9. The document links the retainer to be payable "in lieu of the restraint and confidentiality undertakings".

10. We submit further that this contract does not address "multiple BEE partners", maintaining an active involvement in the day-to-day operations of managing the SASSA tender, as specifically referred to in the initial submission.

11. In summary, per out assessment, the majority of services to be rendered in terms of the BEE retainer and BEE service fee are more for the general benefit of the Net1 group and cannot reasonably be specifically linked to the CPS contract with SASSA. Further, the services provided for and specified in the BEE agreement are essentially incompatible with the tender submission presented to SASSA for the contract under review.

Ownership of BEE Entities

1. To establish to whom these BEE contracts were awarded, we sought to undertake some background testing into the named individuals.

2. In terms of our background checking, we established that Mazwi Yako is the only director of Born Free Investments 272 (Pty) Ltd.

3. Born Free Investments 272 (Pty) Ltd has the registration number 200403209607. Yako was appointed on 4 November 2004.

Surname and Initials	ID Number	Date of Birth	Position	Current Status
YAKO, M	5908115159088	1959/08/11	BUSINESSMAN	ACTIVE

First Names:	MAZWI	Previous Surname:	-
SA Resident:	-	Country:	ZA
Interest Size:	-	Appointment Date:	2004/11/04
Members Contribution:	-	CM29 Date:	-
Contribution Type:	-	CK12 Date:	-
Residential Address:	144 GOODWOOD STREET, KYALAMI ESTATES, 1684		
Business Address:	144 GOODWOOD STREET, KYALAMI ESTATES, 1684		
Postal Address:	P O BOX 30831, KYALAMI, 1684		

4. The postal address only is consistent with the Service Agreement.

5. GLOBAL RETRIEVER PRODUCT SOURCING CC, with registration number 2010/135969/23, was registered in 2010, but the original members resigned. Julius Mpengu became a 100% member on 24 February 2014, i.e. several months after the agreement was signed.

6. We attach a snapshot extract from the Experian report.

Surname and Initials	ID Number	Date of Birth	Occupation	Appointed	Status	Status Date
MPENGU, MJ	7101065803081	1971/01/06	-	2014/02/24	ACTIVE	-

Principal Details

First Names:	MPUMELELO JULIUS	Previous Surname:	-
SA Resident:	-	Country:	-
Type:	MEMBER	Designation:	-
Interest Size:	100	CM29 Date:	-
Members Contribution:	100	CK12 Date:	-
Contribution Type:	-	Indicator:	-
Share Percentage:	-		

Confirmation

CIPC Confirmed:	Y	Date Confirmed:	2019/06/20
Experian Confirmed:	-	Confirmed Date:	-

Contact Details

Residential Address:	104 SIDIMA CRESCENT, KHAYELITSHA, CAPE TOWN, 7784
Business Address:	-
Postal Address:	104 SIDIMA CRESCENT, KHAYELITSHA, CAPE TOWN, 7784

Consumer Details

Id Verified:	Y	ID Warning:	N
Delphi Score:	687	Delphi Indicator:	25
Judgements:	N	Total Judgements:	-
NCR Debt Counsel:	-	Total Notices:	-

Other Business Interests

Name	Kim Number	Reg. Number	Judgements	Business Status	Principal Status
LIKHONA ITEMBA TRADING (PTY) LTD	4509265	201212595007	N	Active	ACTIVE
MARBLE RACE PROPERTY 73 (PTY) LTD	3356018	200800658107	N	AR Deregistration Final	ACTIVE
MASIQHAME TRADING 965 C C	2967794	200620559523	N	AR Deregistration Final	ACTIVE

Previous Business Interests

Name	KIM Number	Reg. Number	Judgements	Business Status	Principal Status
GLOBAL RETRIEVER PRODUCT SOURCING (PTY) LTD	5273700	201514068107	N	Active	RESIGNED

7. The close corporation converted to private company. The new entity has the same name, i.e. Global Retriever Product Sourcing (Pty) Limited, now with registration number 2015/140681/07.

8. According to its director information, Mpengu resigned on 23 April 2015, to be replaced by Raymond Lunga Ncwana (ID 7612085735087) and Brian Khomotso Mosehla, (ID 7206155523083), both becoming directors on the same day.

9. A snapshot of an extract of our Experian report is attached.

NCWANA, R	7612085735087	1976/12/08	-	2015/04/23	ACTIVE	-

Principal Details

First Names:	RAYMOND LUNGA	Previous Surname:	-
SA Resident:	YES	Country:	ZA
Type:	DIRECTOR	Designation:	-

Surname and Initials	ID Number	Date of Birth	Occupation	Appointed	Status
MOSEHLA, K	7206155523083	1972/06/15	-	2015/04/23	ACTIVE

Principal Details

First Names:	KHOMOTSO BRIAN	Previous Surname:	-
SA Resident:	YES	Country:	ZA
Type:	DIRECTOR	Designation:	-
Interest Size:	-	CM29 Date:	-

10. Both individuals have extensive number of other business interests.

11. Brian Mosehla is director for 40 other companies, apart from his historic association with 21 others. Two of the active companies are Mosomo Investment Holdings (Pty) Ltd (registration number 2009/012790/07) and Business Venture Investments No 1567 (RF) (Pty) Ltd, with registration number 2011/115501/07. These two entities are directly relevant to the share transactions, discussed later.

N.P

12. We attach a list of the active entities.

GLOBAL RETRIEVER PRODUCT SOURCING (PTY) LTD	2015/140681/07
BLUE FALCON 101 TRADING (PTY) LTD	2010/016271/07
BRILUN CAPITAL (PTY) LTD	2013/193142/07
BRILUN CONSULTING (PTY) LTD	2012/001972/07
BUSINESS VENTURE INVESTMENTS NO 1567 (RF) (PTY) LTD	2011/115501/07
BUSINESS VENTURE INVESTMENTS NO 1774 (PTY) LTD	2013/169549/07
BUSINESS VENTURE INVESTMENTS NO 1810 (PTY) LTD	2014/034198/07
CLIDET NO 1031 (PTY) LTD	2009/022224/07
DARTINGO TRADING 110 (PTY) LTD	2007/001886/07
FIREFLY INVESTMENTS 163 (PTY) LTD	2008/017157/07
K2017470362 (SOUTH AFRICA) (PTY) LTD	2017/470362/07
KGABO MO KGATLA TRUST	009117/2007
MALUNDI COAL (PTY) LTD	2017/196774/07
MALUNDI INVESTMENT HOLDINGS (PTY) LTD	2007/018264/07
MALUNDI RESOURCES (RF) (PTY) LTD	2014/191514/07
MARINE AND MINERAL GROUP (PTY) LTD	2002/012241/07
MC MINING LIMITED INCORPORATED IN AUSTRALIA	2012/051325/10
METROFILE MOSOMO (PTY) LTD	2015/340550/07
MONEY BOX INVESTMENTS 134 (PTY) LTD	2007/025930/07
MOSOMO CAPITAL (PTY) LTD	2009/022107/07
MOSOMO INVESTMENT HOLDINGS (PTY) LTD	2009/012790/07
MOSOMO PROPERTIES (PTY) LTD	2012/062989/07
MOSOMO RESOURCES (PTY) LTD	2012/066027/07
MOSOMO STRATEGIC INVESTMENTS (PTY) LTD	2011/129942/07
MOSOMO TECHNOLOGIES (PTY) LTD	2012/036058/07
MVELAPHANDA MARINE (PTY) LTD	2002/031388/07
NOLO INVESTMENTS (PTY) LTD	2010/014836/07
NORTHAM PLATINUM LTD	1977/003282/06
QUANTUM PEOPLE SOLUTIONS (PTY) LTD	2012/050902/07
RANKUNUTUANA CAPITAL (PTY) LTD	2003/014105/07
SHANIKE INVESTMENTS NO 194 (PTY) LTD	2012/017288/07
SHANIKE INVESTMENTS NO 310 (PTY) LTD	2015/198151/07
SHANIKE INVESTMENTS NO 318 (PTY) LTD	2015/254078/07
SHANIKE INVESTMENTS NO 342 (PTY) LTD	2016/075691/07
SILICON SKY DATA SERVICES (PTY) LTD	2012/026691/07
SMARTNOSE WINES (PTY) LTD	2005/034565/07
SOUTH AFRICAN MINING DEVELOPMENT ASSOCIATION	2002/022077/08
THENGA-TENGISA TRADING (PTY) LTD	2004/034628/07
UNITRANS LTD	1967/003403/06
VYONA (PTY) LTD	2004/016743/07
ZAMBEZI PLATINUM (RF) LTD	2014/106927/06

N.P

13. In addition, we include a list of his historic business interests.

BOJANALA BUS (PTY) LTD	2002/026254/07
CLIDET NO 556 (PTY) LTD	2005/001373/07
D'ARIA VINEYARDS (PTY) LTD	1998/017283/07
D'ARIA WINERY (PTY) LTD	2001/004620/07
ENGINEERING RUNOFF COMPANY (PTY) LTD - (CORPORATE)	2002/011361/07
LIFE HEALTHCARE GROUP (PTY) LTD	2003/024367/07
LIFE HEALTHCARE GROUP (PTY) LTD - BACKGROUND FILE	2003/024367/07
LIFE HEALTHCARE GROUP (PTY) LTD - LIFE OCCUPATIONAL HEALTH	2003/024367/07
LIFE HEALTHCARE GROUP HOLDINGS (PTY) LTD	2003/002733/06
MVELAPHANDA EQUITY (PTY) LTD	2000/015686/07
MVELAPHANDA EXPLORATION (PTY) LTD	1971/008673/07
MVELAPHANDA INVESTMENTS AND MINING (PTY) LTD	2000/010095/07
MVELAPHANDA PLATINUM (PTY) LTD	1999/011391/07
MVELAPHANDA RESOURCES LTD	1980/001395/07
PLATINUM MILE RESOURCES (PTY) LTD	1999/021173/07
QUADRITE INVESTMENTS (PTY) LTD	2015/062835/07
SAKHUMZI EMPOWERMENT (PTY) LTD	1997/008852/07
STRYDAN TRADING (PTY) LTD	2005/017510/07
SWISSPORT SOUTH AFRICA (PTY) LTD	1992/003624/07
TITANOFFSHORE (PTY) LTD	2003/029167/07
UNITRANS FUEL AND CHEMICAL (PTY) LTD	1999/006604/07

14. There is no obvious link within any of these companies that might demonstrate a historical involvement in the type of service comparable to this tender. Once again it is not clear why CPS might have chosen him as a strategic BEE partner.

15. Raymond Lunga Ncwana is also involved in multiple other entities, 17 active and 28 historic. One of his active ones is Business Venture Investments No 1771 (Pty) Ltd, registration number 2013/167513/07.

16. (As above, future references to Business Venture Investments No 1771 (Pty) Ltd will demonstrate the relevance of this.)

17. We attach a list of his active business interests.

BLUE MOONLIGHT PROPERTIES 124 (PTY) LTD	200402210507
BRETT SMART AGENCIES (PTY) LTD	200200415007
BUSINESS VENTURE INVESTMENTS NO 1771 (PTY) LTD	201316751307
EMERALD PANTHER INVESTMENTS 19 (PTY) LTD	200800530207
EQUITANT TRADING (PTY) LTD	200300851207
FRIEDSHELF 350 (PTY) LTD	200302142507
FRIEDSHELF 403 (PTY) LTD	200400118707
LITTLE SWIFT INVESTMENTS 147 (PTY) LTD	200401673307
M B MOUNEIMNE PARKING INVESTMENTS C C	200003780923

N.P

MATODZI ENGINEERING (PTY) LTD	200301686307
PHIKOLOSO MINING (PTY) LTD	200200763707
SIX M A B INVESTMENTS C C	199402846123
SMS MINING (PTY) LTD	200302332407
SMS MINING HOLDINGS (PTY) LTD	201748003407
SMS MINING LOGISTICS (PTY) LTD	201717534807
TAMASA TRADING 137 C C	200003409323
UMLINGO TRADE AND INVEST 19 (PTY) LTD	200503492507

18. We also include a list of Ncwana's historic business links.

BLINK LIFESTYLE TRADING (PTY) LTD	200202582507
BOSCHENDAL (PTY) LTD	200202353407
CHESTNUT HILL INVESTMENTS 167 (PTY) LTD	200401982407
CLIFTON DUNES INVESTMENTS 114 (PTY) LTD	200401804307
CROWNED CORMORANT INVESTMENTS 22 (PTY) LTD	200402580907
GLOBAL PACT TRADING 662 (PTY) LTD	200802325707
HAVTOOHAV INVESTMENTS (PTY) LTD	200402926907
IKWEZI EMPOWERMENT ENTERPRISES (PTY) LTD	200400741707
INKWENKWEZI GOLD (PTY) LTD	200400217207
ITSUSENG INVESTMENTS (PTY) LTD	200203174007
JCI FINANCIAL SOLUTIONS HOLDINGS (PTY) LTD	199702211707
KERBSIDE PARKING CAPE (PTY) LTD	200102705807
LETSENG INVESTMENT HOLDINGS SOUTH AFRICA (PTY) LTD	199802346607
LITTLE SWIFT INVESTMENTS 77 (PTY) LTD	200400419907
MAGNOLIA RIDGE PROPERTIES 156 (PTY) LTD	200401341107
MALSAN SECURITY (PTY) LTD	199901999207
MNTUNGWA HOLDINGS (PTY) LTD	200800113407
MSP GROUP (PTY) LTD	200602901907
ORLYFUNT FINANCIAL ENTERPRISES (PTY) LTD	200300418607
ORLYFUNT STRATEGIC INVESTMENTS (PTY) LTD	200403015907
PURPLE PLUM PROPERTIES 59 LTD	200201468707
QUADRITE INVESTMENTS (PTY) LTD	201506283507
RANDGOLD AND EXPLORATION COMPANY LTD	199200564206
SOUTH CAPE EMPOWERMENT NETWORK LTD	199900538006
TLOTLISA FINANCIAL SERVICES (PTY) LTD	200301003207
TLOTLISA HOLDINGS LTD	196400129606
VIKING PONY PROPERTIES 359 (PTY) LTD	200301562307
XPANSE INVESTMENTS (PTY) LTD	200301496007

19. A perceived anomaly arising from our directors' search is our observation that at the time of the signature of this document (9 December 2013), the signatory to the agreement (representing Global Retriever Product Sourcing CC, Mr Julius Mpengu) was not yet a member of that entity (which occurred in February 2014).

N.P

15. BEE Service Fee

1. The General Ledger, under account 8305 refers to BEE Service Fees. For the full period of 68 months, i.e. from the onset of the initial contract (April 2012) to the final extension date of September 2018, an aggregate of R255 200 000.00 was posted to this GL account. (This amount does not reflect the actual payment value, as it excludes the VAT. The full payment amount would therefore should be R291 192 000.00, inclusive of VAT of R35 992 000.00.)

2. The first entry occurs on December 2013, which is in the 21st month of the contract. Very relevantly, there is no cost of any kind assigned to any BEE transaction before this period, which undermines the content of CPS' BEE submission in its tender with SASSA.

3. From that date, regular amounts of R4 400 000 are posted. These are made up of payments of R3 300 000 per months for GLOBAL RETRIEVER PRODUCT SOURCING CC and R1 100 000 for BORN FREE INVESTMENTS 272 (PTY) LTD.

4. Whist some months reflect a reduced value, typically subsequent months may reflect a higher charge, alternatively only one of the two parties were paid in a months and the outstanding transaction is processed in the following month.

5. In total, Global Retriever is paid R191 400 000, representing 58 transactions of R3.3m and Born Free Investments is paid R63 800 000.00 for the equivalent period.

6. According to the detailed ledger, the first month and well as the last six months are journal postings, with the remainder referring to Accounts Payable, inferring actual payments.

7. We have received a journal pack with attachments referring to the processing of these service fees.

8. In the first month (December 2013) account 8305-20-3805 (BEE service fees) was debited for R3.3 million and R1.1 million, respectively and account 8320-20-3805 (other professional fees) are credited for the corresponding values.

9. Another document is also attached, probably referring to the initial transaction. This is an "accounts payable" transaction implying that the original entry was posted to this general ledger account (8320-20-3805, i.e. professional fees - other) on receipt of the invoice.

10. Invoices are attached.

Global Retriever Product Sourcing

11. The first invoice is from Global Retriever Product Sourcing CC.

12. This invoice is dated 25 December 2013 and is issued by Global Retriever Products Sourcing CC of 22-7th Avenue, Parktown North, Johannesburg, 2193. The company VAT registration is reflected as 414026138. The company registration number is recorded as 201013596923.

13. The narrative refers to "monthly service fees – December 2013" at a rate of R3 762 000.00". The subtotal is restated as R3 300 000.00 to which VAT of R462 000 is added to culminate in a total charge of R3 762 000.

14. The invoice number is reflected as "2".

15. The bank account is reflected as Standard Bank, Branch code 00435, Account Name Wealth Frontiers, with account number 006951198.

16. The handwritten notation on the invoice refers to "as per service agreement clause 4.2.2. Pay on 31.12.13. Alloc 8305 BEE service fees". It bears the signature of van Straaten.

17. The reflected VAT number (414026138) is not valid, as it is only 9 digits, requiring 1 more.

18. We undertook a VAT vendor search.

19. The Global Retriever VAT number is 4140261381 (i.e. with the addition of "1" after the stated number). According to the vendor search it is registered in Cape Town. We note, however, that the VAT vendor search document refers to only Global Retriever, as opposed to Global Retriever Product Sourcing CC.

20. There are monthly recurring invoices, essentially identical. The numbers effectively escalate by 1 per month, suggesting that these are the only invoices issued by Global Retriever.

21. We examined a selection of proof of payment (POP) schedules relating to these transactions. We examined proof of payments for several months, as summarised on the table below.

