

The table below presents the total volume and value processed during the second quarter of fiscal 2011 and 2010 by our transaction processors:

Table 9

| Transaction processor | Total volume (000s) | | Total value \$ (000) | | Total value ZAR (000) | |
|-----------------------|----------------------|---------|-----------------------|-----------|------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| EasyPay | 187,853 | 173,740 | 6,256,492 | 5,206,686 | 43,421,306 | 39,174,180 |
| MediKredit | 2,171 | - | 112,426 | - | 780,258 | - |
| FIHRST | 5,691 | - | 2,592,735 | - | 17,994,096 | - |

Our results for the second quarter of fiscal 2011 includes the intangible asset amortization related to our MediKredit, FIHRST acquisitions but excludes RMT's intangible assets which were fully amortized in the third quarter of fiscal 2010. Our results for the second quarter of fiscal 2010 includes amortization related to the RMT intangible assets.

Key statistics of our merchant acquiring system:

The key statistics and indicators of our merchant acquiring system during the second quarter of fiscal 2011 and 2010, in each of the South African provinces where we distribute social welfare grants are summarized in the table below:

Table 10

| | Three months ended | |
|----------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| | December 31, | |
| | 2010 | 2009 |
| Province included (1) | NC, EC, KZN, L and NW | NC, EC, KZN, L and NW |
| Total POS devices installed | 4,823 | 4,670 |
| Number of participating UEPS retail locations | 2,562 | 2,547 |
| Value of transactions processed through POS devices during the quarter (2) (in \$ 000) | 393,691 | 372,041 |
| Value of transactions processed through POS devices during the completed pay cycles for the quarter (3) (in \$ 000) | 394,924 | 367,998 |
| Value of transactions processed through POS devices during the quarter (2) (in ZAR 000) | 2,728,101 | 2,798,201 |
| Value of transactions processed through POS devices during the completed pay cycles for the quarter (3) (in ZAR 000) | 2,736,648 | 2,767,792 |
| Number of grants paid through POS devices during the quarter (2) | 4,580,255 | 4,569,316 |
| Number of grants paid through POS devices during the completed pay cycles for the quarter (3) | 4,599,893 | 4,506,829 |
| Average number of grants processed per terminal during the quarter (2) . | 955 | 994 |
| Average number of grants processed per terminal during the completed pay cycles for the quarter (3) | 959 | 980 |

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

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

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

International transaction-based activities

KSNET currently contributes the majority of our revenues in this operating segment. Operating margin for the segment is lower than our legacy South African transaction-based businesses and was negatively impacted by start-up expenditures related to our Virtual Card launch in the United States, but partially offset by improving profitability of NUETS initiative in Iraq.

Our results for the second quarter of fiscal 2011 include the intangible asset amortization related to our KSNET acquisition from November 1, 2010.

Smart card accounts

In ZAR, revenue from the provision of smart card-based accounts decreased in proportion to the lower number of beneficiaries serviced through our SASSA contract. A total number of 3,520,558 smart card-based accounts were active at December 31, 2010, compared to 3,680,888 active accounts as at December 31, 2009. The year over year decrease in the number of active accounts resulted largely from the suspension and removal of invalid or fraudulent grants by SASSA, however active accounts were flat on a sequential basis.

Operating income margin from providing smart card accounts was constant at 45% for the second quarter of fiscal 2011 and 2010.

Financial services

Revenue from UEPS-based lending increased primarily due to an increase in the number of loans granted. In addition, on average, the return on these UEPS-based loans was higher. Our current UEPS-based lending portfolio comprises loans made to elderly pensioners in some of the provinces where we distribute social welfare grants. We insure the UEPS-based lending book against default and thus no allowance is required.

Operating income margin for the financial services segment increased to 76% for the second quarter of fiscal 2011 from 64% for the second quarter of fiscal 2010 primarily due to an increase in lending activity.

Hardware, software and related technology sales

The following table presents our revenue and operating income during the second quarter of fiscal 2011 and 2010:

| Table 12 | Three months ended | |
|--------------------------------------------------------------------------|---------------------------|---------------|
| | December 31, | |
| | 2010 | 2009 |
| | \$ 000 | \$ 000 |
| Revenue | 15,416 | 19,454 |
| Hardware, software and related technology sales excluding Net1 UTA | 12,151 | 10,762 |
| Net1 UTA | 3,265 | 8,692 |
| Operating income before amortization of intangible assets | 2,126 | 4,289 |
| Operating loss | (319) | 1,660 |
| Hardware, software and related technology sales excluding Net1 UTA | 1,725 | 2,042 |
| Net1 UTA | (2,044) | (382) |
| Net1 UTA excluding amortization of acquisition related intangible assets | 237 | 2,095 |
| Amortization of acquisition related intangible assets | (2,281) | (2,477) |

| Table 13 | Three months ended | |
|--------------------------------------------------------------------------|---------------------------|----------------|
| | December 31, | |
| | 2010 | 2009 |
| | ZAR 000 | ZAR 000 |
| Revenue | 106,990 | 146,368 |
| Hardware, software and related technology sales excluding Net1 UTA | 84,330 | 80,971 |
| Net1 UTA | 22,660 | 65,397 |
| Operating income before amortization of intangible assets | 14,758 | 32,268 |
| Operating loss | (2,214) | 12,490 |
| Hardware, software and related technology sales excluding Net1 UTA | 11,972 | 15,365 |
| Net1 UTA | (14,186) | (2,875) |
| Net1 UTA excluding amortization of acquisition related intangible assets | 1,645 | 15,762 |
| Amortization of acquisition related intangible assets | (15,831) | (18,637) |

The decrease in revenue was primarily due to lower revenues generated by Net1 UTA, partially offset by ad hoc hardware sales. Our operating margin during the first quarter of fiscal 2011, was negatively impacted by an allowance for credit losses of \$0.5 million (ZAR 3.8 million).

