

Net1 Refutes Factually Incorrect Report by AIDC, commissioned by Black Sash and Centre for Applied Legal Studies

Johannesburg, 20 November 2017 Net1 has been made aware of the report titled “Critical Review of the Financial Statement Submitted by Cash Paymaster Services to the Constitutional Court on 30 May 2017” (“the report”), prepared by the Alternative Information and Development Centre (“AIDC”) and commissioned by The Black Sash Trust (“BST”) and the Centre for Applied Legal Studies (“CALC”).

From the outset, Net1 wishes to express its disappointment that no one from AIDC, BST and CALS approached Net1 to provide input or review the report. Net1 would willingly have provided the required information to address the many incorrect and negligent assumptions, inaccuracies and errors contained in the report, written by Dick Forslund, senior economist at AIDC. In the interest of transparency and objective reporting, Net1 calls on AIDC, BLT and CALS to withdraw the report in view of the egregious errors contained in the report, a few are described below.

Every aspect of the report, including the timing of its release on a Sunday, appears to be targeted at deliberately discrediting CPS’s filing with the Constitutional Court (“Court”) through false inferences and without due process.

It is not practical for Net1 to deal with all the inaccuracies in a media statement. In the joint press release issued by BST, CALS and AIDC, four major “findings” are raised, which we wish to address as follows:

1. *“The statement appears to underestimate the pre-tax profits of CPS from the unlawful contract by between R214.2 million and R614.4 million. The figures in the statement do not match the revenue from social grant distribution in South Africa outlined in Annual Reports from Net1 (its parent company) to its shareholders.”*

Forslund has incorrectly calculated “CPS revenue” from Net1’s annual reports for the years ended 30 June 2012 to 2016, plus 75% of the year ended June 2017. He has therefore attempted to derive the revenue for 69 months, as opposed to the 60-month contract period. It is blatantly incorrect to include the full 2012 period as CPS commenced with its contract on 1 April 2012 (i.e. only three months of the 2012 fiscal year.) This error alone already explains the “difference” identified by Forslund. In addition, it is incorrect to use an average exchange rate for a full year to derive a Rand result, as we convert our results on a monthly basis. In a volatile exchange rate environment, using an average exchange rate will yield an inaccurate result. The revenue number reported to the Constitutional Court agrees to the schedule of all invoices submitted to SASSA during the 60-month period.

“The figures also include a BEE transaction for R117.1 million and cash bonuses for senior managers related to the contract of R41.8 million that should not be defined as CPS’ expenses.”

The BEE transaction expense of R117.1 million (US\$11.3 million) was accounted for in accordance with IFRS2 and included in the audited CPS statutory financial statements as required by the standard. The BEE transaction expense of US\$14.2 million, incurred prior to the commencement of the 2012 SASSA contract, is not included in the statement submitted to the Court.

The R41.8 million in bonuses referenced in our 2012 annual report were not included in the statement submitted to the Constitutional Court – even though an argument could be made that these expenses should form part of CPS’s expenses.

2. *“The statement does not indicate whether the figures outlined are for Cash Paymaster Services (Pty) Ltd alone or include the profits of its subsidiaries which are also involved in grant distribution and security. This ought to be clarified by CPS and its auditors at KPMG.”*

The statement filed with the Constitutional Court clearly indicates that Cash Paymaster Services (Pty) Ltd alone is the reporting entity, as only this entity is responsible for the distribution of grants. The CPS subsidiaries identified in the AIDC report have all been dormant, at least since 2012, and were not in any way involved in the execution of the SASSA contract. A simple enquiry would have clarified this matter.

3. *“Net1 clearly outlines in its Annual Reports that its proximity to social grant beneficiaries is used by its other South African subsidiaries for targeted advertising. It seems clear that these affiliates of CPS have also profited from its unlawful contract.”*

The contract between CPS and SASSA was declared invalid, not unlawful. Net1 has never disputed that other subsidiaries in the group provide financial inclusion services to grant recipients. The extent of the profitability of other Net1 subsidiaries is publically available as part of our quarterly and annual financial statement filings. As stated in the independent report published in April 2017 and available on our website, other Net1 subsidiaries do not have access to, or use, SASSA data.

4. *“The statement does not include any financial information to show when CPS started making a profit in terms of the unlawful contract – which the Court’s judgment indicated it ought to disclose.”*

CPS filed its statement in accordance with the following order issued by the Court: “...an audited statement of the expenses incurred, the income received and the net profit earned under the completed contract.” Please also note paragraph 59 of the Court’s judgement dated April 17, 2014:

“[59] When Cash Paymaster concluded the contract for the rendering of public services, it too became accountable to the people of South Africa in relation to the public power it acquired and the public function it performs. This does not mean that its entire commercial operation suddenly becomes open to public scrutiny. But the commercial part dependent on, or derived from, the performance of public functions is subject to public scrutiny, both in its operational and financial aspects.”
(emphasis added)

Ends

About Net1 (www.net1.com)

Net1 is a leading provider of alternative payment systems that leverage its Universal Electronic Payment System (“UEPS”) or utilize its proprietary mobile technologies. The Company operates market-leading payment processors in South Africa and the Republic of Korea. Through Transact24, Net1 offers debit, credit and prepaid processing and issuing services for Visa, MasterCard and ChinaUnionPay in China and other territories across Asia-Pacific, Europe and Africa, and the United States. Through Masterpayment, Net1 provides payment processing and enables working capital financing in Europe.

UEPS permits the Company to facilitate biometrically secure, real-time electronic transaction processing to unbanked and under-banked populations of developing economies around the world in an online or offline environment. Net1’s UEPS/EMV solution is interoperable with global EMV standards that seamlessly enable access to all the UEPS functionality in a traditional EMV environment. In addition to payments, UEPS can be used for banking, healthcare management, payroll, remittances, voting and identification.

Net1’s mobile technologies include its proprietary mobile payments solution - MVC, which offers secure mobile-based payments, as well as mobile banking and prepaid value-added services in developed and emerging countries.

Net1 has a primary listing on the NASDAQ and a secondary listing on the Johannesburg Stock Exchange.

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