PMT date	beneficiary	account	beneficiary ref	amount
31 Dec 13	"Global Retriever Product Sourcing cc (wealth fron)"	6951198	CPS 2	R3 762 000.00
24 Apr 14	"Global Retriever Product Sourc"	332469905	CPS 7	R3 762 000.00
24 Nov 14	"Global Retriever Product Sourc"	332469905	CPS INV 14	R3 762 000.00
23 Mar 15	"Global Retriever Product Sourc"	332469905	CPS 19	R3 762 000.00
09 Sep 15	"Global Retriever Product Sourc"	332469905	24	R3 762 000.00
20 Jan 16	"Global Retriever Product Sourc"	332469905	CPS INV 29	R3 762 000.00
28 Jun 16	"Global Retriever Product Sourc"	332469905	CPS 34	R3 762 000.00
02 May 17	"Global Retriever Product Sourc"	332469905	CPS INV 44	R3 762 000.00
03 Aug 17	"Global Retriever Product Sourc"	332469905	CPS 47	R3 762 000.00
06 Apr 18	"Global Retriever Product Sourc"	332469905	CPS 54 55	R7 524 000.00

N-P

22. We highlight that the account into which the payments are effected had changed by April 2014 (from SBSA account 6951198 to 332469905) and remains consistent thereafter.

Born Free

23. The next invoice originates from Born Free Investments 272 (Pty) Ltd.

24. This invoice is dated 24 December 2013. It is addressed to Cash Paymaster Services, and refers to invoice number IN4932.The VAT number is reflected as 4850217250.

25. As narrative the invoices refers to "Service fees December 2013" at R1 100 000.00 plus VAT of R154 000 to arrive at a value of R1 254 000.

26. A hand written narrative consistent with the previous transaction is appended.

27. The invoice refers to the bank account as FNB, Born Free Investments 272 (Pty) Ltd, account number 62077889594, branch 204809 Broadacres.

28. We understand that the invoices for the remaining period are identical, *mutatis mutandis*.

29. As before, we examined a selection of proof of payment (POP) schedules relating to these transactions. We examined proof of payments for several months, as summarised on the table below.

31 Dec 13	"Born Free Investments"	62077889594	CPS INV4932	R1 254 000.00
30 Jan 14	"Born Free Investments"	62077889594	CPS INV4935	R1 254 000.00
27 Mar 14	"Born Free Investments"	62077889594	CPS INV4941	R1 254 000.00
29 Apr 15	"Born Free Investments"	62077889594	CPS INV4977	R1 254 000.00
29 Sep 15	"Born Free Investments"	62077889594	CPS INV4986	R1 254 000.00
31 May 16	"Born Free Investments"	62077889594	CPS INV4994	R1 254 000.00
22 Aug 16	"Born Free Investments"	62077889594	CPS INV5001	R1 254 000.00
27 Feb 17	"Born Free Investments"	62077889594	CPS INV5009	R1 254 000.00
28 Jul 17	"Born Free Investments"	62077889594	CPS INV5016	R1 254 000.00
02 Feb 18	"Born Free Investments"	62077889594	CPS INV5024	R1 254 000.00
27 Mar 18	"Born Free Investments"	62077889594	CPS INV5026	R1 254 000.00

30. The account remained consistent for the period under review.

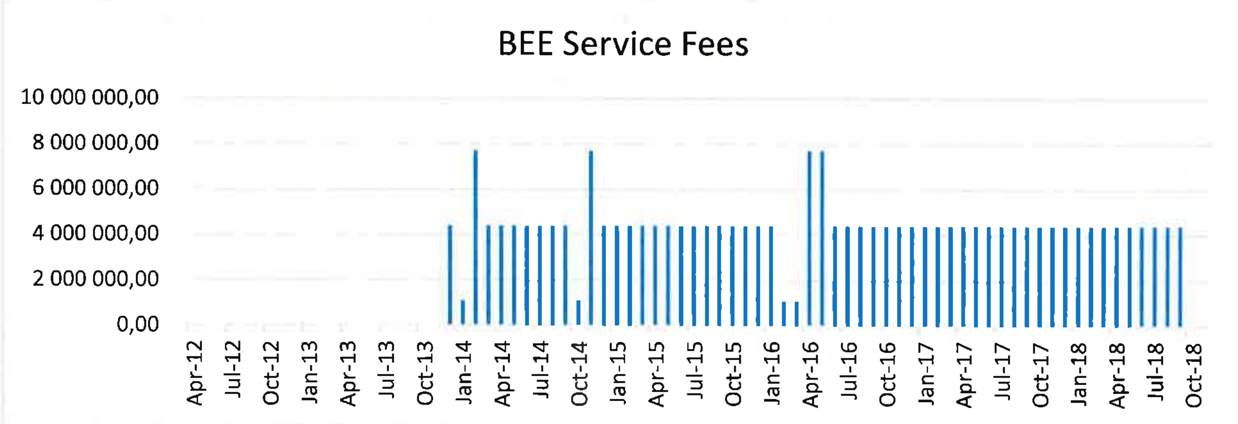
31. The summary table and accompanying graphic refer.

Contract period	BEE service fees		
1	Apr 12	0.00	
2	May 12	0.00	
3	Jun 12	0.00	
4	Jul 12	0.00	
5	Aug 12	0.00	
6	Sep 12	0.00	
7	Oct 12	0.00	
8	Nov 12	0.00	
9	Dec 12	0.00	
10	Jan 13	0.00	
11	Feb 13	0.00	
12	Mar 13	0.00	
13	Apr 13	0.00	
14	May 13	0.00	
15	Jun 13	0.00	
16	Jul 13	0.00	
17	Aug 13	0.00	
18	Sep 13	0.00	
19	Oct 13	0.00	
20	Nov 13	0.00	
21	Dec 13	4 400 000.00	
22	Jan 14	1 100 000.00	
23	Feb 14	7 700 000.00	
24	Mar 14	4 400 000.00	
25	Apr 14	4 400 000.00	
26	May 14	4 400 000.00	
27	Jun 14	4 400 000.00	
28	Jul 14	4 400 000.00	
29	Aug 14	4 400 000.00	
30	Sep 14	4 400 000.00	
31	Oct 14	1 100 000.00	
32	Nov 14	7 700 000.00	
33	Dec 14	4 400 000.00	
34	Jan 15	4 400 000.00	
35	Feb 15	4 400 000.00	Ownership of Global Retriever changed
36	Mar 15	4 400 000.00	
37	Apr 15	4 400 000.00	
38	May 15	4 400 000.00	
39	Jun 15	4 400 000.00	
40	Jul 15	4 400 000.00	
41	Aug 15	4 400 000.00	
42	Sep 15	4 400 000.00	

43	Oct 15	4 400 000.00
44	Nov 15	4 400 000.00
45	Dec 15	4 400 000.00
46	Jan 16	4 400 000.00
47	Feb 16	1 100 000.00
48	Mar 16	1 100 000.00
49	Apr 16	7 700 000.00
50	May 16	7 700 000.00
51	Jun 16	4 400 000.00
52	Jul 16	4 400 000.00
53	Aug 16	4 400 000.00
54	Sep 16	4 400 000.00
55	Oct 16	4 400 000.00
56	Nov 16	4 400 000.00
57	Dec 16	4 400 000.00
58	Jan 17	4 400 000.00
59	Feb 17	4 400 000.00
60	Mar 17	4 400 000.00
61	Apr 17	4 400 000.00
62	May 17	4 400 000.00
63	Jun 17	4 400 000.00
64	Jul 17	4 400 000.00
65	Aug 17	4 400 000.00
66	Sep 17	4 400 000.00
67	Oct 17	4 400 000.00
68	Nov 17	4 400 000.00
69	Dec 17	4 400 000.00
70	Jan 18	4 400 000.00
71	Feb 18	4 400 000.00
72	Mar 18	4 400 000.00
73	Apr 18	4 400 000.00
74	May 18	4 400 000.00
75	Jun 18	4 400 000.00
76	Jul 18	4 400 000.00
77	Aug 18	4 400 000.00
78	Sep 18	4 400 000.00
		255 200 000.00

N.P.

32. Presented graphically, the service fees were accounted for as follows:



Disputed Expense: BEE Service Fee

33. There is no indication evident from the invoices or any other operational documentation availed to us that any of these BEE partners actually rendered any services linked to the contract with SASSA. Accordingly, we consider these expenses not to be in line with any operational or functional BEE relationship, and in specific conflict with the company's tender submission.

34. At this time we acknowledge the historical BEE relationship with the owner of Born Free, who had a long standing relationship with the group and CPS.

35. We have no corresponding assurance about the involvement of Global Retriever Product Sourcing, and individuals linked to this entity. Major, and compelling queries, remain unanswered about their apparent relationship with executive members linked to SASSA. If this is confirmed, the legitimacy of the section of the service fee allegedly paid to this entity is undermined.

36. Per the contract (per our assessment), only approximately a quarter of the services to be rendered are relevant to CPS and or the SASSA contract, the balance referring to services to the Net1 group. Accordingly, approximately three-quarters of these services should be classified as "incidental to, but not arising from the contract" and should be excluded from the statements.

37. Accordingly, based on the information at hand, we dispute the validity of including the full value of the actual expense of R143 000 000 for purposes of the Constitutional Court report, unless CPS can demonstrate the contrary.

N.P

38. The calculation of this value is attached.

	Initial Period (April 2012 to March 2017) KPMG Report	**April 2017 to March 2018 Mazars Report**	**April 2018 to September 2018 Mazars Report**	**Total**
BEE service fees	R176,000,000.00	R52,800,000.00	R26,400,000.00	R255,200,000.00
Born Free (provisionally accepted)	(R44,000,000.00)	(R13,200,000.00)	(R6,600,000.00)	(R63,800,000.00)
Global Retriever (GR)	R132,000,000.00	R39,600,000.00	R19,800,000.00	R191,400,000.00
75% of GR fee query	R99,000,000.00	R29,700,000.00	R14,850,000.00	**R143,550,000.00**

N·P

16. BEE Retainer Fee

1. We reported that the retainer is based on a contractual agreement between CPS, Born Free and Global Retriever Product Sourcing, as documented in an agreement of December 2013.

2. As reported earlier, in the introduction section of the service agreement with the BEE partners (signed in December 2013) reference was made to what we interpret to be the "initial BEE partners". This agreement purports to replace the initial consortium agreement.

3. We have not seen the "consortium agreement" between CPS, Born Free, Ekhaya Skills Developments Consultants CC and Retles Trading CC, referred to in the replacement agreement.

4. Earlier in this report, we had referred to and quoted from a research project report titled "How one word can change the game". There are references in this report to these earlier entities and individuals. We quote:

   "The first, Retles Trading Close Corporation (CC), was a company established in 2008 and involved Bulelwa and Jongi Makoetlane, who supplied textbooks to schools in the Western Cape from their modest home in Gugulethu, Cape Town. The second company, Ekhaya Skills Developments Consultants CC, was a "small outfit, run by one woman who advertised that she provided 'skills training' for employers"."

5. We do not elaborate on the historical agreement, apart from reporting that no costs are assigned to these individuals in terms of the original agreement.

6. As the retainer is based on the agreement of December 2013, no apparent BEE related expense was incurred for the first 20 months of the SASSA contract.

7. The costs for this category were incurred between December 2013 and June 2015, a period of 19 months.

8. The entire costs is expensed under the initial period, ending March 2017.

9. Under general ledger code 8306 "BEE Retainer fee", R63 157 894.80 is processed for the period under review.

10. The values are presented as R1 619 433.20 per month, split as R 1 214 574.90 and R404 858.30 between Global Retriever Product Sourcing and Born Free, in the ratio of 3:1, consistent with the service fee split.

11. The costs are levied from December 13 (agreement date) to June 15. In the latter month, a lump sum is posted, representing the equivalent of 21 months. The narratives refer to AMORTISE OVER REMAINDER OF SASSA CONTRACT for the routine payments and ACCELERATION OF EXPENSING OF PREPAYMENTS in the final payment tranche.

12. At the monthly amount of R1 619 433.20, the agreement value of R72 000 000 inclusive of VAT, or R63 157 894.80, exclusive of VAT would last 39 months. (In December 2013, the 60 month

contract had 40 months to run, which suggests the payments were made in advance, as opposed to in arrears (which was specified for the service fees in the service agreement).

13. We received two invoices which are relevant to these transactions.

Global Retriever

14. The first invoice is dated 3 December 2013 and is issued by Global Retriever Products Sourcing CC of 22-7th Avenue, Parktown North, Johannesburg, 2193. The company VAT registration is reflected as 414026138. The company registration number is recorded as 201013596923.

15. The narrative simplistically refers to "services rendered at a rate of R54 000 000.00". The subtotal is restated at R47 368 421.05 to provide for VAT of R6 631 578.95, to arrive at the stated R54 million.

16. The invoice number is reflected as "1".

17. The bank account is reflected as Standard Bank, Branch code 00435, Account Name Wealth Frontiers, with account number 006951198.

18. The handwritten notation on the invoice refers to "approved per attached agreement - clause 8 allocation: prepayments R54 000 000.00".

19. The reference to invoice number 1 for Global Retriever also arouses interest, especially considering they have been registered for VAT on their alleged first invoice. More noteworthy, however, is the remarkable fact that a company can achieve a turnover of R54 million on its first invoice for unspecified service rendered. It seems clear that the entity is a special purpose vehicle to receive these fees, as opposed to an established entity rendering a service, where, per this agreement, they must agree not to compete against Net1 group.

20. A copy of the invoice is attached as an **Exhibit**.

21. We examined the proof of payment relating to this transaction, attached as **Exhibit**. According to this POP, R54 000 000 was paid to account 006951198 (in the name of "Global Retriever Product Sourcing cc (Wealth Fron)") under payment number 0387522765 on 10 December 2013, with beneficiary description CPS INV 1.

Born Free

22. The other invoice from Born Free Investments 272 (Pty) Ltd is dated 4 December 2013. It is addressed to Cash Paymaster Services, and refers to invoice number IN428.The VAT number is reflected as 4850217250.

23. As narrative the invoices simply refers to "Consultation Restraint of Trade". The invoice is for R15 789 473.68. VAT of R2 210 526.32 is included to arrive at R18 000 000.00.

24. The invoice is stamped as captured on 13 December 2013 and also stamped "Paid".

N.P

25. A hand written narrative on the invoice reads "approved per clause per 8.2.1 of the attached agreement". Allocate: prepayments".

26. The invoice refers to the bank account as FNB, Born Free Investments 272 (Pty) Ltd, account number 62077889594, branch 204809 Broadacres.

27. A copy of the invoice is attached as an **Exhibit**.

28. A possible anomaly relates to the dates of these two invoices, of 3 and 4 December 2013 respectively, as these predate the signing of the contract. The contract was signed on 9 December 2013. Accordingly, we submit that these invoices were not yet valid at the time of presentation.

29. We examined the proof of payment relating to this transaction, attached as **Exhibit**. According to this POP, R18 000 000 was paid to account 62077889594 (in the name of Born Free Investments) under payment number 0387980681 on 11 December 2013, with beneficiary description CPS INV428.

30. The clause 8.2.1 of the agreement (referred to in the handwritten notation on the invoice) refers to the payment split, as reproduced below.

8.2 The Retainer shall be paid as follows:

8.2.1 R 18, 000, 000.00 (eighteen million Rand) to Born Free; and

8.2.2 R 54, 000, 000.00 (fifty four million Rand) to Global Retriever.

31. There is nothing in the agreement which refers to a prepayment of the entire amount. We deem the fact that the full amount has been paid upfront to be somewhat peculiar, and not necessarily normal business practice, especially as it requires ongoing services to be rendered.

32. In addition, our observation that one of the entities (Global Retriever) was seemingly sold (the original director resigned to be replaced by two others) to other parties a year later, raises yet further queries, worthy on ongoing enquiry.

33. We consider it noteworthy that the payment for Global Retriever (R54 000 000.00) was paid into an account of a different name, i.e. Wealth Frontiers.

34. We received a copy of the general ledger transaction printout. The monthly journals are for all practical purposes identical on a month-to-month basis, referring to debiting BEE retainer fees for R1 214 574.90 and R404 858.30 (an aggregate of R1 619 433.20) and crediting Prepmt – Expenses (account number 2420-20-3805) for the corresponding values per month.

35. A discussion document is attached to the journal batch.

36. This document takes the form of a memorandum, which ultimately requires sign off by Herman Kotze as CFO, Cara van Straaten as Group Financial Controller and Paul Encarnacao as Financial Manager.

37. The document is titled "Prepayment of service – November 2013".

38. The memo contains sections titled "A. Introduction and background", where reference is made to the service agreement, "B. Guidance to be considered", where the accounting treatment of prepayments based on US accounting principles is discussed, "C. Confidentially, Restraint and Services to be provided", where reference is made to the applicable sections within the contract and "D. conclusion".

39. A reference states "the upfront payment to the consortium is not a refundable advance or deposit and therefore this guidance is not applicable".

40. Yet further, "the prepaid expense is not a financial asset because the contract does not convey to Net1 a right to either receive cash or other financial instrument from the Consortium, or exchange other financial instruments on potentially favourable terms with the Consortium".

41. Under a discussion on cash flow, it refers to a cash payment upfront on signature date and monthly cash payments.

42. Under conclusion reference is made that the guidance provides that the services are to be expensed as provided and accordingly that the payments should be expensed over the SASSA contract. Also, it states that if the SASSA contract is extended the remaining (unrecognised portion) should be spread over the longer period.

43. The memo was signed by van Straaten and Encarnacao (there is no signature for the CFO).

44. A handwritten notation on this document reads:

"Upfront payment was paid in December 2013. For (illegible) *there are 39 months remaining on the SASSA contract. Therefore expense over 39 months commencing Dec 2013."* (With a calculation attached to arrive at the value.)

45. A later journal document is also attached.

46. In June 2015 the journal is processed as "Acceleration of expensing of prepay", with values of R24 291 497.97 and R8 097 165.99 (total R32 388 663.96), with the corresponding values to be credited to the prepayment of expenses account.

47. Another schedule attached to this journal printout refers to these transactions, with reference to the 39 months and 20 months remaining. The calculation for the journal is based on this remaining 20 month charge.