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

Corporate/eliminations

The decrease in our corporate expenses resulted from an unrealized foreign exchange gain on a foreign exchange contract of \$2.7 million (ZAR 19.1 million) related to an intercompany dividend from South Africa to the United States to be used to partially fund the acquisition of KSNET, partially offset by higher corporate head office-related expenditure, including the effects of inflation in South Africa, stock-based compensation charges and transaction-related expenditures of \$1.8 million (ZAR 12.3 million).

Our corporate expenses also includes expenditure related to compliance with Sarbanes; non-executive directors fees; employee and executive salaries and bonuses; stock-based compensation; legal and audit fees; directors and officer's insurance premiums; telecommunications expenses; property-related expenditures including utilities, rental, security and maintenance; and elimination entries.

First half fiscal 2011 compared to the first half of fiscal 2010

The following factors had an influence on our results of operations during the first half of fiscal 2011 as compared with the same period in the prior year:

- **SASSA price and volume reductions:** Our new contract with SASSA has reduced our revenue and operating income as a result of the previously announced price and volume reductions;
- **Favorable impact from the weakness of the US dollar:** The US dollar depreciated by 7% compared to the ZAR during the first half of fiscal 2011 compared to fiscal 2010 which has had a positive impact on our reported results;
- **Increased revenue from KSNET at lower operating margins, before acquired intangible asset amortization, than our legacy business:** Our KSNET acquisition in October 2010 positively impacted our revenue during the first half of fiscal 2011, however, because KSNET has an operating margin, before acquired intangible asset amortization, that is lower than our legacy businesses, it negatively impacted our operating margin. The inclusion of KSNET in our results has also contributed to the increase in selling, general and administration and depreciation and amortization expenses;
- **Increased transaction volumes at EasyPay:** Our reported results were favorably impacted by increased transaction volumes at EasyPay resulting from growth in value-added services;
- **Increased revenue from MediKredit and FIRHST at lower operating margins than other SA transaction-based activity business:** Our MediKredit and FIRHST acquisitions positively impacted our revenue during the first half of fiscal 2011, however, because MediKredit generated a modest operating loss and FIRHST has operating margin that is lower than our other SA transaction-based activity businesses, they negatively impacted our operating margin. The inclusion of these businesses in our results has also contributed to the increase in selling, general and administration expense;
- **Increased user adoption in Iraq:** Our reported results were positively impacted by increased transaction revenues at NUETS from the adoption of our UEPS technology in Iraq;
- **Lower revenues and margins from hardware, software and related technology sales segment:** Our hardware, software and related technology sales segment continues to be adversely impacted by lower revenues generated by Net1 UTA, card sales and software maintenance and development activities;
- **Intangible asset amortization related to acquisitions:** Our reported results were adversely impacted by additional intangible asset amortization of approximately \$2.0 million related to the acquisitions of KSNET in the first half of fiscal 2011, as well as MediKredit and FIRHST during the third quarter of fiscal 2010;
- **Lower interest income and increased interest expense resulting from KSNET acquisition:** Our reported results were adversely impacted by lower interest income due to the payment of a portion of the KSNET purchase price in cash and increased interest expense due to the payment of a portion of the KSNET purchase price utilizing long-term debt and facility fees of approximately \$1.7 million; and
- **Non-recurring items included in selling, general and administration expense:** During the first half of fiscal 2011, we recognized transaction-related expenses of \$5.1 million, primarily for the acquisition of KSNET. Our reported operating income also includes the net positive impact of \$0.3 million related to a foreign exchange contract resulting from an intercompany dividend from South Africa to the United States which was used to partially fund the acquisition of KSNET

Consolidated overall results of operations

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

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

Table 14

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

Six months ended December 31,

| | 2010 | 2009 | \$% |
|----------------------------------------------------------|---------------|---------------|---------------|
| | \$ 000 | \$ 000 | change |
| Revenue | 153,294 | 139,378 | 10% |
| Cost of goods sold, IT processing, servicing and support | 47,249 | 37,742 | 25% |
| Selling, general and administration | 59,089 | 36,606 | 61% |
| Depreciation and amortization | 13,996 | 9,243 | 51% |
| Operating income | 32,960 | 55,787 | (41)% |
| Interest income, net | 756 | 4,264 | (82)% |
| Income before income taxes | 33,716 | 60,051 | (44)% |
| Income tax expense | 16,043 | 22,523 | (29)% |
| Net income before loss from equity-accounted investments | 17,673 | 37,528 | (53)% |
| Loss from equity-accounted investments | (382) | (381) | 0% |
| Net income | 17,291 | 37,147 | (53)% |
| Add: net loss attributable to non-controlling interest | (86) | (78) | 10% |
| Net income attributable to us | 17,377 | 37,225 | (53)% |