48. Another memorandum is attached to this document batch.

N.P

49. This memorandum is dated June 2015 and is titled "Write-off of prepayment of services made in November 2013".

50. This memorandum repeats some of the comments and directive of the earlier memorandum, but introduces under section D "status as at June 2015", followed by a conclusion and the signoff by the three individuals referred to earlier.

51. We quote sections D and E.

"D. Status at June 2015

The guidance states that "Prepayments should be deferred and charged to operations as the benefits are realized." It is fair to state that the legal challenge to the SASSA contract unfolded in a completely unexpected way. It is also fair to state that the Consortium has provided little or no "Opportunity" as described in the contract to Net1. As mentioned above, it is not practical to assign a value to each component of the Upfront Payment. However, it is clear that there are no longer any benefits realized by Net1 from the "Service". Also it is unlikely that the Consortium would honor its commitment to provide the services referenced in clause 3 in the contract if Net1 were to stop paying the monthly fee as a result of termination resulting from the constitutional court judgment (refer to clauses 8.4 and 4.1.2 to the contract).

E. Conclusion

The guidance provides that services are to be expensed (recognized) as provided. There are no future benefits to be realized and therefore the remaining prepayment balance as of June 2015 should be written off."

52. The content of this memo highlights and demonstrates that the service to be rendered for the consortium to justify its retainer payment is ongoing benefit to Net1, as opposed to CPS in terms of the SASSA contract.

53. Very relevantly, the reference to "There are no future benefits to be realized and therefore the remaining prepayment balance as of June 2015 should be written off", further demonstrates

54. The financial outlay, as expensed in the general ledger is summarised below. The values exclude VAT and are therefore not consistent with the actual payments. As reported, R72 million was actually paid in December 2013.

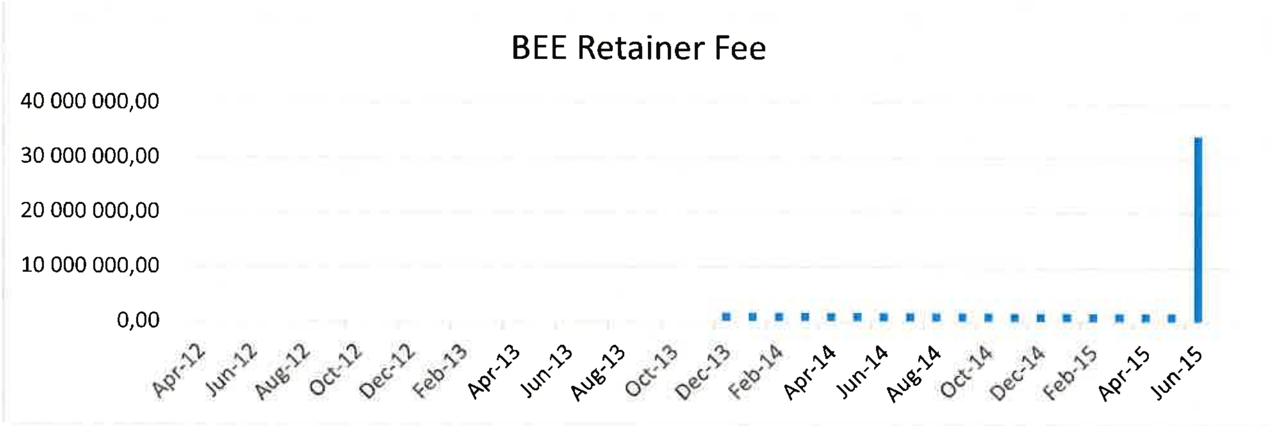
55. The table and graph refer.

Contract period	BEE Retainer Fee	
1	Apr 12	0.00
2	May 12	0.00
3	Jun 12	0.00
4	Jul 12	0.00
5	Aug 12	0.00
6	Sep 12	0.00
7	Oct 12	0.00

8	Nov 12	0.00
9	Dec 12	0.00
10	Jan 13	0.00
11	Feb 13	0.00
12	Mar 13	0.00
13	Apr 13	0.00
14	May 13	0.00
15	Jun 13	0.00
16	Jul 13	0.00
17	Aug 13	0.00
18	Sep 13	0.00
19	Oct 13	0.00
20	Nov 13	0.00
21	Dec 13	1 619 433.20
22	Jan 14	1 619 433.20
23	Feb 14	1 619 433.20
24	Mar 14	1 619 433.20
25	Apr 14	1 619 433.20
26	May 14	1 619 433.20
27	Jun 14	1 619 433.20
28	Jul 14	1 619 433.20
29	Aug 14	1 619 433.20
30	Sep 14	1 619 433.20
31	Oct 14	1 619 433.20
32	Nov 14	1 619 433.20
33	Dec 14	1 619 433.20
34	Jan 15	1 619 433.20
35	Feb 15	1 619 433.20
36	Mar 15	1 619 433.20
37	Apr 15	1 619 433.20
38	May 15	1 619 433.20
39	Jun 15	34 008 097.16
40	**total**	**63 157 894.76**

N. P

56. Graphically this is presented below.



57. For both BEE Service Fees and BEE Retainer Fees, the services to be rendered by GLOBAL RETRIEVER PRODUCT SOURCING CC and BORN FREE INVESTMENTS 272 (PTY) LTD are essentially for the benefit of business development of the group, as opposed direct BEE involvement for the SASSA contract, yet all costs are allocated to the CPS SASSA contract.

58. The investigative journalists have presented links between the "replacement BEE partners" and the erstwhile Minister of Social Development, suggesting that these partners may have been "imposed" on the group. We have found no independent evidence which might suggest that these BEE partners (excluding Born Free Investments 272 (Pty) Ltd) might have been sourced by CPS or provided a service relevant to the project.

59. In December 2016, the Daily Maverick published an adverse article relevant to this matter. The article read:

> *"The payment of social grants next year to millions of South Africa's poorest people is in jeopardy – and that appears to have much to do with the chaotic and dubious management of the relationship between the South African Social Security Agency and one company, Cash Paymaster Services. In this investigation, amaBhungane shows how the company got its current multibillion-rand contract using an apparently fraudulent empowerment deal – and then dumped its expedient fronts in favour of a politically connected businessman.* By Craig McKune for AMABHUNGANE.
>
> *Cash Paymaster Services director Serge Belamant used a thinly veiled black front to win a R10-billion South African Social Security Agency (Sassa) contract.*
>
> *Then he quietly dumped these black partners and used irregularly derived Sassa funds to sign on and pay off a businessman who regularly consorts with a close friend of social development minister Bathabile Dlamini – she who oversees Sassa.*
>
> *The lucky man, Brian Mosehla, pocketed a quick R83-million cash in the process."*

N ·P

Disputed expenses: BEE Retainer

60. For the BEE retainer, R72 million was paid, of which the pre VAT expense claimed under the contract is R63 157 894.76.

61. As documented, the services to be rendered are almost exclusively to the benefit of the group and include no reference to operational involvement to the SASSA contract with CPS.

62. Considering, in the words of CPS (memo of June 2015) "there are no future benefits to be realized and therefore the remaining prepayment balance as of June 2015 should be written off", the operational relevance of these expenses is fatally compromised.

63. Claiming the "expense written off" as an "acceleration of prepayments" is misleading.

64. The fact that the retainer was not linked to the lifetime of the contract and would survive "interference by the court" in the SASSA contract further demonstrates that the expenses are, at best, incidental to the contract and should be excluded.

65. As such, we dispute the full value of R63 157 894.76.

66. The entire amount was claimed under the initial period of April 2012 to March 2017.

67. Compelling concerns remain unanswered, justifying further investigation.

N.P

17. Fair Valuation of BEE Transaction – KPMG report August 2014

1. A report from KPMG titled "Net1 Applied Technologies SA (Pty) Ltd, Fair Valuation of BEE Transaction as at 16 April 2014", dated 1 August 2014 has reference. **Exhibit B11**

2. According to its Review History, the report was reviewed on 5 June 2014, 12 June 2014, 18 June 2014 and finally on 30 July 2014.

3. In terms of this document, as set out in its Executive Summary:

   "In April 2014, Net 1 UEPS Technologies, Inc. (Net1 US) and Net1 Applied Technologies South Africa (Pty) Ltd (Net 1 SA, a 100% owned subsidiary of Net1 US) concluded two BEE transactions, comprising of loan and equity components in order for each of the BEE entities to purchase shares in Nett US.

   KPMG Services (Pty) Ltd (KPMG) has valued the the (sic) transaction with Business Venture Investments No 1567 (Pty) Ltd (BVI) for the purchase of 4,100,000 share *(sic)*, as at 16 April 2014, using valuation procedures recognized under accounting principals (sic) generally accepted in the United States of America (US GAAP). The valuation of an identical transaction for the purchase of 300,000 shares by BEE partner, Born Free Investments 272 (Pty) Ltd (Born Free), was agreed by Net1 SA to be determined on a pro-rata basis, and not necessary for inclusion in the deliverable report.

   Under the terms of the transaction, Net1 SA extended a loan of R246m to BVI to fund the purchase of 4,100,000 BEE shares in Net1 at a 25% discount to the closing price of R80 on the JSE Limited (JSE) on December 6, 2013.

   …"

4. Whilst it refers to BVI as Business Venture Investments No 1567 (Pty) Ltd, later references refer to Business Venture Investments No 1567 (Pty) Ltd **and** Mosomo Investment Holdings (Pty) Ltd, with further reference to Born Free with a similar deal. It is assumed therefore that "BVI" refers to Business Venture Investments and Mosomo Investment Holdings.

5. Per Section 2, Introduction:

   "KPMG Services (Pty) Ltd (KPMG) has been requested by Net1 SA to independently determine a fair valuation, as at 16 April2014, of the BEE transaction between Net1 US, Net1 SA, Mosomo Investment Holdings (Pty) Ltd (Mosomo) ***and*** *Business Venture Investments No 1567 (Pty) Ltd (BEE SPV) for the purchase of 4.1 million BEE shares.*

   The valuation of an identical transaction for the purchase of 300,000 shares by BEE partner, Born Free, was agreed to be determined on a pro-rata basis."

6. In essence in terms of the deal, a loan of R246 million is granted on 16 April 2012 to the BEE entities (presumably all three) to be used to buy 4 400 000 million shares (4 100 000 plus separate deal of 300 000) in Net1 SA at the 25% discounted price of R60 a share (discounted from the ruling R80), (transactional value R246m i.e. 4.1m X R60), secured by the shares, with the obligation of

N.P

selling back either if the international share price dips below R60 or exceeds R120. The loan is to be repaid over five years, with interest being capitalised every six months. The contract provides for repayments terms of 10%, 10%, 15%, 15% and 50% per year, respectively, commencing in April 2013, arguably to April 2017.

7. However, per the alleged agreement,

   "Net1 US may, at any time after the issue date, call on the BEE SPV to either:

   (i) Exchange the BEE Shares held by it for the Equivalent CPS Shares; or

   (ii) Sell the BEE Shares to Netl US at defined fair market value; by giving BEE SPV written notice ("Call Notice").

   On receipt of such "Call Notice", BEE SPV has the right to elect to be paid in either equivalent CPS shares or the fair market cash value of the shares. "Equivalent CPS Shares" means a percentage of the shareholding in the share capital of CPS, of ordinary shares, calculated using the following formula:

   BS/4,400,000 X 30%

   With: BS being the amount of BEE Shares held by BEE SPV at the time."

8. In a Transaction Diagram, the deal is summarised as follows:

   BEE Structure Loan Valuation

   1. *Net1 SA grants a 5 year loan to BVI at Jibar + 300 bps with capital payments made according to a provided schedule. The loan has some bespoke features that include early repayment when the share trades above R120 in JSE or Nasdaq equivalent and early termination when trigger events occur. The detail of the conditions can be found in the report.*
   2. *BVI purchase 4,100,000Netl US shares at a discounted price of R60 per share from Nett US as part of the BEE scheme. The total amount paid for the shares is R246m (equivalent of the loan from Net1 SA). The shares have a lock-in period of 5-years.*
   3. *BVI pledges the received 4,100,000 Net1 SA shares to Net1 SA as collateral for the loan. The current value of the shares is R328m. The loan is over collateralized.*
   4. *Net 1 UEPS Technologies Inc. (US Entity) makes an equity investment of R246m in Net1 Applied Technologies South Africa (Pty) Ltd (wholly owned by US entity).*
   5. *On each repayment date, BVI makes payments of interest and capital (on loan anniversary only) through the sale of shares to Net1 SA.*

9. The KPMG report valued the BEE deal at R110 643 969. (Presumably, this refers to the effective discount value, granted to BEE beneficiaries, or alternatively how much the Group has sacrificed from normal arms-length transaction, to be awarded to the BEE beneficiaries.)

N.P

10. A note attached to the report becomes relevant.

ZAR	Valuation per KPMG Report	110,643,964
ZAR	Number of shares per Report	4,100,000
ZAR	Number of shares given to BEE partner	4,400,000
ZAR	Therefore Valuation of total number of shares given to BEE partner	118,739,864.00
ZAR	Rate at 16 April 2014	10.5369
$	**Dollar Valuation**	**11,268,956.00**
$	Invoice number US1267 Invoice SBCC - June 2014 Net1SA	388,461.25
$	Balance to Invoice	$ 10,880,494.75

/ Accrue as 16/4/2014 = R

11. Per this, the value of R110 643 961 (referring to 4.1m shares) is extrapolated to 4.4 m shares (to include the sister deal with Born Free) to arrive at R118 739 864. At the ruling exchange rate of $1 = R10.5369, the dollar value (total) is US$11 268 956.00). With a previous invoice (no info provided) of US$388 461.25, the balance "to invoice" (to CPS?) is US$10 880 494.75, which when applying the stated exchange rate, converts to R114 646 685.13, to be accrued.

12. Per the GL R4 089 215.04 was paid – "NET1 UEPS-2014 BEE TRANSACTION EQUITY INSTRUMENT CHARGE" (transaction date recorded as 30 June 2014), with another significant accrual of R114 646 685.13 "ACCRUAL FOR FAIR VALUATION OF BEE TRANSACTION (16/4/14)" The transaction date for the accrual transaction is also reflected as 30 June 2014, but this must be back dated, as it refers to values only determined more than a month later.

13. It is not documented to whom the payments will be made, but it stands to reason that it would be to NET1 "to reimburse for the cost of a BEE preferential deal" to which the group was exposed for five years.

14. It is possible that the US$388 461.25 is linked to the initial payment of R4 089 215.04 on 30 June 2014. The calculated rate is R10.5267 to the dollar, which seems feasible.

15. It seems clear therefore that CPS bore the cost of the Groups' BEE initiatives and that these were assigned to the SASSA contract as an expense.

N.P

16. An extract from Net1 2018 Annual Report (Restated) under heading "Risks Relating to Operating in South Africa and Other Foreign Markets" is relevant. We include colour highlighting to emphasise and distinguish material statements.

> *"We expect that our BEE Contributor Status Level will be important for us in order to remain competitive in the South African marketplace and we continually seek ways to improve our BEE Contributor Status Level, especially the ownership (so called "equity element") element thereof.*
>
> *For instance, in April 2014, we implemented a BEE transaction pursuant to which we issued 4.4 million shares of our common stock to our BEE partners for ZAR 60.00 per share, which represented a 25% discount to the market price of our shares at the time that we negotiated the transaction. We entered into this transaction to improve our scoring on the ownership (equity) element of our BEE scorecard. We provided funding to the BEE partners in order for them to buy these shares from us.*
>
> *In June 2014, and in accordance with the terms of the relevant agreements, we repurchased approximately 2.4 million of these shares of our common stock in order for the BEE partners to repay the loans we provided to them.*
>
> *Furthermore, in August 2014, we entered into a Subscription and Sale of Shares Agreement with Business Venture Investments No 1567 Proprietary Limited (RF), or BVI, one of our BEE partners, in preparation for any new potential SASSA tender. Pursuant to the aforesaid agreement, we repurchased BVI's remaining shares of Net1 common stock and BVI subscribed for new ordinary shares of CPS, representing approximately 12.5% of CPS' ordinary shares outstanding after the subscription."*

17. These transactions, to the extent applicable to Global Retriever, are for the benefit of Brian Mosehla (also the beneficiary of BEE Service fees and possibly the BEE retainer) and Raymond Lunga Ncwana, ID 7612085735087.

18. Whilst Ncwana is not a listed beneficiary for the share deal, he is clearly linked to Brain Mosehla as co-director of Global Retriever Product Sourcing (beneficiaries of the service fee).

19. A further possible link is demonstrated by his ownership of Business Venture Investments No 1771 (Pty) Ltd, registration number 2013/167513/07, which clearly originates from the same shelf company distributor where Mosehla acquired his companies of a related name, i.e. Business Venture Investments No 1567, No 1774 and No 1810, respectively.

20. Whilst there is no direct reference to Ncwana having benefited from the share deal, but his association with Mosehla is undeniable.

21. Detailed media reports emphasise links between Ncwana and Social Development Minister Dlamini.

22. An extract from the "How one word can change the game" report documents this transaction and the subsequent developments, as follows:

> *"On 26 January 2012, just nine days after having been awarded the SASSA grants payment contract, Net1 entered what appears to be a second BEE deal with a consortium called Business Venture*

N P

Investments 1567 (Pty) Ltd (BVI) – a special purpose vehicle that "represents a consortium of black South Africans, community groups and the Net1 Foundation". The consortium is led by Mosomo Investment Holdings (Pty) Ltd (Mosomo), whose CEO is Mr Kgomotso Brian Mosehla. At the time, Serge Belamant (CEO of CPS/ Net1) denied that this BEE deal was connected to being awarded the tender. It is thus assumed that this deal was not a replacement or alternative to the consortium which signed the MoA and was submitted as part of the bid for the payment of grants.

This deal entailed "a one-year option to purchase up to 8,955,000 shares of the Company's common stock, equal to 19.9% of the Company's current issued and outstanding shares, with an exercise price of US$8.96 per share". The deal hinged on the idea that the share price would increase. However, with the tender being challenged by AllPay and the investigations into alleged corruption being undertaken, it did not materialise and the option to purchase was never exercised.