Table 15

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

Six months ended December 31,

| | 2010 | 2009 | ZAR |
|----------------------------------------------------------|-------------|-------------|---------------|
| | ZAR | ZAR | % |
| | 000 | 000 | change |
| Revenue | 1,094,672 | 1,069,347 | 2% |
| Cost of goods sold, IT processing, servicing and support | 337,406 | 289,567 | 17% |
| Selling, general and administration | 421,954 | 280,851 | 50% |
| Depreciation and amortization | 99,945 | 70,915 | 41% |
| Operating income | 235,367 | 428,014 | (45)% |
| Interest income, net | 5,399 | 32,715 | (84)% |
| Income before income taxes | 240,766 | 460,729 | (48)% |
| Income tax expense | 114,563 | 172,803 | (34)% |
| Net income before loss from equity-accounted investments | 126,203 | 287,926 | (56)% |
| Loss from equity-accounted investments | (2,728) | (2,923) | (7)% |
| Net income | 123,475 | 285,003 | (57)% |
| Add: net loss attributable to non-controlling interest | (614) | (598) | 3% |
| Net income attributable to us | 124,089 | 285,601 | (57)% |

Analyzed in ZAR, the increase in revenue for the first half of fiscal 2011, was primarily due to higher revenues from the inclusion of KSNET, FIHRST and MediKredit, increased transaction volumes at EasyPay and higher utilization of our UEPS system in Iraq, which was partially offset by our new SASSA contract, discussed under

Business Developments during the Second Quarter of Fiscal 2011 South Africa SASSA contract extension and fewer sales of hardware, software and related technology. Analyzed in ZAR, cost of goods sold, IT processing, servicing and support for the first half of fiscal 2011 was higher primarily due to the inclusion of KSNET, FIHRST and MediKredit.

Analyzed in ZAR, selling, general and administration expense increased during the first half of fiscal 2011 primarily due to increases in goods and services purchased from third parties and the inclusion of KSNET, FIHRST and MediKredit operations. During the first half of fiscal 2011, selling, general and administration expense was also

adversely impacted by transaction-related costs of \$5.1 million (ZAR 36.6 million), primarily for the KSNET acquisition.

Our operating income margin for the first half of fiscal 2011 and 2010 was 22% and 40%, respectively. We discuss the components of the operating income margin under Results of operations by operating segment , however the significant decrease is attributable to the price and volumes reductions under our SASSA contract and transaction-related costs.

Our direct costs of maintaining a listing on Nasdaq and JSE, as well as compliance with Sarbanes, primarily includes independent directors' fees, legal fees, fees paid to Nasdaq and the JSE, investor relations expenses, our compliance officer's salary, fees paid to consultants who assist with Sarbanes compliance and fees paid to our independent accountants related to the audit and review process. This has resulted in expenditures of \$1.7 million (ZAR 12.0 million) and \$1.2 million (ZAR 8.8 million) during the first half of fiscal 2011 and 2010, respectively.

In ZAR, depreciation and amortization increased during fiscal 2011, primarily as a result of intangible asset amortization related to the MediKredit and FIHRST acquisitions. The intangible asset amortization related to our various acquisitions has been allocated to our operating segments as presented in the tables below:

| Table 16 | Six months ended | |
|-----------------------------------------------------------------|------------------|--------|
| | December 31, | |
| | 2010 | 2009 |
| | \$ 000 | \$ 000 |
| Amortization included in depreciation and amortization expense: | 9,588 | 6,759 |
| SA transaction-based activities | 2,793 | 1,588 |
| International transaction-based activities | 2,032 | - |
| Hardware, software and related technology | 4,763 | 5,171 |

| Table 17 | Six months ended | |
|-----------------------------------------------------------------|------------------|---------|
| | December 31, | |
| | 2010 | 2009 |
| | ZAR 000 | ZAR 000 |
| Amortization included in depreciation and amortization expense: | 68,473 | 51,852 |
| SA transaction-based activities | 19,945 | 12,183 |
| International transaction-based activities | 14,511 | - |
| Hardware, software and related technology | 34,017 | 39,669 |

Analyzed in ZAR, interest on surplus cash for the first half of fiscal 2011 increased to \$4.4 million (ZAR 31.7 million) from \$4.9 million (ZAR 36.9 million) for the first half of fiscal 2010. The increase in interest on surplus cash held in South Africa was due to a higher average daily ZAR cash balance during the first half of fiscal 2011 compared with the first half of fiscal 2010, partially offset by lower deposit rates resulting from the adjustment in the South African prime interest rate from an average of approximately 10.62% per annum for the first half of fiscal 2010 to 9.58% per annum for the first half of fiscal 2011.

Interest expense increased during the first half of fiscal 2011 due additional interest expense resulting from the utilizing of a long-term facility to fund a portion of the KSNET acquisition. Finance costs increased to \$3.7 million (ZAR 26.3 million) for the first half of fiscal 2011 from \$0.5 million (ZAR 4.2 million) for the first half of fiscal 2010.

Total tax expense for the first half of fiscal 2011 was \$16.1 million (ZAR 114.6 million) compared with \$22.5 million (ZAR 172.8 million) during the same period in the prior fiscal year. Our total tax expense decreased primarily due to lower taxable income resulting from the SASSA price and volume reductions and a decrease in overall profitability. Our effective tax rate for the first half of fiscal 2011 was 47.6%, compared to 37.5% for the first half of fiscal 2010. The change in our effective tax rate was primarily due to an increase in non-deductible expenses, primarily related to the KSNET acquisition, during the first half of fiscal 2011 compared to the first half of fiscal 2010.

Net loss from equity-accounted investments for the first half of fiscal 2011 decreased from the prior year primarily due to an increase in transaction fees generated by SmartSwitch Namibia and SmartSwitch Botswana. VTU Colombia and VinaPay continue to incur losses.

Results of operations by operating segment

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

Table 18

In United States Dollars (US GAAP)
Six months ended December 31,

| Operating Segment | 2010 \$ 000 | % of total | 2009 \$ 000 | % of total | % change |
|-------------------------------------------------|------------------------|-----------------------|------------------------|-----------------------|---------------------|
| Consolidated revenue: | | | | | |
| SA transaction-based activities | 91,010 | 59% | 90,393 | 65% | 1% |
| International transaction-based activities | 17,420 | 11% | | | nm |
| Smart card accounts | 16,404 | 11% | 16,211 | 12% | 1% |
| Financial services | 2,871 | 2% | 1,650 | 1% | 74% |
| Hardware, software and related technology sales | 25,589 | 17% | 31,124 | 22% | (18)% |
| Total consolidated revenue | 153,294 | 100% | 139,378 | 100% | 10% |
| Consolidated operating income (loss): | | | | | |
| SA transaction-based activities | 35,986 | 109% | 53,401 | 96% | (33)% |
| Operating income before amortization | 38,779 | | 54,989 | | (29)% |
| Amortization of intangible assets | (2,793) | | (1,588) | | 76% |
| International transaction-based activities | 116 | -% | - | | nm |
| Operating income before amortization | 2,148 | | - | | |
| Amortization of intangible assets | (2,032) | | | | |
| Smart card accounts | 7,454 | 23% | 7,369 | 13% | 1% |
| Financial services | 2,160 | 7% | 1,077 | 2% | 101% |
| Hardware, software and related technology sales | (2,979) | (9)% | (53) | -% | 5521% |
| Operating (loss) income before amortization | 1,784 | | 5,118 | | (65)% |
| Amortization of intangible assets | (4,763) | | (5,171) | | (8)% |
| Corporate/eliminations | (9,777) | (30)% | (6,007) | (11)% | 63% |
| Total consolidated operating income | 32,960 | 100% | 55,787 | 100% | (41)% |

Table 19

In South African Rand (US GAAP)
Six months ended December 31,

| Operating Segment | 2010 ZAR 000 | % of total | 2009 ZAR 000 | % of total | % change |
|-------------------------------------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|---------------------|
| Consolidated revenue: | | | | | |
| SA transaction-based activities | 649,902 | 59% | 693,521 | 65% | (6)% |
| International transaction-based activities | 124,396 | 11% | | | nm |
| Smart card accounts | 117,141 | 11% | 124,375 | 12% | (6)% |
| Financial services | 20,502 | 2% | 12,659 | 1% | 62% |
| Hardware, software and related technology sales | 182,731 | 17% | 238,792 | 22% | (23)% |
| Total consolidated revenue | 1,094,672 | 100% | 1,069,347 | 100% | 2% |
| Consolidated operating income (loss): | | | | | |
| SA transaction-based activities | 256,976 | 109% | 409,708 | 96% | (37)% |
| Operating income before amortization | 276,921 | | 421,891 | | (34)% |

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| | | | | | |
|-------------------------------------------------|----------------|-------------|----------------|-------------|--------------|
| Amortization of intangible assets | (19,945) | | (12,183) | | 64% |
| International transaction-based activities | 828 | -% | | | nm |
| Operating income before amortization | 15,339 | | - | | |
| Amortization of intangible assets | (14,511) | | | | |
| Smart card accounts | 53,229 | 23% | 56,537 | 13% | (6)% |
| Financial services | 15,425 | 7% | 8,263 | 2% | 87% |
| Hardware, software and related technology sales | (21,273) | (9)% | (407) | -% | 5127% |
| Operating (loss) income before amortization . | 12,744 | | 39,262 | | (68)% |
| Amortization of intangible assets | (34,017) | | (39,669) | | (14)% |
| Corporate/eliminations | (69,818) | (30)% | (46,087) | (11)% | 51% |
| Total consolidated operating income | 235,367 | 100% | 428,014 | 100% | (45)% |

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SA transaction-based activities

In ZAR, the decreases in revenue were primarily due to the new SASSA nine month contract at lower economics, which was partially offset by increased transaction volumes at EasyPay and the inclusion of MediKredit and FIHRST.

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

Operating income margin of our SA transaction-based activities decreased to 40% from 59% a year ago. The decrease was primarily due to the lower revenues generated under our SASSA contract, additional intangible asset amortization related to the acquisition of MediKredit and FIHRST and lower margins in our recently-acquired transaction processing operations compared with legacy SA transaction-based activities.

Pension and welfare operations:

Our revenue and operating income related to our pension and welfare operations were impacted by our new contract discussed under Business Developments during the Second Quarter of Fiscal 2011 South Africa SASSA contract extension. Our pension and welfare operations continue to generate the majority of our revenues and operating income in this operating segment and for us as a whole.

South African transaction processors:

The table below presents the total volume and value processed during the first half of fiscal 2011 and 2010 by our transaction processors:

Table 20

| Transaction processor | Total volume (000s) | | Total value \$ (000) | | Total value ZAR (000) | |
|-----------------------|----------------------|---------|-----------------------|-----------|------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| EasyPay | 361,943 | 326,283 | 11,300,805 | 9,399,559 | 80,699,052 | 72,116,131 |
| MediKredit | 4,714 | - | 227,141 | - | 1,622,016 | - |
| FIHRST | 11,183 | - | 4,613,548 | - | 32,945,344 | - |

Our results for the first half of fiscal 2011 includes the intangible asset amortization related to our MediKredit and FIHRST acquisitions but excludes RMT's intangible assets which were fully amortized in the third quarter of fiscal 2010. Our results for the first half of fiscal 2010 includes amortization related to the RMT intangible assets.