Then, towards the end of 2013, after CPS had undertaken the re-registration of the grant beneficiaries and shortly after the Constitutional Court had declared the contract between SASSA and CPS invalid, it was announced that Net1 would enter into a new B-BBEE deal. This time the deal would include both Mosomo (in the form of BVI) and Born Free Investments, where the companies would be all allocated 4.1 million and 300 000 shares respectively. The cost of the shares was allocated at R60/share (25% of the JSE market price at the time). It is important to note that due to the Constitutional Court's rulings, it is also at this stage that the MoA relating to the invalid 2012 contract, between CPS and its empowerment partners, would have been void. This is possibly the reason for Born Free Investments being included into the new Net1 BEE deal. It remains unclear as to who CPS's empowerment partners were in the distribution of grants, what the extent of their involvement was, or if there even was a signed empowerment partner for the 2012 contract. The potential legal issues around the contractual obligations with regard to empowerment in the contract between SASSA and CPS are also unknown. It would seem this is not something any of the parties were interested in following up on. On 16 April 2014, Net1 announced that it had concluded the conditions of the deal in which 4.4 million shares were issued to the B-BBEE partners under a five-year loan agreement with Net1. The conditions also included two specific caveats; namely that the deal would allow Net1 to purchase back shares if the market price increased above R120/share and that "Net1 could replace the Net1 shares with shares in CPS at its discretion".

Just a day after the announcement, on 17 April 2014, the Constitutional Court handed down the remedial order, which suspended the ruling of invalidity to ensure that the payments of grants would not be negatively impacted. Thereafter Net1's share price started to recover and by June would reach the magic R120/share mark. Later that same month, on 25 April 2014, SASSA approved the R316 million payment for the 're-registration' of grant beneficiaries, a payment which has since been deemed irregular and has been taken to court for review. Excluding VAT, the value of the payment is approximately R277 million.

With the share price of Net1 reaching the target of R120/ share in June 2014, Net1 repurchased just under 2.43 million (55%) shares from the B-BBEE partners for approximately $24.9 million (± R267 million at the time). The money was then used by the B-BBEE partners to repay the loan owed to Net1. Within just three months, BVI and Born Free Investments had acquired just fewer than two million shares (worth approximately R237 million) in Net1 with no upfront investment and no debt. In August 2014, BVI would sell back the remainder of its shares (1.8 million) for a cash amount of R97.4 million and a 12.5% ownership in CPS, and it would appear that Born Free Investments retained its remaining 134 446 shares in Net1.

N.P

The timing of the R277 million windfall (from the 'reregistration' payment) and the gifting of two million Net1 shares to it B-BBEE partners (after settling the loan agreement) appear to cancel each other out, with the net result that the entire deal cost Net1 nothing. [own emphasis] *This could, however, all be just one big coincidence."*

23. The involvement and action of KPMG as well as the allocation of the expense now raise serious questions.

24. KPMG was commissioned to value the share loan deal as at the inception date of 16 April 2014. The report was issued on 1 August 2014. By then, the transactions had already been reversed (2.4m shares bought back in June 2014 and the balance recovered during August 2014, the same month of the report.

25. The KPMG share value report now invokes a query. It seems to be presented to justify significant BEE related expenditure which did not materialise. The report is used in support of the R118 735 900.17 expense, which by the time it was issued had already been "overtaken by events" where, within days, it was clear that "the entire deal cost Net1 nothing".

26. More specifically, at the time of its issue, there was no longer any, alternatively very little, uncertainty about the cost of the transaction. By issuing their opinion that the transaction deal should be valued at approximately R118 million, at a time when it was factually known that this figure was meaningless, exposes KPMG to serious query.

27. In its Notes to the audited statements of expenses incurred... reference is made to this transaction, as follows:

"Charge for empowerment transaction

The value of the empowerment transaction is measured by reference to the fair value of the equity instruments granted at the grant date. The grant date is when there is an agreement to a share-based payment arrangement. Vesting conditions, other than market conditions, are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Market conditions are taken into account when estimating the fair value of the equity instrument granted.

No subsequent adjustment to total equity is made after the vesting date to account for equity instruments that are forfeited or options that are not exercised.

The fair value of the equity instruments was calculated utilising an adjusted Monte Carlo simulation discounted cash flow model which was developed for the purpose of the valuation of these transactions. Cash flows were calculated for each simulated share price path, taking into account the bespoke features of the transactions, as well as the expected interest and capital repayments (funded through the expected sales of shares). The "adjustment" to the Monte Carlo simulation

N.f

model incorporates a "jump diffusion" process to the standard Geometric Brownian Motion simulation, in order to capture the discontinuous share price jumps observed in the share price movements on the stock exchanges on which the shares are listed. Therefore, the simulated share price paths capture the idiosyncrasies of the observed share price movements. For each simulation, the resulting expected cash flows were discounted to the valuation date.

An expected volatility of 21.04%, an expected life of five years, a risk free rate of 7.90% and no future dividends were used in the calculation of the fair value of the equity instrument. The estimated expected volatility was calculated based on the 30 day VWAP share price using the exponentially weighted moving average of returns."

28. The narrative appears to be consistent with the content of KPMG's methodology, when applying their valuation.

29. For reasons stated above, however, we maintain our stance that the description above has lost its relevance, as the transaction had fully evolved and been finalised at the reporting period, without incurring the "anticipated expense", as derived from KPMG's valuation.

30. The KPMG report had referred to the original cost of the shares at "R80 on the JSE Limited on December 6, 2013". We confirm that this was the ruling price on that day. The valuation, however, refers to "at 16 April 2014". On this date, the ruling price was R98. There seems to be no reference in the valuation report that the price had already increased significantly at the valuation date. More relevantly, on the report issue date of 1 August 2014 the price was R120 (the forced sale trigger price), rendering the valuation irrelevant.

31. Further, we reproduce another extract for the KPMG report.

Document review and approval

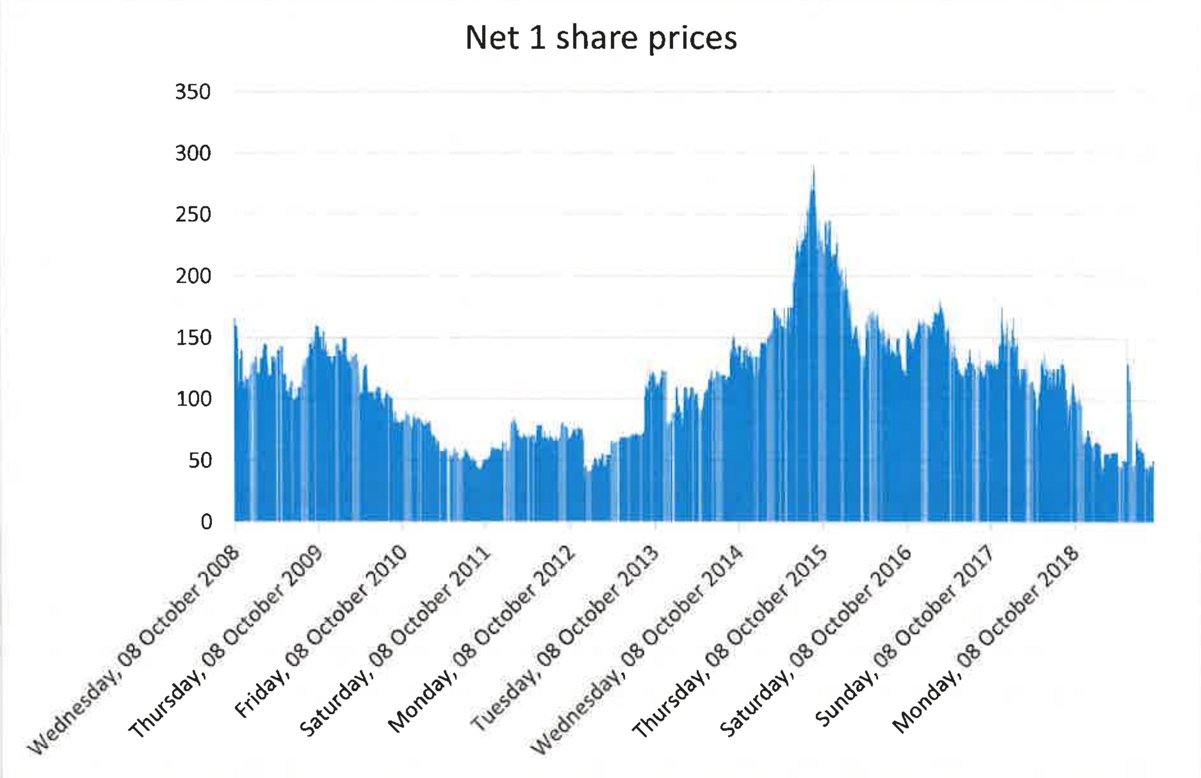
Revision history

Version	Author	Date	Revision
1.0	Lennox Masangane	5 June 2014	Original document.
2.0	Lennox Masangane	12 June 2014	Added sensitivities.
3.0	Bianca Ruddy	18 June 2014	Client requested changes accepted, and BEE lock-in discount applied
4.0	Lennox Masangane	30 July 2014	Revised valuation to incorporate value of residual shares

32. The final entry referring to "revised valuation to incorporate value of residual shares" was posted one day before the report was issued. There is no evidence of such a "revision". It seems to demonstrate, however, that the changed circumstances were known and wilfully disregarded.

33. We reproduce a graph of the Net 1 share price movement.

N.P



34. The more focussed period, relevant to the transaction is reflected below.

N.P

Disputed Expense: BEE transaction equity instrument charge

35. At the time KPMG issued its report to establish a fair value of the benefit assigned to the BEE partners, i.e. the cost carried by the group for the purposes of a BEE transaction, actual events had accurately demonstrated the real expense.

36. Based on KPMG's calculation of the instrument charge for the sale of 4.1 million Net1 shares, CPS extrapolated that value to include a "sister deal" for another 300 000 shares sold to its other BEE partner (Born Free), to arrive at a value of R118 735 900.17.

37. As the shares subject to the five year plan were essentially bought back within months of the deal (June 2014), proceeds from which were used to settle the loan with which the shares were purchased,

38. As the publically traded shares increased in value almost immediately, selling these shares created funding and significant profits which were used to settle the loan granted to the BEE partners within months of the initial transaction. Accordingly, the BEE partners essentially acquired these shares "for free" whilst retaining a significant number of further "debt free" and unencumbered shares, which were sold shortly thereafter.

39. As the settlement of debt was financed by the increase in share value, it was not an expense borne by Net1 or CPS.

40. Accordingly, the charge of R118 735 900.17 was not an actual expense.

41. The charge in the income statement arises out of a journal entry.

42. The full cost is charged under the initial period ending March 2017.

43. As stated, by the time of KPMG's report (1 August 2014), the above facts were essentially established, effectively rendering KPMG's report irrelevant and its findings completely inaccurate.

44. As such, we dispute the entire value of R118 735 900.17, charged to the SASSA contract as an expense.

45. We believe that KPMG may have been conflicted when it subjected the income and expenses relating to the SASSA tender award to independent audit, considering their involvement in the valuation, and its (inappropriate) use to justify a material expense.

N.P

18. Income "not under contract" excluded without adjusting expenditure

Summary of Findings

CPS excluded several income streams from its reports to Constitutional Court on grounds that these were not in terms of the contract. The most significant of these refers to income from "Death benefit Policies Collection Fees", quantified by CPS at R142 337 779. No corresponding expenditure was excluded from the schedule.

Our estimation and calculation of anticipated related expenditure is R129 428 206.

We raise the absence of this anticipated expense as an item under dispute.

By applying the percentage of this expense to the total expenditure and reinstating the equivalent percentage (1.28%) of operational and staff costs, a projected expense of R129 428 206, should be similarly excluded, which increases the claimed profit by that amount.

Detailed Findings

1. CPS provided us with a reconciliation of the reported figures for the periods ending 31 March 2017 (60 months), 31 March 2018 (12 months) and 30 September 2018 (6 months) to their audited annual financial statements.

2. The financial year ends for the companies within the Net1 Group end on 30 June, which implies that the periods are out-of-sync with the reporting periods of the SASSA contract.

3. The financial data provided by CPS reflects the total of the income and expenditure attributable to the project, differentiating between individual line items further summarised under operational costs (consisting of 68 line items), staff costs (20 items) and administrative and audit costs (15 items), before culminating in their profit before tax, tax and profit after tax.

4. Per example, the profit after tax for the values reported under the column titled "amounts per TBs adjusted for items as excluded as "under the contract"" for the first period are recorded as R1 360 652 068, which are then further adjusted under headings "(income) cost prior to start of contract (July 2011 to March 2012)" which for this period results in a net additional profit of R20 367 496, further adjusted by "Adjustments" (-R289 353 062) and reallocations (from within the individual line items), the net effect of which is correctly stated as zero.

5. The balance of the first column R1 360 652 068 is therefore reduced to R705 322 483 (after a further adjustment of R386 344 019 tax), which is the reported and audited outcome per the report to the Con Court, as per the KPMG certificate.

N.P

SASSA Tender 01/11/BS

Audited Statement of Expenses Incurred, the Income Received and the Net Profit earned under the Contract

Income received	8 938 509 720
Expenses incurred	
Operational cost	6 958 330 609
Administration cost	888 512 608
	7 846 843 217
Net profit before tax	1 091 666 503
Taxation	386 344 019
Net profit after tax	705 322 484

6. The corresponding values for period 2 (12 months), as audited by Mazars is R22 862 081 adjusted to R104 260 291 and for the final period (6 months), also subject to Mazars certifications of (R520 839 453) adjusted to (R556 992 622).

SASSA Tender 01/11/BS

Audited Statements of Expenses Incurred, the Income Received and the Net Profit Earned under the Contract Extensions

	For the year ended 31 March 2018	For the six months ended 30 September 2018
Income received	1,869,153,180	131,019,867
Expenses Incurred		
Operational cost	1,548,499,741	626,167,428
Administration cost	175,844,634	61,845,062
	1,724,344,375	688,012,490
Net profit before tax	144,808,805	(556,992,623)
Taxation	40,548,514	-
Net profit after tax	104,260,291	(556,992,623)

7. To reconcile these to the audited financials of CPS (subject to annual audit by Deloitte) a reconciliation was provided, to tie the reported figures (above) to the audited financials (as per their submission).

8. The adjusting values submitted as part of that reconciliation, reverse income of the company, now claimed as being "not under the contract" and similarly reversing the expenses, by adding these back.

N &P

9. It is relevant to note that these adjustments (reconciling items) are only applied to the amounts per the original TB, and not to the adjustments per the subsequent columns. Accordingly, this means that the adjustments (the aggregate of which represents R203 559 507, which is essentially made up of retrenchment costs of R106 587 400 and DOJ legal costs of R96 972 107), do not form part of this reconciliation and are therefore not accredited as having been subjected to the CPS annual audits by Deloitte. More specifically these adjustments should be emphasised as being specifically excluded from the reported audited company expenses.

10. A table listing these reconciling items to the "pre-adjustment values" is appended below:

Summary of income and expenses

	Five years ending 31 March 2017 **Amounts per TBs adjusted for items excluded as not "under the contract"**	12 months ending 31 March 2018 **Amounts per TBs adjusted for items excluded as not "under the contract"**	6 months ending 30 September 2018 **Amounts per TBs adjusted for items excluded as not "under the contract"**	**total all periods**
Total income	**8 938 509 720**	**1 867 988 672**	**132 184 376**	**10 938 682 767**
Expenses				
Operational costs	5 448 177 558	1 414 958 315	611 320 502	7 474 456 375
Staff cost	1 731 163 020	338 907 713	8 188 579	2 078 259 313
Administrative and audit cost	398 517 073	91 260 562	33 514 748	523 292 383
Total expenses	**7 577 857 652**	**1 845 126 590**	**653 023 829**	**10 076 008 071**
Profit before tax	**1 360 652 068**	**22 862 081**	**-520 839 453**	**862 674 696**
Balances per TBs				
Balance as per TB - 1 Apr -30 June		-35 623 574	-257 385 616	-293 009 190
Balance as per TB - 1 Jul - 31 March		100 561 567	-233 285 413	-132 723 846
Balance as per TB - Reporting period	**1 673 933 430**	64 937 993	-490 671 029	1 248 200 394
Less: Not included	**-313 281 361**	**-42 075 911**	**-30 168 424**	**-385 525 697**
Death benefit policies collection fees	-118 804 723	-6 333 483	-17 199 573	-142 337 779
Premises rental	-1 749 322	-333 150	-166 575	-2 249 047
Allowance for credit losses	2 760 365			2 760 365
Fines	142 192	-9 458	451	133 185
Annual duty	17 850			17 850
Profit (loss) on disposal of assets	-11 854 457	-1 398 564	-1 346 093	-14 599 114
IFRS adjustment	-1 244 806			-1 244 806
Impairment of subsidiary loans (credit)	-3 913 094			-3 913 094
(Profit) loss on liquidation of subsidiaries	3 679 876			3 679 876
Sundry income	-3 692 853	-1 167 940	-221 673	-5 082 465
Employment tax incentive	-2 675 010	-409 428	222 092	-2 862 345
Profit (loss) on forex - unrealised	592 439	61 086	177 073	830 598
Profit (loss) on forex - realised	-375 042	247 743	88 654	-38 645
Interest paid - bank overdraft	16 231 415	3 193 120	6 373 317	25 797 851
Interest paid - other	2 665 096	601 167	311 950	3 578 214
Interest earned - surplus cash	-195 061 290	-36 527 003	-18 408 048	-249 996 342
	1 360 652 069	**22 862 081**	**-520 839 453**	**862 674 696**

N.P

11. The statement of "excluded as not under the contract" (used in the heading), is consistent with the extract from the Notes on Audited Statements of Expenses Incurred, the Income Received and the Net Profit Earned under the Contract ...", reproduced below:

"The directors have selected and applied the following significant accounting policies in the preparation of the Statements. The directors have interpreted the words "under the contract" as relating directly to the SASSA contract and therefore income and expenses incidental to but not arising from the contract have been excluded from the Statements." (as reproduced below)

> **2. *Basis of Preparation of the Statement***
> The Statement has been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards applicable to the preparation of the Statement and the requirements of the contract for the payment of social grants entered into by and between SASSA and CPS. The Statement is prepared on the historical cost basis, with the exception of the charge for the empowerment transaction which is recognised at fair value as described below.
>
> The presentation and functional currency is South African Rand (R) and amounts are rounded to the nearest R1.
>
> The accounting policies were selected and applied consistently for similar transactions.
>
> The directors have selected and applied the following significant accounting policies in the preparation of the Statement. The directors have interpreted the words "under the contract" as relating directly to the SASSA contract and therefore income and expenses incidental to but not arising from the contract have been excluded from the Statement.

12. This means that for purposes of the Constitutional Court's submission, the income and expenditure not directly relevant to the term "under the contract", but which had been earned or incurred by CPS, have to be removed for purposes of this reconciliation.

13. We considered the risk that income earned but now removed would be excluded, whilst expenses, necessarily incurred to generate said income, would be retained as a "contract expense", effectively reducing the reported "Profit Earned under the Contract".

14. It is not possible for us to assess which expenses were incurred for which income, from the information available to us.

15. Per the reconciliation above, the most significant line items of income, now removed, refers to "death benefit policies collection fees" (which represented an additional income stream by CPS). The values stated for this category refers to R142 337 779, split between R118 804 723, R6 333 483 and R17 199 573, respectively per reporting period.

16. We note from the reconciliation that there are no corresponding expenses which are directly attributable to this income stream. By implication, the income was therefore generated with no related expenses, which is, per our submission, not accurate reporting, also in conflict with the "matching principle", which requires income and expenditure to be matched.

17. Per simple calculation, for the period under review, if the reversal of the income were to be reinstated (in total R142.3 M) with their corresponding expenses now claimed (R0) the revised income for the period would be restated at approximately R11 081 020 546. Expressed as a percentage, the death benefit income would reflect 1.28% of the turnover.

N.P

18. If that percentage of the operational and staff costs were to be claimed as a reasonable "cost of sales", an adjustment of R129 428 206 would be required.

19. The workings in support of these values, are presented below.

	Five years ending 31 March 2017	**12 months ending 31 March 2018**	**6 months ending 30 September 2018**	**total period**
Death benefit policies collection fees	118 804 723	6 333 483	17 199 573	142 337 779
Total income	**8 938 509 720**	**1 867 988 672**	**132 184 376**	**10 938 682 767**
Adjusted income	**9 057 314 443**	**1 874 322 155**	**149 383 949**	**11 081 020 546**
	1.31%	0.34%	11.51%	1.28%
Operational costs	5 448 177 558	1 414 958 315	611 320 502	7 474 456 375
Staff cost	1 731 163 020	338 907 713	8 188 579	2 078 259 313
Administrative and audit cost	398 517 073	91 260 562	33 514 748	523 292 383
Total expenses	**7 577 857 652**	**1 845 126 590**	**653 023 829**	**10 076 008 071**
Apportionments (1.28%)	**R97,338,997.19**	**R23,700,995.74**	**R8,388,213.08**	**R129,428,206.01**

Disputed Expense:

20. We believe the income highlighted as excluded as not being "under the contract" would reasonably have associated expenses, which were not excluded by the same argument. We calculate the effect to be R129 428 206 for the period under review.

21. Per reporting period, these costs are allocated as R97 338 997.19, R23 700 995.74 and R8 388 213.08, respectively.

N.P

19. Legal Expense Query

Detailed Findings

1. The audited income statement refers to an expense under the heading "DOJ Legal Costs" with an accumulated balance of R96 972 107.

2. An extract of the Net1 2018 Annual Report (Restated), from page 37 refers to an investigation by the US Department of Justice. This is an extract of the section presented under the heading "Risks Relating to Government Regulation". It is assumed that these costs refer to this investigation.

   "In November 2012, the U.S. Department of Justice commenced an investigation into whether we violated the FCPA and other U.S. federal criminal laws by engaging in a scheme to make corrupt payments to officials of the South Africa government in connection with securing our 2012 SASSA contract and whether we violated federal securities laws in connection with statements made by us in our SEC filings *regarding this contract. The investigations commenced as a result of reports made to the relevant U.S. authorities by a losing bidder to the 2012 SASSA contract. While these investigations have all been concluded with no adverse findings against us, during the course of the investigations, management's time was diverted from other matters relating to our business and we suffered harm to our business reputation."*

3. In an earlier note to the Net1 2016 AFS (under the section "Risk Factors"), references were made to the cost. We reproduce:

   "These investigations have been costly for us. We incurred significant legal costs during fiscal 2013 and 2014 in responding to the U.S. government's requests for information, management's time has been diverted from other matters relating to our business and we have suffered harm to our business reputation. In particular, in fiscal 2013, the FSB suspended Smart Life's insurance license. Even though the SEC has concluded its investigation and Smart Life's license suspension has been lifted, we cannot predict when the DOJ investigation will be completed or the impact or outcome of that investigation."

4. An extract from the CEO's Letter for 2017 Annual Report reads:

   *"**Closure of DOJ investigation**: In July 2017, we received a letter from the US Department of Justice closing its FCPA investigation. This investigation commenced in 2012 as a result of allegations levied by a losing bidder for* our *SASSA contract. The DOJ closure letter was the last remaining outstanding item in this joint investigation with the SEC in the U.S., in addition to the Hawks in South Africa also closing their enquiries in 2015."*

5. The annual financial statements of Cash Paymaster Services (Pty) Ltd contain similar disclosures on a year to year basis.

6. For the AFS of 30 June 2013, references within the Director's Report stated that "on 30 November 2012, Net 1 UEPS Technologies, Inc. (Net 1) received a letter from the U.S. Department of Justice, Criminal Division (DOJ) informing it that the DOJ and the Federal Bureau of Investigation have begun an investigation into whether Net 1 and its subsidiaries, including its officers, directors, employees, and agents (collectively, Net 1) and other persons and entities possibly affiliated with

Net 1 violated provisions of the Foreign Corrupt Practices Act and other U.S. federal criminal laws by engaging in a scheme to make corrupt payments to officials of the Government of South Africa in connection with securing a contract with SASSA to provide social welfare and benefits payments and also engaged in violations of the federal securities laws in connection with statements made by Net 1 in its Securities and Exchange Commission (SEC) filings regarding this contract."

7. The Director's Report for the year 30 June 2014 make no direct reference to this matter.

8. For the 2015 CPS' Directors' Report, the following disclosure was made:

   "United States *investigations*

   As we have previously reported, in late November 2012, the U.S. Department of Justice (DOJ) commenced an investigation into whether we violated the Foreign Corrupt Practices Act (FCPA) and other U.S. federal criminal laws *by engaging in a scheme to make corrupt payments to officials of the South Africa government in connection with securing our 2012 SASSA contract and whether we violated federal securities laws in connection with statements made by us in our United States Securities and Exchange Commission (SEC) filings regarding this contract. In addition, the SEC commenced its own investigation.*

   On 8 June 2015, we received a letter from the SEC stating that it had concluded its investigation and that it did not intend *to recommend an enforcement action against us. It is our understanding that the OOJ investigation remains ongoing.*

   Even though the SEC has concluded its investigation we cannot predict when the DOJ investigation will be completed or *the impact or outcome of that investigation."*

9. The 2016 report duplicates this section exactly, providing no updates.

10. The reports for 2017 and 2018 make no references to this matter.

11. In summary therefore, based on these disclosures, we conclude that:

    - Following negative media reports alleging malfeasance relating to the SASSA report, the DOJ (USA) and the FBI advised Net 1 UEPS Technologies, Inc. (Net 1) on 30 November 2012 that they had initiated an investigation into the activities of NET1 and its subsidiaries into possible contraventions of Foreign Corrupt Practices Act and other U.S. federal criminal laws.
    - Soon thereafter the SEC commenced its own investigation, into related issues.
    - On 8 June 2015, the SEC issued a letter stating it had concluded its investigation.
    - In 2016 the group reported that it had incurred significant legal expenses relating to these investigation in fiscal 2013 and 2014 in responding to the U.S. government's requests for information.
    - In July 2017 the group was notified that the US Department of Justice had closed its FCPA investigation.

12. The DOJ Legal Costs account provided to us does not refer to a General Ledger account code, and accordingly we have no detailed transactions listings, making up this amount. In the trial balance schedule, supporting the Summary of Income and Expenses, the full amount has been assigned as an "adjustment" to the five year period ending March 2017.

N.P

13. The full value is covered by the KPMG audit.

14. Noteworthy, however, is that the full value is reflected as an adjustment in the schedule provided to us. The schedule referred to above consists of multiple columns, the first of which refers to "Amounts per TB...", which refer to the total income, expenses and by calculation, profit. The reported figures are then reconciled to the company's annual financial statements, which had been audited by Deloitte.

15. As also stated, the legal costs of R96 972 107 are reflected as an adjustment to the TB, specifically demonstrating that it was not included as a CPS expenses for purposes of its financial statements, subject to audit in terms of Internal Financial Reporting Standards.

16. The foundation for this review is the premise that Net1 legal expenses, which are specifically not CPS expenses, are assigned to the SASSA contract, which is exclusively managed by CPS.

17. As there is a significant incentive for the group to minimise CPS' profits, following the Con Court ruling that the company may not benefit from an irregular contract (introducing the risk that it may order profits to be repaid), the risk of improperly inflating expenses, thereby reducing profits, is heightened.

18. We received a Microsoft Excel schedule titled "Net1 DO Legal costs", following our request for further information.

19. The Excel file consists of three worksheets entitled "Company", "D&O" and "Detailed for D&O". The context of the latter two sheets indicate that D&O refers to Directors and Officers.

20. The main schedule is included under "Company". In its initial narrative, it refers to a schedule prepared on 1 February 2017 by Paul Encarnacao. It is presented in the name of Net1 UEPS Technologies, Inc. and refers also to the Department of Justice and US Securities and Exchange Commission Investigations.

21. The cumulative expense is presented as $ 10 009 882 which is converted to ZAR for a total value of R96 972 106.86, which implies the average exchange rate of 9.6876.

22. The values, stated above represent the aggregate expenses for "fiscal 2013" to "fiscal 2017", correctly calculated.

23. The tables within the worksheet include columns Incurred in ZAR, USD Equivalent, Incurred in USD, Total USD, Rate and ZAR.

24. Where appropriate, the formulas are correct.

25. For each year the costs are reflected as line items, typically referring to monthly totals. Per example, the first of these "detailed" reference reads under "DLA Piper LLP (US)" "DLA-March 2017-DOJ & SEC", referring to an expense of USD82 003, which is converted at 12.9108 to achieve a ZAR value of R1 058 719.66.

26. The values for the respective years are listed as follows:

N P

Period	USD	ZAR
Fiscal 2013	5,230,339.00	47,293,619.00
Fiscal 2014	4,137,518.00	41,713,223.00
Fiscal 2015	235,328.00	2,645,464.00
Fiscal 2016	160,187.00	2,065,818.00
Fiscal 2017	246,510.00	3,253,984.00
Total	**10,009,882.00**	**96,972,108.00**

27. For the earlier years, references are made to "recover from insurer", where the totals have been reduced by these recoveries. In fiscal 2015 a recovery was made of R9 094 459, and in fiscal 2016 this value is reflected as R392 756.

28. A note to the schedule refers to Net1's excess of USD 250 000, which was exceeded in 2015, after which the insurers reimbursed expenses. The note, however, refers to "internal reserve has been breached".

29. Whilst the schedule refers to DoJ and SEC investigations, there are multiple lines items which have different references referring to "class action litigation". In other cases there are expenses incurred in South Africa, by audit firms (Ernst & Young and Deloitte), where the nexus to DoJ and SEC is unclear.

30. The South African expenses also refer to multiple references to South African attorneys. It is also not clear how these costs are relevant to the American investigation.

31. There are clear errors on this schedule which have a marked impact. For the fiscal 2016, reference is made to four transactions made in ZAR, as R5032, R23497, R2088 and R3024 for October, September, August and July 2015, respectively (R33 460). These values are restated with the exact same values as "incurred in USD", then converted at the exchange rate to be restated in ZAR.

32. The effect thereof is that, on the face of it, the South African expense of R33 640 has been misstated as R452 623, an overstatement of R418 983.

33. Similarly, for the fiscal 2014 financial year the same "error" has been applied referring to transactions between December 2013 to June 2014, where expenses aggregating R160 905.37 are stated again as USD 160 905, to arrive at a converted ZAR value of R1 735 665, an overstatement of R1 574 760.

34. The combined value of these two sets of apparent duplications is an overstatement of these expenses of R1 993 743. This implies that the total value of R96 972 107 should be reduced, at minimum, to R94 978 364.

35. It is probable, however, that the error is to reflect these values under "incurred in ZAR" column, as opposed to the "incurred in USD" column only, where they were duplicated. An argument in support of this theory is that the invoices refer to DLA Piper, which is a firm in the USA (they would not bill in ZAR) and also the fact that these invoices refer to "class action litigation".

N.P

36. In other sections of the same worksheet the values incurred in ZAR are correctly converted to USD and back to the correct ZAR values.

37. The worksheet "D&O", included in the same spreadsheet, lists multiple references where various law firms, local and international billed Net1 in matters where directors and officers were represented, reflecting the cost of these.

38. The grand total refers to an expense of USD 3 272 187.48 which was reduced by an insurance recovery of USD 2 996 866.69 to arrive at a net value of USD 274 421 29. This value represents the effect of the costs incurred between Fiscal 2013 and Fiscal 2016.

39. The document is supported by a supplementary schedule titled "Detail for D&O". These collective schedules refer to multiple occasions various directors and officers, specified and unspecified, were represented by various firms of attorneys.

40. These schedules are not intended to (nor do they) reconcile to the "Company" schedule which refers to the total legal cost.

41. We attempted to categorise the expenses included under "Company" which are purported to refer to DOJ and SEC investigations.

42. When eliminating the credits (including insurance recoveries, etc.), we remain with 78 transactions at a converted value of R103 064 579. The majority of these refer to either "DOJ & SEC", but a, not insignificant number, refer to "class action litigation".

43. The references to DOJ and SEC are reflected within 39 line items, to the value of R80 744 437.57, ostensibly between December 2012 and March 2017.

44. The financial year, the costs are allocated:

June 2013	R40 378 824
June 2014	R33 618 082
June 2015	R1 492 299
June 2016	R2 001 250
June 2017	R3 253 894.

45. Similarly, the transactions referring to "class action litigation" were reviewed. There are 23 line items, amounting to R12 303 420.88.

N P

46. Per year, they are incurred as follows:

June 2014	R1 735 665
June 2015	R10 115 132
June 2016	R452 623.

47. We requested copies of all the relevant invoices supporting these charges.

48. Of all of the transactions, we received 20 invoices which agree to the line items. From these 5 relate to "class action litigation" and 14 are relevant to the "DOJ & SEC". The other invoice refers to a South African invoice from SSG Professional Services (Pty) Ltd.

49. We reviewed the 5 "class action" invoices we received. All of these were issued by DLA Piper LLP (US).

50. The invoices do not give a description of the "case", but in the numerous line items presented in support of their fees, the gist of the matter can be established.

51. The Net1 annual reports make regular references to this class action. The CPS annual financial statements do not. Per the Net1 June 2014 reports:

"United States securities litigation

On December 24, 2013, Net1, our chief executive officer and our chief financial officer were named as defendants in a purported class action lawsuit filed in the United States District Court for the Southern District of New York alleging violations of the federal securities laws. The lawsuit alleges that we made materially false and misleading statements regarding our business and compliance policies in our SEC filings and other public disclosures. The lawsuit was brought on behalf of a purported shareholder of Net1 and *all other similarly situated shareholders who purchased our securities between August 27, 2009 and November 27, 2013. The lawsuit seeks unspecified damages. On July 23, 2014, the Court appointed a lead plaintiff and lead counsel. No motion for class certification has been filed. We believe this lawsuit has no merit and intend to defend it vigorously."*

52. Per the Net1 June 2015 report:

"United States securities litigation

On December 24, 2013, Net1, our chief executive officer and our chief financial officer were named as defendants in a purported class action lawsuit filed in the United States District Court for the Southern District of New York alleging violations of the federal securities laws. The lawsuit was brought on behalf of a purported shareholder of Net1 and all other similarly situated shareholders who purchased our securities between August 27, 2009 and November 27, 2013. On July 23, 2014, the Court appointed a lead plaintiff and lead counsel. On September 22, 2014, the lead plaintiff filed an amended complaint alleging that we made materially false and misleading statements in that we failed to disclose material adverse information and misrepresented the truth about our finances and business prospects. The amended complaint seeks unspecified damages on behalf of

N.P

the lead plaintiff and all other similarly situated shareholders who purchased our securities between January 18, 2012 and December 4, 2012, which is a shorter class period than proposed in the original complaint. On January 16, 2015, we filed a motion to dismiss plaintiff's amended complaint for failure to state a claim. On March 6, 2015, plaintiff filed an opposition to our motion to dismiss its complaint, and we filed a reply brief on March 27, 2015. No motion for class certification has been filed. We believe this lawsuit has no merit and intend to defend it vigorously."

53. The last reference was made in the June 2016 Net1 AFS, as follows:

"During the year, we continued to make significant progress in either resolving or positioning our Company such that we addressed or moved past some of the legal, regulatory and contractual overhangs that weighed on us over the past few years. The Hawks in South Africa closed their Section 34 investigations without action, and the class action litigation in the United States was also dismissed by the United States District Court for the Southern District of New York."