International transaction-based activities

See discussion under Second quarter of fiscal 2011 compared to the second quarter of fiscal 2010 Results of operations by operating segment International transaction-based activities.

Smart card accounts

In ZAR, revenue from the provision of smart card-based accounts decreased in proportion to the lower number of beneficiaries serviced through our SASSA contract. A total number of 3,520,558 smart card-based accounts were active at December 31, 2010, compared to 3,680,888 active accounts as at December 31, 2009. The year over year decrease in the number of active accounts resulted largely from the suspension and removal of invalid or fraudulent grants by SASSA.

Operating income margin from providing smart card accounts was constant at 45% for the first half of fiscal 2011 and 2010.

Financial services

Revenue from UEPS-based lending increased primarily due to an increase in the number of loans granted. In addition, on average, the return on these UEPS-based loans was higher. Our current UEPS-based lending portfolio comprises loans made to elderly pensioners in some of the provinces where we distribute social welfare grants. We insure the UEPS-based lending book against default and thus no allowance is required.

Operating income margin for the financial services segment increased to 75% for the first half of fiscal 2011 from 65% for the first half of fiscal 2010 primarily due to an increase in lending activity.

Hardware, software and related technology sales

The following table presents our revenue and operating income during the first half of fiscal 2011 and 2010:

| Table 21 | Six months ended | |
|--------------------------------------------------------------------------|-------------------------|---------------|
| | December 31, | |
| | 2010 | 2009 |
| | \$ 000 | \$ 000 |
| Revenue | 25,589 | 31,124 |
| Hardware, software and related technology sales excluding Net1 UTA | 18,671 | 21,384 |
| Net1 UTA | 6,918 | 9,740 |
| Operating income before amortization of intangible assets | 1,784 | 5,118 |
| Operating loss | (2,979) | (53) |
| Hardware, software and related technology sales excluding Net1 UTA | 1,131 | 4,074 |
| Net1 UTA | (4,110) | (4,127) |
| Net1 UTA excluding amortization of acquisition related intangible assets | 334 | 746 |
| Amortization of acquisition related intangible assets | (4,444) | (4,873) |

| Table 22 | Six months ended | |
|--------------------------------------------------------------------------|-------------------------|----------------|
| | December 31, | |
| | 2010 | 2009 |
| | ZAR 000 | ZAR 000 |
| Revenue | 182,731 | 238,792 |
| Hardware, software and related technology sales excluding Net1 UTA | 133,330 | 164,064 |
| Net1 UTA | 49,401 | 74,728 |
| Operating income before amortization of intangible assets | 12,744 | 39,262 |
| Operating loss | (21,273) | (407) |
| Hardware, software and related technology sales excluding Net1 UTA | 8,077 | 31,256 |
| Net1 UTA | (29,350) | (31,663) |
| Net1 UTA excluding amortization of acquisition related intangible assets | 2,385 | 5,724 |
| Amortization of acquisition related intangible assets | (31,735) | (37,387) |

The decrease in revenue was primarily due to lower revenues generated by Net1 UTA, card sales and software maintenance and development activities. In ZAR, the decrease in operating income was primarily due to lower sales activity and an allowance for credit losses of \$0.5 million (ZAR 3.8 million) related to a customer in South America.

Corporate/eliminations

The increase in our corporate expenses resulted from higher corporate head office-related expenditure, including the effects of inflation in South Africa, stock-based compensation charges and transaction related expenditures of \$5.1 million (ZAR 36.6 million).

Our corporate expenses also includes expenditure related to compliance with Sarbanes; non-executive directors fees; employee and executive salaries and bonuses; stock-based compensation; legal and audit fees; directors and officer's insurance premiums; telecommunications expenses; property-related expenditures including utilities, rental, security and maintenance; and elimination entries.

Liquidity and Capital Resources

Our business has historically generated and continues to generate high levels of cash. At December 31, 2010, our cash balances were \$71.4 million, which comprised mainly ZAR-denominated balances of ZAR 280.0 million (\$42.1 million), KRW-denominated balances of KRW 19.6 billion (\$17.3 million) and US dollar-denominated balances of \$6.1 million and other currency deposits, primarily euro, of \$5.9 million. The decrease in our cash balances from June 30, 2010, is primarily as a result of the payment of approximately \$124.3 million to fund a portion of the KSNET purchase price and the Secondary Taxation on Companies, or STC, of \$13.6 million incurred related to dividends paid from South Africa to the United States connected with the KSNET transaction.

We generally invest the surplus cash held by our South African operations in overnight call accounts that we maintain at South African banking institutions, and surplus cash held by our non-South African companies in the US and European money markets. We have invested surplus cash in Korea in short term investment accounts at Korean banking institutions. In addition, under a facilities agreement described below (the Facilities Agreement) we are required to invest the interest payable on these facilities in the next six months in a interest reserve account in Korea.