54. The costs of these class action invoices is R12 303 420.88.

55. The schedule listing these is appended bellow:

Net1	**ZAR**	**USD**	**Rate**	**ZAR**
DLA - December 2013 - Class action Litigation	15,668.50	$ 15,668.50	10.3652	162,407.14
DLA - January 2014 - Class action Litigation	60,130.16	$ 60,130.16	10.8360	651,567.41
DLA - February 2014 - Class action Litigation	27,401.94	$ 27,401.94	11.0037	301,521.63
DLA - March 2014 - Class action litigation	51,430.94	$ 51,430.94	10.7606	553,428.29
DLA - April 2014 - Class action litigation	757.45	$ 757.45	10.5578	7,997.01
DLA - May 2014 - Class action litigation	275.38	$ 275.38	10.4124	2,867.37
DLA - June 2014 - Class action litigation	5,241.00	$ 5,241.00	10.6614	55,876.40
DLA - July 2014 - Class action litigation		$ 7,777.00	10.6576	82,884
DLA - August 2014 - Class action litigation		$ 1,804.00	10.6640	19,238
DLA - September 2014 - Class action litigation		$ 76,062.06	10.9593	833,587
DLA - October 2014 - Class action litigation		$ 148,883.99	11.0933	1,651,615
DLA - NOV 14 - CLASS ACTION LAWSUIT		$ 131,383.71	11.0855	1,456,454
DLA - December 2014 - Class action litigation		$ 108,712.74	11.4876	1,248,848
DLA - January 2015 - Class action litigation		$ 194,252.00	11.5609	2,245,728
DLA - February 2015 - Class action litigation		$ 6,997.90	11.5913	81,115
DLA - March 2015 - Class action litigation		$ 184,027.14	12.0599	2,219,349
DLA - April 2015 - Class action litigation		$ 13,961.26	12.0038	167,588
DLA - May 2015 - Class action litigation		$ 8,900.95	11.9552	106,413

N.P

DLA - June 2015 - Class action litigation		$ 188.00	12.3057	2,313
DLA - July 2015 - Class Action Litigation	3,024	$ 3,023.59	12.4319	37,589
DLA - August 2015 - Class Action Litigation	2,088	$ 2,088.44	12.8702	26,879
DLA - September 2015 - Class Action Litigation	23,497	$ 23,496.50	13.6297	320,250
DLA - October 2015 - Class Action Litigation	5,032	$ 5,031.50	13.4961	67,906
		$ 1,077,496.15		R12,303,420.88

56. We enquired from CPS, requesting them to elaborate on the nature of these matters and provide a link to the SASSA contract with CPS. In addition, we queried why these transactions had not been included in the financial statements of CPS.

57. We reproduce the reply below:

"The expenses are in respect of the following legal matters: the DOJ investigation (USA), SEC investigation (USA), JSE investigation (SA), Class Action lawsuit (USA); Section 34 investigation (SA) - all the result of the SASSA tender award and the challenge therof and therefore "under the contract". Most of the costs are legal fees but there are also fees incurred by the external auditors for having to deal with queries from the authorities as directed at them; and cost by E&Y to extract electronic information for the DOJ. The nature of the matters is described in the CPS AFS for 2012 to 2018 in the Directors' Report."

58. Details of Class action lawsuit were provided.

59. In reply to why the expense were not carried in the CPS Financial Statements, the representative from CPS stated:

"You are auditing the "Statement of the Expenses Incurred, the Income Received and the Net Profit Earned under the Contract for SASSA Tender 01/11/BS" The auditor's report makes it clear that this not the company's financial statements:

"Emphasis of Matter – Basis of Preparation and Restriction on Use

We draw attention to the notes to the Statement, which describe the basis of preparation. The Statement has been prepared to assist the Company to provide information to the Constitutional Court as required in terms of the Constitutional Court judgement handed down on 17 April 2014 in the case of Allpay Consolidated Investment Holdings (Pty) Ltd and others v Chief Executive Officer of the South African Social Security Agency and others]2013] 2 All SA 501 (SCA) (The Allpay Judgement). These are not the Company's statutory financial statements which are prepared in accordance with International Financial Reporting Standards and the Companies Act of South Africa. Our report is intended solely for the Company and Constitutional Court and should not be used by parties other than the Company or the Constitutional Court. Our opinion is not modified in respect of this matter."

ə## N.P

Extract from the "Notes to the Audited Statement of the Expenses Incurred, the Income Received and the Net Profit Earned under the Contract for the period ended 31 March 2017 ("Statement"):

Purpose of the Statement

The Statement has been prepared to provide information to the Constitutional Court as required in terms of the order handed down on 17 April 2014 which requires an audited statement of the expenses incurred, the income received and the net profit earned under the contract for the payment of social grants entered into by and between the South African Social Security Agency (SASSA) and Cash Paymaster Services Proprietary Limited (CPS). These are not the CPS statutory financial statements which are prepared in accordance with International Financial Reporting Standards and the Companies Act of South Africa.""

60. Whilst their argument is understood, the submission above is inadequate to satisfy our query, considering that Net1 excluded significant income streams from this review, effectively claiming these to be "incidental", as opposed to "under" the contract.

Disputed Expense

61. Whilst the expense is not queried, its classification as "under the contract" (to be included in this exercise), as opposed to "incidental to the contract" (not a relevant expense) is contested. As the expense of R96 972 107 was not reflected or included in CPS's general ledger and audited financial statements, the internal treatment thereof favours the latter interpretation.

N.P

20. Retrenchment costs

1. The total costs for the period claimed as retrenchment costs are R107 474 277.05, which represents about 1.04% of all project expenditure for the 78 month period.

2. Retrenchment costs are recorded under general ledger code 7921.

3. Total costs per general ledger for the period under review stand at R886 877, where these expenses relate only to the subsequent extended contract periods.

4. Most of these costs are not reflected in the general ledger of CPS and were therefore not part of the annual financial statements audited by Deloitte for the respective periods. As such, the validity of the expense arouses initial query.

5. The significant majority of the costs, i.e. R106 587 400 are assigned to the initial period of April 2012 to March 2017.

6. According to the schedule of income and expenditure provided to us, the balance to these costs, i.e. R886 877.05 arise within the second period, with the 12 months ending March 2018 recording this expense. A cost of 9 045 187.95 is reflected, but reversed, then reintroduced to the third period, then reversed. Accordingly the third period reflects a zero value.

7. As stated, this is not consistent with the individual transactions recorded in the general ledger, which, on independent calculation reflect a zero value for the five years ending 31 March 2017, a debit of R17 137 945.31, a credit of R7 205 880.31, i.e. a net value of R9 932 065.00 for the 12 months ending 31 March 2018, with a debit cost of R440 558.51 and a credit value of R9 485 746.46, i.e. a net value of –R9 045 187.95 reflected in the final 6 months ending September 2018.

8. The total period expense in the general ledger is restricted to R886 877.05. The first period expense of R106 587 400 is not reflected in the general ledger.

9. Per the schedule of income and expenditure provided to us, this cost is introduced as an adjustment.

10. Representation from CPS referred to the costs, as follows:

Provision calculated:

CPS Staff as per detailed schedule provided	*111 337 360*
Net1 Staff as per detailed schedule provided	*19 144 122*
Adjustment recommended by KPMG	*(23 894 082)*
Amount reported for 5 year period	*106 587 400*
Increase in provision Jul18	*446 319*
Actual cost paid Sept 18	*440 559*

Total	*107 474 278*

CPS had a legal obligation to provide retrenchment benefits under the contract and KPMG had recommended an adjustment to reflect the company's legal obligation rather than the calculated constructive obligation. The calculation has been requested from KPMG

11. We had received an excel document titled "Retrenchment Calculation as at 31 March 2017". This spreadsheet contained two worksheets titled "cy" and "nt".

12. The "cy" worksheet contained 2433 line items referring to individual employees, reflecting the accumulated retrenchment costs, calculated at R111 337 361.08, in addition to leave of R15 441 584.79, resulting in the accumulated package of R126 778 945.87.

13. This value of R111 337 361.08 is consistent with the schedule referred to above under the category "CPS Staff as per detailed schedule provided".

14. The "nt" worksheet contains 173 line items (also referring to employees), culminating in a package cost of R19 144 121.69. Leave is provided for at R1 952 698.27, i.e. a total cost of R21 096 819.96. This is consistent with the schedule above, under the heading *"Net1 Staff as per detailed schedule provided"*

15. Collectively, the combined schedule refers to retrenchment costs of R130 481 482.77 for the five year period.

16. With the adjustment, apparently requested by KPMG of (R23 894 082.00) the total value reduces to R106 587 400.77. This value agrees to the reported cost for the five year period.

17. When queried, van Straaten advised that on the eve of the reporting deadline (in terms of the filing notice of the Con Court requirement) KPMG insisted on an adjustment, for which they provided a value only, without any supporting documentation.

18. Van Straaten advises that under the stress of the deadline, the adjustment was accepted.

19. Later van Straaten advised that on enquiry from KPMG, the cost reduces the 2x monthly salary provision (discussed later) to a single month, symbolising a closer cost estimate to a legal obligation, as opposed to a "constructive obligation".

20. We have confirmed that the requested adjustment of R23 894 082 is consistent with half of the value of the quantified totals in the "cy" and "nt" worksheets presented to us under the headings "2x Monthly Salary".

21. We considered the schedules provided to us to establish how the claimed costs were calculated.

22. The schedule consists of 22 columns.

N rP

23. A brief description follows:

Employee Code	The employee code, containing letters and numbers.
Surname	
Name	
Date Joined	The date joined is reflected, ranging between 1990 and 2017. For the "nt" schedule (Net1 staff), the date joined ranges between 1993 and 2017.
Contract Type	Provision is made for "Government Contract" (2315 entries), "Permanent" (108 entries) and "Short term pensioners" (10 entries) under the "Cy" section. The "nt" section does not have the equivalent data.
category	This refers to "Government package" (633), "Government terminate contract" (1682), "Permanent" (108) and "Short term pensioners" (10).
Service years	The Service Years column reflects the number of completed years, per employee as at 31 March 2017. This ranges between 0 and 26.
service months	Reference is made to either 1 or 0, used to calculate the retrenchment entitlement. There are 1520 entries of 0, representing all contract types and categories, with no clear indication for the distinction.
Weeks	In this section the number of weeks are indicated, based on the calculation of service years multiplied by 2 plus either 1 or 0 from the service months' column. Results of between 1 and 53 are reflected. This implies provision is made to pay 2 weeks of salary as retrenchment for every completed year, which is double of the minimum requirement set by labour legislation.
Termination Date	The termination dates are set as 31 March 2018 for 2 299 entries and various dates between March and August 2017 for 25 entries. For the "nt" section, there is no corresponding entry.
Job Title	Self-explanatory
Salary	This refers to the monthly salary of the employee, used to calculate the benefit. The values range between R2 128 (cleaner/tea maker) and R74 157 (provincial operations manager).

N P

Weekly	The weekly costs utilises the monthly salary value, which is multiplied by 12 and divided by 52.
Daily	The daily rate utilises the monthly salary value, which is multiplied by 12 and divided by 250. This implies that the daily rate (used to calculate leave later) is based on a 50 week year, implying 2 weeks leave credit built into the daily rate. It is clear that this calculation would not cover any public holidays which might have been included.
Cost Code	The Cost Code refers to the region, under its GL Code.
Leave as at 31 Mar 2017	Values are recorded under this heading, ranging between -8.75 and 31.26. Some anomalies are noted, where the leave entitlement appears to be in conflict with the recorded years' service, where several entries refer to more than 20 days leave entitlement within the first year of service. Per example a Short term pensioner, Derek Lowe, reflected as appointed on the first of September 2014 shows "0" completed years (incorrectly) with leave of 21 days. Another example, Glynis de Kock was apparently employed on the first of July 2016, which is correctly reflected as 0 completed years' service, but reflects 27.23 days of accumulated leave as at 27 March 2017
2 X MONTHLY SALARY	As stated the majority of entries (with exception of 14) reflect a provision for 2 times the monthly salary as part of the retrenchment package benefit. Short term pensioners did not benefit from this largess. This appears to be a generous allocation, as it is offered in addition to double the weekly allowance, and is not a requirement in terms of labour legislation. This provision also benefits those within their first service year. It is not clear why a number of employees are excluded.
WEEKS	The value under "Weeks" multiplies the weekly wage with the number of weeks specified earlier in the column of the same name.
package	In this section, the value of the "Weeks" calculation and the "2x Monthly salary" are added to calculate the total package. This is the value which is quantified at R111 337 361.08, referred to earlier under "cy" and R19 144 121.69 for the "nt" section.
leave	This represents a calculation of the daily wage (as set out) multiplied by the recorded leave days.
Package including leave	This is a simple addition of the "Package" and "Leave"

N.P

HC	This refers to Head Count where every entry refers to the singular, i.e. 1 person.

24. We are satisfied that the calculations used in this worksheet are accurate.

25. Several queries arise at this stage.

26. As explained, the retrenchment package is based on the number of years' service per employee, consistent with labour legislation.

27. The cost, for this purpose, however, should reflect the cost to be assigned to the CPS Contract with SASSA, which is a five year contract, and should not, we submit, include the liability to the company beyond this contract.

28. In particular, and per emphasis, the Auditor's Report, Audited Statement and Notes to Audited Statement, specifically include (under heading "2. Basis of Preparation of the Statement") the comment:

    "The directors have selected and applied the following significant accounting policies in preparation of the Statement. The directors have interpreted the words "under the contract" as relating directly to the SASSA contract and therefore income and expenses incidental to but not arising from the contract have been excluded from this Statement."

29. For this reason we submit that the cost of retrenchment arising from the historic service history (beyond the contract period) are "not arising from the contract" and should be excluded.

30. On recalculation, we arrive at a significant variation.

31. Per our submission, the effective date joined (for purposes of contract expenses) should be regarded as the later of actual date of employment or the contract commencement date. To calculate this, we utilised the revised "Joining date" to become an "Effective date" and recalculated the applicable "Completed years" (now maximum five years), which we applied to the stated formula of accruing two weeks salary for every completed year.

32. Appling that formula, the stated cost of R111 337 361.08 reduces by R29 189 814.46 to R82 147 546.62 for CPS staff and from R19 144 121.69 by R7 128 496.62 to R12 015 625.08.

33. The collective effect is therefore a reduction of these expenses from R130 481 482.77 to R94 163 171.69, a reduction of R36 318 311.08.

34. The KPMG adjustment of R23 894 082 refers to "reflect the company's legal obligation rather than the calculated constructive obligation".

35. We had noted that the provision appears to be very "generous". The legal obligation in terms of prevailing and ruling labour legislation (Labour Relations Act, 66 of 1995, as well as Basic Conditions of Employment Act, 11 of 2002) both refer to the "minimum requirements" of providing for one week remuneration (on retrenchment) for every completed year (sections 189 and 41(2), respectively) and no legal obligation to include another two month's salary.

N-P

36. The calculation by CPS, as documented above, calculates using two weeks per completed year and for most employees, another month's salary as the package.

37. We submit therefore that, per our assessment, the "Legal obligation" (should it exist for these contracts) would be restricted to a single week for the completed contract.

38. The effect of this on the CPS calculation would be that the strict legal obligation for CPS would be R34 899 764.54 and R6 446 893.85 for Net1 staff (based on the original calculation an adjustment of R89 134 824.38.

39. Relevantly, however, is our submission that the claim to this contract must be restricted to what has actually been paid by CPS to the employees. If no payment was made, the cost should be, per our submission, be repudiated as contract expense.

40. By all indications, with minor exceptions in the later period, no retrenchment costs were paid.

41. This is definitively true as the staff were retained to continue their service, as their contracts were extended in terms of the SASSA contract extension.

42. In CPS's submission (above), the only reference paid is "Actual cost paid Sept 18 R440 559". The other later expense of R446 319 is referred to as a provision, specifically an increase in provision.

43. It is not clear at this stage what the current status of this and other provisions may be.

44. According to the AFS of CPS for the respective years, there are no provisions for retrenchment costs apparent.

45. Business logic dictates that all employees employed by CPS (or Net1) for a five year government contract would be employed specifically for that contract, without the need of retrenchment. The schedules provided by CPS specifically refers to contracted staff linked to this contract, is consistent with this notion.

46. Secondly, and very relevantly, SASSA extended the contract for further term after expiry of the original period, requiring CPS to continue the service. This suggests or implies that the staff were not retrenched at that time.

47. A similar query relates to the staff category described as "Short term pensioners", questioning why these would require to be retrenched, or alternatively remunerated on termination.

N.P

Further calculations

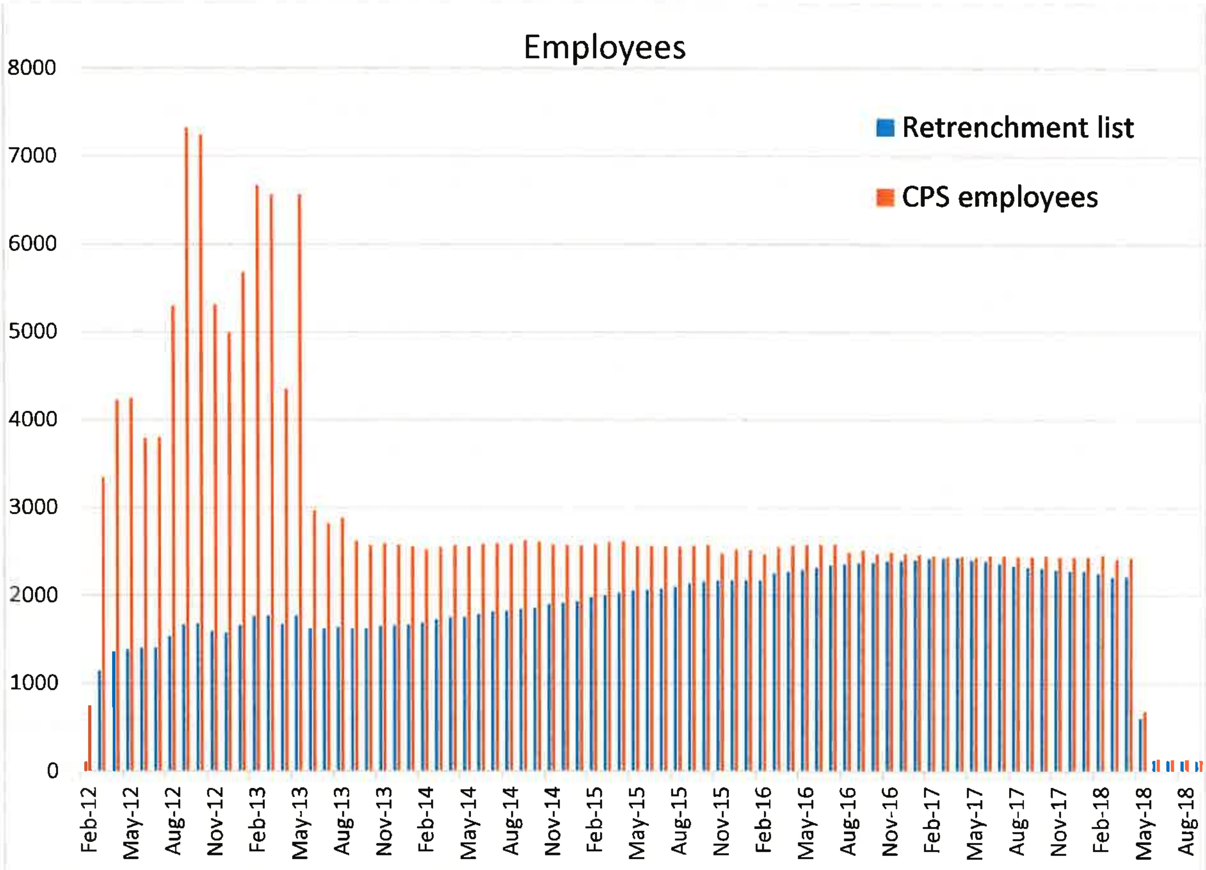
48. We received, consolidated and compared the monthly payroll schedules to the retrenchment calculation schedule.