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

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

We financed a portion of the KSNET acquisition price and related transaction expenses with the proceeds of a KRW 130.5 billion (approximately \$115.9 million based on October 29, 2010 exchange rates) loan under the Facilities Agreement. The Facilities Agreement provides for three separate facilities: a Facility A loan to our wholly owned subsidiary, Net1 Applied Technologies Korea, or Net1 Korea, of up to KRW 130.5 billion (divided into Facility A1 (KRW 65.5 billion) and Facility A2 (KRW 65.0 billion)) and a Facility B loan to KSNET of up to KRW 65.0 billion. The Facility B loan, if drawn, must be used to repay the Facility A2 loan and may be borrowed only if Net1 Korea and KSNET complete a merger transaction with each other. Interest on the loans is payable quarterly and is based on the Korean CD rate in effect from time to time plus a margin of 4.10% for Facility A loans and 3.90% for the Facility B loan. The Facility A1 loan matures on the fifth anniversary of the initial drawdown with no required principal prepayments. Principal on the Facility A2 loan and Facility B loan is repayable in scheduled installments, beginning twelve months after initial drawdown and thereafter, semi-annually with final maturity scheduled for 54 months after initial drawdown. The loans are secured by substantially all of KSNET's assets, a pledge by Net1 Korea of its entire equity interest in KSNET and a pledge by the immediate parent of Net1 Korea (also one of our subsidiaries) of its entire equity interest in Net1 Korea. The Facilities Agreement contains customary covenants that require Net1 Korea and its consolidated subsidiaries to maintain certain specified financial ratios (including a leverage ratio and a debt service coverage ratio) and restrict their ability to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make capital expenditures above specified levels, engage in certain business combinations and engage in other corporate activities. The loans under the Facilities Agreement are without recourse to, and the covenants and other agreements contained therein do not apply to, us or any of our subsidiaries (other than Net1 Korea and its subsidiaries, including KSNET).

We have a unique cash flow cycle due to the funding mechanism under our SASSA contract and our pre-funding of certain merchants. Under our SASSA contract, we receive the grant funds 48 hours prior to the provision of the service and any interest we earn on these amounts is for the benefit of SASSA. We pre-fund certain merchants for grants paid through our merchant acquiring system on our behalf before the start of the payment service at pay points. We typically reimburse merchants that are not pre-funded within 48 hours after they distribute the grants to the social welfare beneficiaries.

We currently believe that our cash and available credit facilities are sufficient to meet our business requirements for at least the next four quarters, including working capital requirements, capital expenditures and debt service obligations.

Cash flows from operating activities

Three months ended December 31, 2010

Net cash utilized in operating activities for the second quarter of fiscal 2011 was \$8.1 million (ZAR 55.9 million) compared to cash provided by operating activities of \$13.8 million (ZAR 103.6 million) for the second quarter of fiscal 2010. The movement in cash was primarily due to the payment of STC described below and the SASSA price and volume reductions which were effective July 1, 2010.

During the second quarter of fiscal 2011 we made our first provisional tax payment of \$16.6 million (ZAR 113.7 million) related to our 2011 tax year in South Africa. We made a fourth provisional tax payment of \$0.5 million (ZAR 3.7 million) related to our 2010 tax year in Korea. In addition, we paid STC of \$13.6 million (ZAR 95 million) related to intercompany dividends paid from South Africa to the United States.

During the second quarter of fiscal 2010 we made our first provisional tax payment of \$15.8 million (ZAR 118.8 million) related to our 2010 tax year in South Africa. See the table below for a summary of all taxes paid (refunded).

Taxes paid during the second quarter of fiscal 2011 and 2010 were as follows:

| | Three months ended December 31, | | | |
|---------------------------------------------|----------------------------------------|---------------|----------------|----------------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | ZAR | ZAR |
| | 000 | 000 | 000 | 000 |
| First provisional payments | 16,565 | 15,809 | 113,708 | 118,788 |
| Third provisional payments | 335 | 239 | 2,296 | 1,789 |
| Taxation refunds received | - | (3) | - | (13) |
| Secondary taxation on Companies | 13,592 | - | 95,000 | 0 |
| Foreign taxes - fourth provisional payments | 531 | - | 3,713 | - |
| Total tax paid | 31,023 | 16,045 | 214,717 | 120,564 |

We expect to pay STC of \$1.2 million, translated at exchange rates applicable as of December 31, 2010, related to intercompany dividends paid from South Africa to the United States during the third quarter of fiscal 2011.

Six months ended December 31, 2010

Net cash provided by operating activities for the first half of fiscal 2011 was \$22.1 million (ZAR 157.8 million) compared to \$50.7 million (ZAR 389.3 million) for the first half of fiscal 2010. Our net cash from operating activities decreased primarily due to the SASSA price and volume reductions which were effective July 1, 2010.

During the first half of fiscal 2011 we made an additional second provisional tax payment of \$1.8 million (ZAR 12.7 million) related to our 2010 tax year in South Africa. In addition we paid our first provisional tax payment of \$16.6 million (ZAR 113.7 million) related to our 2011 tax year in South Africa. We made a fourth provisional tax payment of \$0.5 million (ZAR 3.7 million) related to our 2010 tax year in Korea. Finally, we paid Secondary Tax on Companies, or STC, of \$13.6 million (ZAR 95 million) related to intercompany dividends paid from South Africa to the United States.

During the first half of fiscal 2010 we made an additional second provisional tax payment of \$3.9 million (ZAR 29.6 million) related to our 2009 tax year in South Africa. In addition, we made a first provisional payment of \$15.8 million (ZAR 118.8 million) related to our 2010 tax year in South Africa. See the table below for a summary of all taxes paid (refunded).

Taxes paid during the first half of fiscal 2011 and 2010 were as follows:

| | Six months ended December 31, | | | |
|---------------------------------------------|--------------------------------------|---------------|----------------|----------------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | ZAR | ZAR |
| | 000 | 000 | 000 | 000 |
| First provisional payments | 16,565 | 15,809 | 113,708 | 118,788 |
| Third provisional payments | 335 | 239 | 2,296 | 1,789 |
| Taxation paid related to prior years | 1,774 | 3,929 | 12,716 | 29,611 |
| Taxation refund received | (172) | (241) | (1,302) | (1,913) |
| Secondary taxation on Companies | 13,592 | - | 95,000 | - |
| Foreign taxes - fourth provisional payments | 531 | - | 3,713 | - |
| Total tax paid | 32,625 | 19,736 | 226,131 | 148,275 |

Cash flows from investing activities

Three months ended December 31, 2010

During the second quarter of fiscal 2011, we paid approximately \$230.2 million (ZAR 1.6 billion), net of cash received, for 98.73% of KSNET.

Cash used in investing activities for the second quarter of fiscal 2011 includes capital expenditure of \$4.0 million (ZAR 27.8 million), primarily for the acquisition of payment processing terminals in Korea, kiosks to service our EasyPay Kiosk pilot project, the acquisition of POS devices to service our merchant acquiring system and the replacement of motor vehicles.

We received principal loan repayments from SmartSwitch Namibia of \$0.1 million during the second quarter of fiscal 2011.

Cash used in investing activities for the second quarter of fiscal 2010 includes capital expenditure of \$0.7 million (ZAR 5.2 million), primarily for the acquisition of POS devices to service our merchant acquiring system, improvements to leasehold property and the acquisition of computer equipment.

Six months ended December 31, 2010

During the first half of fiscal 2011, we paid approximately \$230.2 million (ZAR 1.6 billion), net of cash received, for 98.73% of KSNET.

Cash used in investing activities for the first half of fiscal 2011 includes capital expenditure of \$4.8 million (ZAR 34.1 million), primarily for the acquisition of payment processing terminals in Korea, kiosks to service our EasyPay Kiosk pilot project, the acquisition of POS devices to service our merchant acquiring system, the replacement of computer and electronic hardware and the replacement of motor vehicles.

SmartSwitch Namibia commenced repayment of loans provided by its shareholders during the first half of fiscal 2010 and cash flows from investing activities for the first half of fiscal 2011 includes principal repayments of \$0.4 million. In July 2010, we provided additional loan funding to VTU Colombia of approximately \$0.4 million.

Cash used in investing activities for the first half of fiscal 2010 includes capital expenditure of \$1.3 million (ZAR 10.2 million), primarily for the acquisition of POS devices to service our merchant acquiring system, improvements to leasehold property and the acquisition of computer equipment.

Cash flows from financing activities

Three months ended December 31, 2010

During the second quarter of fiscal 2011, we obtained loans under the Facilities Agreement to fund a portion of the KSNET purchase price. In addition, we paid approximately \$0.6 million for the remaining 19.9% of Net1 UTA during the second quarter of fiscal 2011.

There were no significant cash flows from financing activities during the second quarter of fiscal 2010.

Six months ended December 31, 2010

During the first half of fiscal 2011 we obtained loans under the Facilities Agreement to fund a portion of the KSNET purchase price. In addition, we paid approximately \$0.6 million for the remaining 19.9% of Net1 UTA during the first half of fiscal 2011.

During the first half of fiscal 2010 we repurchased, using our ZAR reserves, 9,221,526 shares of our common stock from Brait S.A. and its investment entities affiliates for \$13.50 (ZAR 105.98) per share, for an aggregate repurchase price of \$124.5 million (ZAR 977.3 million). In addition, we incurred costs of approximately \$0.5 million (ZAR 3.9 million) related to the repurchase of these shares. During the second quarter of fiscal 2010, we also paid \$1.3 million on account of shares we repurchased on June 30, 2009, under our share buy-back program. We also received \$0.7 (ZAR 5.5 million) from employees exercising stock options and repaying loans.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Capital Expenditures

We discuss our capital expenditures during the second quarter of fiscal 2011 under Liquidity and capital resources Cash flows from investing activities. All of our capital expenditures for the past three fiscal years have been funded through internally generated funds. We had outstanding capital commitments of \$0.1 million as of December 31, 2010. We anticipate that capital spending for the third quarter of fiscal 2011 will relate primarily to on-going replacement of equipment used to administer and distribute social welfare grants, provide a switching service through EasyPay and expand our operations in Korea. We expect to fund these expenditures through internally generated funds.

Contingent Liabilities, Commitments and Contractual Obligations

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

Table 24 **Payments due by Period, as at December 31, 2010(in \$ 000s)**

| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
|------------------------------|-------------------|---------------------------------|----------------------|----------------------|----------------------------------|
| Interest-bearing liabilities | | | | | |
| (A) | \$ 119,579 | \$ 7,166 | \$ 28,664 | \$ 79,270 | \$ 4,479 |
| Operating lease obligations | 6,604 | 3,379 | 2,713 | 512 | - |
| Purchase obligations | 2,000 | 2,000 | - | - | - |
| Capital commitments | 37 | 37 | - | - | - |
| Total | \$ 128,220 | \$ 12,582 | \$ 31,377 | \$ 79,782 | \$ 4,479 |

(A) - includes \$115.1 million of loans under the Facilities Agreement discussed under Liquidity and Capital Resources

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We seek to reduce our exposure to currencies other than the South African rand, or ZAR, through a policy of matching, to the extent possible, assets and liabilities denominated in those currencies. In addition, we use financial instruments to economically hedge our exposure to exchange rate and interest rate fluctuations arising from our operations. We are also exposed to equity price and liquidity risks as well as credit risks.