49. For this monthly payroll schedule we consolidated the detailed monthly payroll schedules for the 78 months under review into a single sheet recording the monthly expense. Where applicable, we compared the data of the retrenchment calculation to the originating payroll data, now consolidated into our spreadsheet.

50. This data refers only to the CPS staff members. We confirm that all 2436 CPS staff flagged for retrenchment costs are included, but the Net 1 staff (173) are not reflected.

51. Collectively, over the period of review, reference is made to 12 236 different individuals.

52. We present a graph of our findings, comparing, per individual line item, and in total, the total staff complement of CPS to the "retrenchment list".



53. It is clear from this review that in the time of approximately August 2012 to May 2013, the staff complement of CPS was significantly higher. This is consistent with the representation in CPS's Annual Financial Statements Directors' reports which elaborated on the company's need to hire additional staff to assist with the bulk registration process.

54. It is also apparent that when this staff complement was reduced, no retrenchment fees were paid.

N P

55. This is in conflict with the representations from CPS that all employees are entitled to retrenchment benefits, regardless of the nature of the employment contract.

56. More relevantly, however, is a significant decline of employees evident in about May 2018 and thereafter.

57. Once again, almost no retrenchment costs (comparative to the claimed expense) was incurred following this significant staff reduction.

58. The staff complement in the following months is almost insignificant.

59. We submit that if the staff for whom the expense was raised are no longer employed by CPS and were not paid retrenchment costs, the claimed expense is unsubstantiated and invalid.

60. We stand advised that many staff were transferred to another company within the group, in the hope that this entity (which apparently had better BEE credentials and was listed on the CSD), would be able to tender to provide some related services to SAPO in terms of the further extension of the contracts.

61. We received three relevant documents relating to the transfers.

62. A Service fee agreement was signed between Uzalo Payment Logistics (Pty) Ltd and Cash Paymaster Services providing for the transfer of staff to this "BEE entity". The agreement is signed on 27 August 2018, but is stated to be effective from 1 April 2018, several months earlier, also the start of the second extended period.

    Exhibit E2

63. The transfer of these staff included transfer of liabilities, specifically mentioning retrenchment costs.

    For the avoidance of doubt, Lizwe shall be solely responsible for any liabilities arising from the employment of it staff, for example incentive bonuses, any retrenchment liabilities, leave pay, and workmans compensation cost etcetera.

64. There is an almost identical agreement with Lizwe Administration Services (Pty) Ltd.

    Exhibit E1

65. A further agreement documents a "transfer of employees agreeement" with the two stated entities.

    Exhibit E3

66. This agreement addresses the transfer of the obligation for leave and bonus entitlements to the new entities, as reproduced.

N.P

As part of this transfer, CPS has agreed to pay Uzalo, Lizwe and Moneyline the leave pay obligation and bonus obligation, as calculated for the employees until their transfer, in return for Uzalo, Lizwe and Moneyline for assuming the obligations to provide paid leave and pay a bonus to the employees so transferred. CPS agrees to pay these amounts to Uzalo, Lizwe and Moneyline since the bonus and leave pay relates to periods for which services were rendered by said employees to CPS.

CPS will pay the amounts to Lizwe, Uzalo and Moneyline. It is agreed that Lizwe, Uzalo and Moneyline are contractually and legally obligated to apply the monies paid by CPS in terms of this agreement to provide paid leave to employees transferred and to pay bonuses to employees transferred.

67. The agreed values are duplicated below.

		leave	bonus
01 04 18	Uzalo	R11 579 397.64	R10 590 706.00
01 04 18	Lizwe	R297 221.75	R248 862.00
01 06 18	Uzalo	R436 465.64	R73 583.00
01 06 18	Lizwe	R1 136 903.63	R2 097 009.00
		R13 449 988.66	R13 010 160.00

68. No specific mention was made for retrenchment costs in this agreement.

69. We have not yet learnt which staff were transferred.

70. We are advised also, that when the new entities failed to secure any further contract, staff were retrenched from those entities, but not at a further cost to CPS.

71. An extract from the filing notice reads "when there is a present legal or constructive obligation and a demonstrable commitment to terminate the employment of employees before retirement, the expected cost of termination benefits is recognised as an expense".

72. We cannot concur with this "theoretical" charge if it did not materialise.

73. The observation that the costs were not recognised as an expense in CPS's financial statements undermines the statement by CPS, above.

74. We received an extract purporting to be an extract from the "staff manual – bonus & leave pay". This document reflects only one reference to a severance package, although only referring to it under the heading "severance package payable on termination of employment due to ill health".

75. The extract reads:

"If a contract of employment is terminated due to ill health, the employee will be paid an amount equivalent to one month's salary and, in addition, one week's pay for every six months of completed service with the Company. This is based on the cost to Company amount stated in the employee's contract of employment, or in a subsequent letter advising of a salary review".

Exhibit E4

N.P

76. The basis of calculation applied by CPS is therefore inconsistent with this policy document (where they calculated the benefit as 2 weeks for every completed year (as opposed to one week for every six months) plus a week for the notice period plus two months' salary.

77. The KPMG adjustment, reducing the "cost" to the equivalent of 1 month's salary (whilst not adjusting for the week of the notice period or the two weeks per year) is more closely aligned to the policy extract provided to us.

78. As emphasised earlier, however, the entire argument becomes moot if no payment materialised.

79. In response to our enquiries to actual retrenchment payments, we received three worksheets purporting to represent individual retrenchments actioned in 2015, 2016 and 2017, respectively. On consolidation, these refer to 41 individual line items where stated individuals were apparently retrenched and paid out amounts ranging between R5 576.92 and R754 760.77. The total value of these 41 apparent pay-outs is R2 333 784.00.

80. We found no general ledger expense in the records of CPS confirming these payouts under the category "retrenchment".

81. We matched (attempted to) the list to the schedule originally provided to us which had referred to the retrenchment calculation at 31 March 2017.

82. Only 4 of the names on the list were included on that old list.

83. The list of employees, and where applicable, the corresponding details of the original schedule, is:

	EE Code	Name	Paid	Date	years	Termination Date	Job Title	package
1	CP10834	Miss N NGCANA	5 576.92	Aug 15				
2	CP10835	Miss A NJARA	5 576.92	Aug 15				
3	CP10840	Ms N NTENGU	5 576.92	Aug 15				
4	CP10841	Miss TV DULAZE	5 576.92	Aug 15				
5	CP10843	Mrs MM BOOI	5 576.92	Aug 15				
6	CP10844	Mrs NM SIDINA	5 576.92	Aug 15				
7	CP10845	Miss TI NGAMLANA	5 576.92	Aug 15				
8	CP10846	Mr N NINGI	5 576.92	Aug 15				
9	CP10847	Miss A NCATA	5 576.92	Aug 15				
10	CP10848	Miss NJ NDZIBI	5 576.92	Aug 15				
11	CP10850	Mrs NF MSILA	5 576.92	Aug 15				
12	CP10851	Mrs LN MOSALA	5 576.92	Aug 15				
13	CP10852	Ms BA ZUMA	5 576.92	Aug 15				
14	CP10853	Ms NM MRAJI	5 576.92	Aug 15				
15	CP10859	Mrs AL MTYITYABA	5 576.92	Aug 15				
16	CP10860	Ms MM JACOBS	5 576.92	Aug 15				

17	CP10863	Mrs GW GOOSEN	5 576.92	Aug 15				
18	CP10864	Ms NF MADIKANE	5 576.92	Aug 15				
19	CP10872	Miss N MENZE	5 576.92	Aug 15				
20	CP10875	Mrs NV MEMA	5 576.92	Aug 15				
21	CP10876	Ms BC RWEXWANA	5 576.92	Aug 15				
22	CP10877	Miss PS MALI	5 576.92	Aug 15				
23	CP10878	Ms NC MATYALANA	5 576.92	Aug 15				
24	CP10879	Mrs VE MENTILE	5 576.92	Aug 15				
25	CP10881	Miss NG PETER	5 576.92	Aug 15				
26	CP10882	Ms FC KHOHLAKALA	5 576.92	Aug 15				
27	CP10883	Miss MN KULA	5 576.92	Aug 15				
28	CPS2371	Mr M ZENANI	28 703.62	Sep 15				
29	CPS1979	Mr MI MTSHWENI	50 103.85	Sep 16				
30	CPS2967	Ms DA KALA	23 086.46	Mar 16				
31	CPS3407	Mr MA RHODA	68 811.00	Feb 16				
32	JHB1066	Mr C VAN DER MERWE	754 760.77	Sep 16				
33	NCR0059	Mr DJ OPPERMAN	281 923.08	Nov 16				
34	NCR0112	Mr CW LANGEVELDT	276 615.38	Nov 16				
35	NET0297	Ms A ELLARY	54 519.00	Jan 16				
36	CP11472	Mr AP HANEKOM	28 701.54	Feb 17				
37	CPS0764	Ms SK DLAMINI	85 285.54	Jul 17	5		Branch Manager	111 069.54
38	CPS2211	Mrs A FARRINGTON	41 724.31	Apr 17	5	20 Mar 17	Stock Conroller	41 724.31
39	JHB0927	Mr SA VAN TONDER	384 608.92	Apr 17	20	31 Mar 17	Branch Manager	384 608.92
40	NET0217	Ms EE HOON	57 411.00	Jun 17	8		Operations Finance Admin	113 349.92
41	NWP0534	Mr KE MOTLHOIWA	46 952.69	Mar 17				
		Totals	**2 333 784.00**					**615 982.46**

84. The 4 individuals matched to the original schedule, are flagged numbers 37 to 40. When comparing the actual pay out, only two items match (flagged yellow). The other values (for Dlamini and Hoon) are significantly lower than the amount provided for in the schedule of 31 March 2017. Considering that the apparent retrenchment occurred months after March 2017, it would be expected that the actual payment would be higher than provided for, as opposed to significantly lower.

85. The dates for the flagged four individuals reflect dates after the March 17 cut-off. Had this not been the case, the original schedule would be flawed.

86. The observation that the original schedule reflects higher values for two individuals (37 and 40 above) by a significant margin serves to compromise the integrity or accuracy of the original schedule.

87. We accept that the stated R2 333 784 was incurred.

88. We requested and received actual payroll data in the form of individualised payslips. We treated a payslip to represent the equivalent of proof of payment for stated line items.

89. We received payslip files for November 2015 to September 2018. For April 2012 to July 2015 the data was received in Excel files. No information was provided for January 2014 to March 2014 and August 2015 to October 2015.

90. We examined the individual payslip data to establish when the employees listed on the March 2017 retrenchment list (2433 CPS employees) last received a salary. Our findings were that the majority of these employees last received salary in April 2018 (1611 employees) and followed by May 2018 (476 employees). According to the September 2018 payroll, 116 employees were still retained by CPS at that time.

91. With four notable exceptions (already flagged above) the last payslip of the effected individuals did not include any reference to retrenchment payments. The four individuals are:

EE Code	Name	Paid	Date	years	Termination Date	Job Title	package
CPS0764	Ms SK DLAMINI	85 285.54	Jul 17	5		Branch Manager	111 069.54
CPS2211	Mrs A FARRINGTON	41 724.31	Apr 17	5	20 Mar 17	Stock Conroller	41 724.31
JHB0927	Mr SA VAN TONDER	384 608.92	Apr 17	20	31 Mar 17	Branch Manager	384 608.92
NET0217	Ms EE HOON	57 411.00	Jun 17	8		Operations Finance Admin	113 349.92

92. The only retrenchment costs seemingly incurred of the claimed R106 587 400 is R569 029.77 (the four employees shown above). The balance of R106 018 370.23 is subject to dispute.

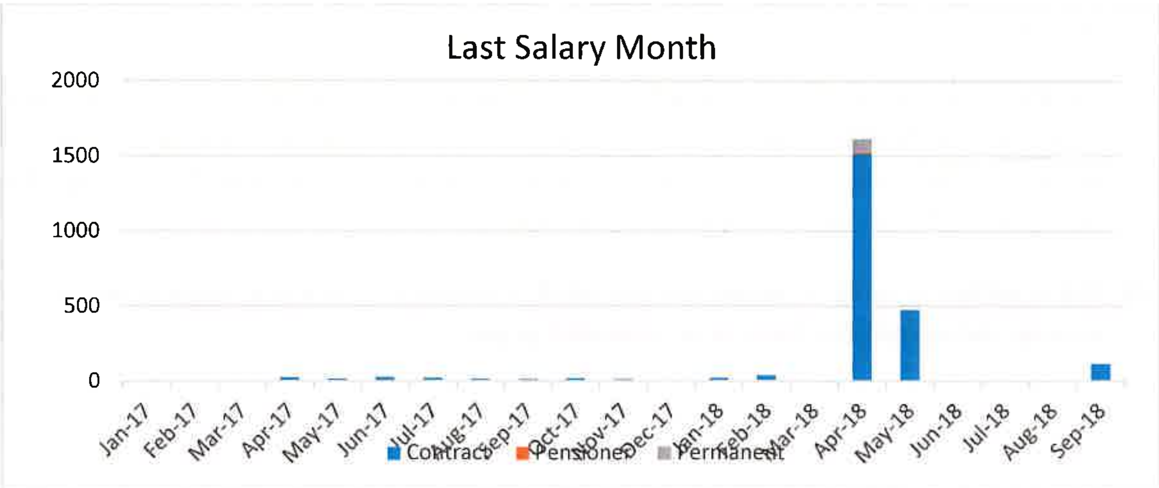
93. As the R2 333 784.00 of the schedule was not carried in the retrenchment general ledger account, but was demonstrably paid, it is assumed that the costs thereof are included within the other payroll accounts.

94. As reported earlier a number of employees were transferred to BEE companies within the group (Uzalo and Lizwe) during April and June 2018. Whilst the transfer provided for the concomitant leave and bonus obligations, no retrenchment pay obligation was included. Accordingly, CPS does not appear to have incurred any costs in that regard.

95. The transfers referred to above are essentially consistent with our findings of when CPS last incurred salary costs for them, as documented above.

96. The full list reflecting when the employees of the March 2017 "retrenchees" were last paid, accompanied by a corresponding graphic is reflected below.

	Contract	Pensioner	Permanent	Total
Jan-17				0
Feb-17				0
Mar-17	1			1
Apr-17	23		3	26
May-17	15		1	16
Jun-17	25		1	26
Jul-17	19		4	23
Aug-17	15			15
Sep-17	13			13
Oct-17	20			20
Nov-17	10		1	11
Dec-17	6			6
Jan-18	20		2	22
Feb-18	37		2	39
Mar-18	2			2
Apr-18	1511	9	91	1611
May-18	473		3	476
Jun-18	2			2
Jul-18	2			2
Aug-18	6			6
Sep-18	115	1		116
	2315	**10**	**108**	**2433**



97. The general ledger (and trial balance for CPS) do not carry any provisions for retrenchment, with the exception of R446 318.54, included in the period ending September 2018.

98. There is no visible entry in any of the corresponding financial statements relating to a provision for retrenchment costs.

N.P

99. We received a detailed schedule which agrees to the provision of R446 318.54, under the title of "Retrenchment calculation 31 July 2018", consistent with the note referred to above.

Amount reported for 5 year period	*106 587 400*
Increase in provision Jul18	*446 319*
Actual cost paid Sept 18	*440 559*
Total	*107 474 278*

100. This schedule reflects details of 138 individuals, with a total agreeing to the stated value.

101. There are, however, some notes attached to the worksheet, which seem relevant to our assessment. They are reproduced exactly:

SEVERENCE BENEFIT

1) Only applies to staff on a fixed term contract linked to the Government contract (perm staff, pensioners on 1 year contract etc. excluded)
2) Staff earning over R17 119 per month excluded
3) Law was only implimented on 1 January 2015. We only need to accrue from that day forward.

CPS 31 Jul 18

102. These notes appear to undermine the entire legitimacy of the reported value, claimed for the five year period.

103. Of these 138 entries, we found 123 corresponding entries to the original March 17 schedule.

104. The retrenchment value of the 123 matching entries is R439 756.15 (as at July 2018), whereas in March 17, the corresponding claim for the same employees was R2 224 419.15. This represents a difference of R1 784 663.00.

105. Simplistically stated, as opposed to increasing in value for the required provision for retrenchment costs, per these individuals, the provision has reduced five-fold (i.e. one fifth), notwithstanding the lapse of a further 15 months.