Currency Exchange Risk

We are subject to currency exchange risk because we purchase inventories that we are required to settle in other currencies, primarily the euro and US dollar. We have used forward contracts to limit our exposure in these transactions to fluctuations in exchange rates between the ZAR, on the one hand, and the US dollar and the euro, on the other hand. As of December 31, 2010 and 2009, our outstanding foreign exchange contracts were as follows:

As of December 31, 2010

None.

As of December 31, 2009

| Notional amount | | Strike price | | Fair market value price | | Maturity |
|-----------------|-----------|--------------|---------|-------------------------|---------|------------------|
| USD | 1,000,000 | EUR | 1.4391 | EUR | 1.4318 | January 4, 2010 |
| EUR | 719,400 | ZAR | 10.9306 | ZAR | 10.7468 | January 29, 2010 |

Translation Risk

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

Interest Rate Risk

As a result of our normal borrowing and leasing activities, our operating results are exposed to fluctuations in interest rates, which we manage primarily through our regular financing activities. As discussed under Item 2 Liquidity and Capital Resources we recently negotiated and utilized a five-year senior secured loan facility to acquire KSNET which currently bears interest at the Korean CD rate plus 4.10%. As interest rates, and specifically the Korean CD rate, are outside our control, there can be no assurance that future increases in interest rates, specifically the Korean CD rate, will not adversely affect our results of operations and financial condition.

The following table illustrates the effect on our annual expected interest charge, translated at exchange rates applicable as of December 31, 2010, as a result of a change in the Korean CD rate. The effects of a hypothetical 1% increase and a 1% decrease in the Korean CD rate as of December 31, 2010, is shown. The selected 1% hypothetical change does not reflect what could be considered the best or worst case scenarios.

| Table 25 | | As of December 31, 2010 |
|----------|--|---------------------------|
| | | Estimated annual expected |
| | | Annual |

| | expected | Hypothetical | interest |
|----------------------------------|-----------------|---------------------|---------------------|
| | interest | change in | charge |
| | charge | Korean CD | after change |
| | (\$ 000) | rate | in |
| | | | Korean CD |
| | | | rate |
| | | | (\$ 000) |
| Interest on Facilities Agreement | 7,781 | 1% | 8,932 |
| | | (1)% | 7,781 |

We generally maintain limited investment in cash equivalents and have occasionally invested in marketable securities. The interest earned on our bank balances and short term cash investments is dependent on the prevailing interest rates in the jurisdictions where our cash reserves are invested.

Credit Risk

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

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

Equity Price and Liquidity Risk

Equity price risk relates to the risk of loss that we would incur as a result of the volatility in the exchange-traded price of equity securities that we hold and the risk that we may not be able to liquidate these securities. We have invested in approximately 22% of the issued share capital of Finbond Group Limited, which are exchange-traded equity securities. The fair value of these securities as of December 31, 2010, represented approximately 1% of our total assets, including these securities. We expect to hold these securities for an extended period of time and we are not concerned with short-term equity price volatility with respect to these securities provided that the underlying business, economic and management characteristics of the company remain sound.

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

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

The following table summarizes our exchange traded equity securities with equity price risk as of December 31, 2010. The effects of a hypothetical 10% increase and a 10% decrease in market prices as of December 31, 2010 is also shown. The selected 10% hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due both to the nature of equity markets and the aforementioned liquidity risk.

As of December 31, 2010

Table 26

| | Fair value (\$ 000) | Hypothetical price change | Estimated fair value after hypothetical change in price (\$ 000) | Hypothetical Percentage Increase (Decrease) in Shareholders Equity |
|-----------------------------------|---------------------------|------------------------------|------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| Exchange-traded equity securities | 8,404 | 10% | 9,244 | 0.25% |
| | | (10)% | 7,564 | (0.25)% |

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of December 31, 2010. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, the chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2010.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting during the fiscal quarter ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information**Item 1A. Risk Factors**

See Item 1A RISK FACTORS in Part I of our Annual Report on Form 10-K for the fiscal year ended June 30, 2010 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, for a discussion of our risk factors.

Item 6. Exhibits

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

| Exhibit Number | Description |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.51 | Senior Facilities Agreement dated October 29, 2010, between Net 1 Applied Technologies Korea, as borrower, Hana Daetoo Securities Co., Ltd., as mandated lead arranger, Shinhan Bank and Woori Bank, as co-arrangers, the financial institutions listed therein as original lenders and Hana Bank, as agent and security agent (incorporated by reference to Exhibit 10.51 to our Form 8-K filed on November 3, 2010) |
| <u>31.1*</u> | <u>Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act</u> |
| <u>31.2*</u> | <u>Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act</u> |
| <u>32*</u> | <u>Certification pursuant to 18 USC Section 1350</u> |
| | |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase |

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 3, 2011.

NET 1 UEPS TECHNOLOGIES, INC.

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

Dr. Serge C.P. Belamant

Chief Executive Officer, Chairman of the Board and Director

By: /s/ Herman Gideon Kotzé

Herman Gideon Kotzé

Chief Financial Officer, Treasurer and Secretary, Director