106. On 26 September 2019, we received another e-mail from Cara van Straaten, referring to details of the provisions for retrenchments account and retrenchment costs paid after the contract period ended.

107. Her e-mail contained two schedules of retrenchment costs for the periods January 2018 to December 2018 and January 2019 to September 2019, as well as a summary sheet of relevant costs and provisions.

N.P

108. The summary sheet is reproduced below.

CASH PAYMASTER SERVICES (PTY) LTD		
5299	Provision for Retrenchments	
Date	Description	Amount
30/09/2017	Severance pay in terms of fixed term contracts in CPS	(7 169 570.31)
31/12/2017	Severance pay in terms of fixed term contracts in CPS - increase in provision	(2 798 804.69)
31/03/2018	Severance pay in terms of fixed term contracts in CPS - decrease in provision	36 310.00
30/06/2018	Severance pay in terms of fixed term contracts in CPS - Write back provision as staff numbers have been transferred to other group companies	9 485 746.46
30/09/2018	Retrenchment Costs Paid	440 558.31
31/10/2018	Severance pay in terms of fixed term contracts in CPS - Write back provision as there is no more staff on the payroll	5 760.23
		0.00
	Balance per GL	0.00
	Difference	(0.00)

109. The values of the schedule are consistent with the general ledger. They do, however, provide more information in the narrative, by referring to "fixed term contracts in CPS", which was not specifically identified earlier.

110. We considered the details within the new spreadsheets. It must be emphasised, as introduced earlier, that these represent costs allegedly incurred after the reporting periods, ending September 2018.

111. For our analysis, we compared the new data with the historic data documented above.

112. The first schedule for the period January 2018 to December 2018, contained details and values of 213 employees for a value of R9 987 240.12. The schedule of retrenchments for January 2019 to September 2019 reflect details of 1677 employees with costs of R55 023 372.87. The collective value is R65 010 612.99.

113. We subjected this data to further analysis and review. Considering that by September 2018 CPS had transferred the majority of the staff within their group, the new costs were considered to be in conflict with the information previously provided.

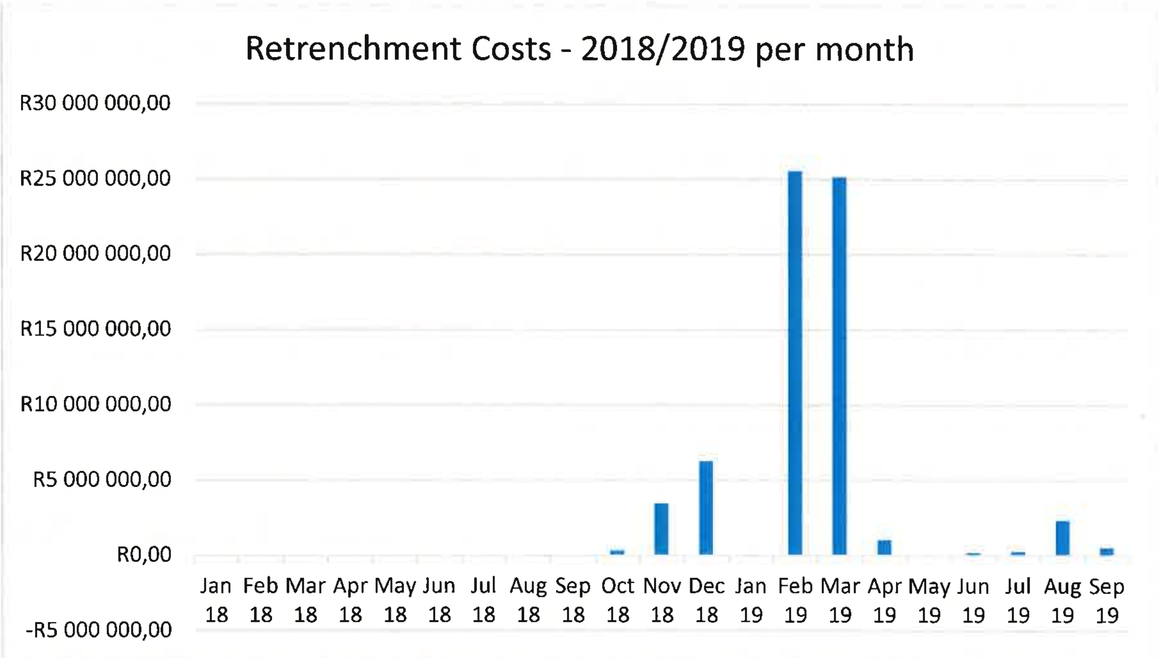
114. The monthly costs per the schedules provided are:

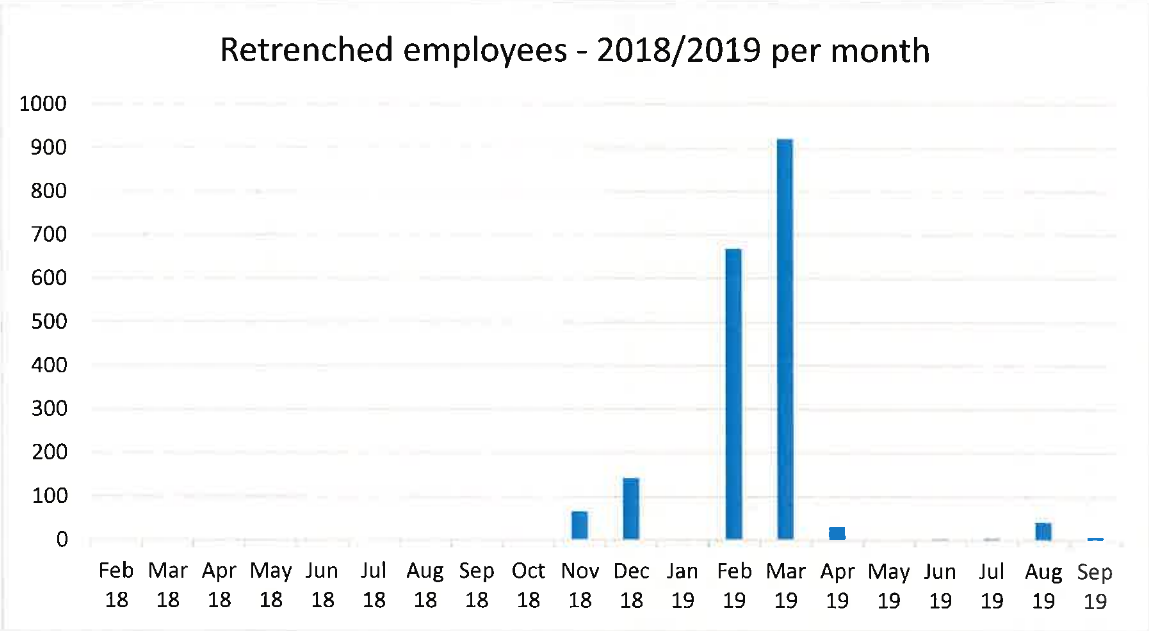
Date	Retrenchment Costs - 2018/2019 per month	Retrenched employees - 2018/2019 per month
Jan 18		
Feb 18	-R47 208.62	2
Mar 18		
Apr 18		
May 18	R0.00	0

N.P

Jun 18	R17 950.85	1
Jul 18	R11 016.92	1
Aug 18		
Sep 18		
Oct 18	R314 477.62	2
Nov 18	R3 446 656.43	65
Dec 18	R6 244 346.92	142
Jan 19	R63 240.00	2
Feb 19	R25 544 540.64	668
Mar 19	R25 143 641.82	920
Apr 19	R1 020 187.34	31
May 19		
Jun 19	R174 208.76	3
Jul 19	R248 301.92	4
Aug 19	R2 316 983.47	41
Sep 19	R512 268.92	8
	R65 010 612.99	**1890**

115. This data is presented graphically in below.





116. Based on the perceived conflict, we compared the individual line items (employee's details) to the historical data, documented earlier.

117. On comparison, we established that of the 1890 entries, 830 employees featured on the list of "March 2017 retrenchment staff", who had been either terminated or transferred within the group at the end of September 2018 reporting period.

118. There are no employees on that list who featured on the Net1 retrenchment list for March 2017.

119. On comparison, we differentiate the new data into three different categories, as is apparent from the table below.

Per category	**Number of employees**	**Retrenchment costs**
Employees included in retrenchment March 2017 list	830	R44 806 955.26
CPS employees not on retrenchment March 2017 list	772	R12 324 745.87
Not on CPS employee list	288	R7 878 911.86
	1890	**R65 010 612.99**

120. The first category refers to 830 employees who were also included in the Retrenchment March 2017 list, who are now assigned a retrenchment cost of R44 806 955.26, representing 44% of the number of staff and 69% of the value.

121. The second list refers to CPS employees who had not been flagged for retrenchment in September 2017. They represent 772 employees at a current retrenchment expense of R12 324 745 .87, representing 41% of employees and 19% of the expense.

122. The final category, representing 12% of staff and 15% of expense, were not traced to any current or historic CPS staff listing and are assumed to represent Net1 employees.

N.P

123. On further comparison for the first category of staff, who had been included on the original list, we compared the current retrenchment values to those claimed for the historic period.

124. In aggregate, comparing the historical cost as at March 2017 claimed expense the matching 830 employees represented a cost of R44 806 955.26. The revised costs, more than 18 months later are less. In particular, for the matching employees the cost has reduced to R27 142 493.23. This represents 39% of the original claimed values.

125. As highlighted earlier, CPS had seemingly relieved itself of all (or the vast majority) of its staff by September 2019. We had demonstrated that these had been transferred to other companies within the group, who had been reimbursed for the costs of employing these by CPS (bonus and leave). We had confirmed the statistics by examining their monthly payslips, noting the last month of employment.

126. We are aware that the Net1 group has had very poor results. In particular, current media reports (as published in business report of 30 September 2019) refers to a loss of R3.74 billion incurred for the year ending June 2019, blaming partially the loss of the SASSA contract and impairments to their Cell C investment.

127. For illustration purposes, we reproduce a chart reflecting the daily share prices.

128. Under these circumstances, it is anticipated that Net1 group would seek to retrench staff.

129. By introducing this schedule, CPS seems to claim for group related retrenchment costs, which we submit are no longer attributable to CPS and do not represent a valid claim "under the contract".

130. It is suspected that these schedules were prepared subsequent to the KPMG and Mazaars audits, possibly in response to our query of their claim.

131. Significantly, we reemphasise that these revised (significantly reduced values) support our submission that the claimed expense of approximately R107 million should be disregarded.

132. We have not received any proof that any of the 1890 employees were actually retrenched and paid, our by whom, as claimed. As such, our query remains unresolved.

133. We re-introduce the table provided by CPS in support of another query.

CASH PAYMASTER SERVICES (PTY) LTD		
5299	Provision for Retrenchments	
Date	Description	Amount
30/09/2017	Severance pay in terms of fixed term contracts in CPS	(7 169 570.31)
31/12/2017	Severance pay in terms of fixed term contracts in CPS - increase in provision	(2 798 804.69)
31/03/2018	Severance pay in terms of fixed term contracts in CPS - decrease in provision	36 310.00
30/06/2018	Severance pay in terms of fixed term contracts in CPS - Write back provision as staff numbers have been transferred to other group companies	9 485 746.46
30/09/2018	Retrenchment Costs Paid	440 558.31
31/10/2018	Severance pay in terms of fixed term contracts in CPS - Write back provision as there is no more staff on the payroll	5 760.23
		0.00
	Balance per GL	0.00
	Difference	(0.00)

134. Another developing discrepancy arises from this table. The net effect of the first 4 line items (up to June 2018) aggregates -R446 318.54, which is consistent with the provision in the audited financial statements at the time. The remaining 2 entries (R440 558.31 reflected as paid and the write back of R5 760.23) aggregate R446 318.54, utilising and eliminating the entire provision of June 2018. As stated, the provision reduces to zero at October 2018.

135. The claimed expense for the 6 months ending September 2018, however, is reflected as R886 877. This value represents the value of the June 2018 provision (credit of R446 318.54) added to the expense of R440 558.31 (a debit value). This is questioned, as the provision was utilised when the cost of R440 558.31 was paid. As stated above, the balance of R5 760.23 was reversed to income.

136. We submit therefore that the claimed expense of R886 877 is overstated by R446 318.54, and the actual expense is restricted to R440 558.31, as per the schedule.

137. According to the general ledger information provided under expenses code 7921, the expenses up to 30 June 2018 was reflected as R446 318.54, which is consistent with the schedule provided to us.

138. According to the general ledger the following costs were incurred in September 2018:

30-09-2018	RETRENCHMENT COSTS (BASIC SALARY ADJ)-KZN-SEP 2018	R72 431.49
30-09-2018	RETRENCHMENT COSTS (BASIC SALARY ADJ)-GT-SEP 2018	R34 499.81
30-09-2018	RETRENCHMENT COSTS (BASIC SALARY ADJ)-ECC-SEP 2018	R78 934.50
30-09-2018	RETRENCHMENT COSTS (BASIC SALARY ADJ)-ECP-SEP 2018	R25 187.51
30-09-2018	RETRENCHMENT COSTS (BASIC SALARY ADJ)-WC-SEP 2018	R32 816.53

N.P

30-09-2018	RETRENCHMENT COSTS (BASIC SALARY ADJ)-MP-SEP 2018	R88 540.32
30-09-2018	RETRENCHMENT COSTS (BASIC SALARY ADJ)-NW-SEP 2018	R45 719.31
30-09-2018	RETRENCHMENT COSTS (BASIC SALARY ADJ)-FS-SEP 2018	R33 334.59
30-09-2018	RETRENCHMENT COSTS (BASIC SALARY ADJ)-NC-SEP 2018	R29 094.45
		R440 558.51

139. The stated value of R440 558 is also consistent with the schedule.

140. The concern, however, arises with the accounting treatment of these transactions.

141. Simplistically stated, the original set of transactions could be summarised as:

Ref	**Period**	**Narrative**	**Debit**	**Credit**
A1	June 18	Retrenchment costs (expense) – Account 7921	R446 318.54	
A2	June 18	Provision for retrenchment (balance sheet)		R446 318.54
Net effect of corrective provisions for retrenchment as at June 2018				
B1	Sep 18	Provision for retrenchment (balance sheet)	R440 558.31	
B2	Sep 18	Bank (balance sheet)		R440 558.31
Payment and utilisation of provision – actual values				
C1	Oct 18	Provision for retrenchment (balance sheet)	5 760.23	
C2	Oct 18	Retrenchment costs (expense) – Account 7921		R5 760.23
Write off of remaining balance in provision – no staff left in CPS.				

142. The trial balance should therefore collectively refer to an expenses of R446 318.54, reduced by R5 765.23, to arrive at the net balance of R440 558.31 as the actual payment, with no provision remaining as there are no more staff, consistent with the schedule above.

143. As the total expenses is reflected as R886 877, the general ledger transactions appear incorrect. Simplistically again, the debit for the R440 558.31 (for September 2018) should have been posted against the provision and not the expense.

144. The trial balance for September 2018 for CPS reflects the provision of R446 318.54 in their balance sheet account and the expenses of R440 558.51 as the period expenses.

145. This implies the provision would have been reversed (to income) post September 2018. As we have no general ledger transactions for that period we cannot trace the credit to the expense account which would be expected.

Account Number	**Description**	**Debits**	**Credits**	
5299-20	PROVISION FOR RETRENCHMENTS	0.00	446 318.54	

NP

7921-20-3805	RETRENCHMENT COST	440 558.51	0.00	-440 558.51

Disputed Expense

146. We dispute the majority of the claimed expense on grounds that:

- CPS did not retrench the staff at the end of the initial period (March 2017).
- They did not incur, nor provide for retrenchment benefits in their AFS at that time.
- Possible retrenchments which may have taken place within the group years after the contract should not be categorised as incurred "under the contract".
- We dispute R106 018 370.23 from the initial period.
-

The disputed value is R106 018 370.23 (R106 587 400 less R569 029.77).

147. Notwithstanding the above, we submit that the original calculation is flawed, as it was based on the alleged entire retrenchment cost obligation, calculated on the complete service period of the individuals, which in many cases extended many years before the SASSA contract. This implies that the costs represent the alleged company's obligation, as opposed to costs which can be assigned to the SASSA contract.

148. A further observation, undermining the validity of the claimed expense, remains the fact that the costs had not been included in CPS's financial statements, but were introduced as an adjustment for purposes of the reported values.

N.P

21. Leave Pay Expense

1. The detailed general ledger refers to the expenses under code 8240, "Leave Pay". Individual line item descriptions invariably refer to monthly provisions (with occasional adjustment to provisions). The net effect of all of the monthly transitions (which typically refer to a calculated provision per region) is summarised in the table below. In this table we quantify totals per reporting periods, differentiating between the SASSA contracts and the totals for the CPS's financial year ends of 30 June.

Period	Monthly expenses	Per SASSA period	Per AFS YE
Mar 12	212,434.56		
Apr 12	1,369,006.52		
May 12	1,263,966.73		
Jun 12	1,393,537.12		4,238,944.93
Jul 12	1,393,809.33		
Aug 12	1,535,198.71		
Sep 12	1,930,419.75		
Oct 12	2,437,201.68		
Nov 12	689,870.39		
Dec 12	-4,691,071.92		
Jan 13	-50,038.85		
Feb 13	1,807,692.02		
Mar 13	1,739,694.93		
Apr 13	1,313,047.65		
May 13	1,590,132.37		
Jun 13	508,905.18		10,204,861.24
Jul 13	886,372.94		
Aug 13	1,194,614.10		
Sep 13	774,756.97		
Oct 13	2,292,819.83		
Nov 13	92,704.99		
Dec 13	-3,411,986.54		
Jan 14	392,347.29		
Feb 14	1,198,546.86		
Mar 14	1,281,567.39		
Apr 14	1,114,143.79		
May 14	1,107,782.86		
Jun 14	1,118,393.17		8,042,063.65
Jul 14	869,274.13		
Aug 14	1,046,827.82		
Sep 14	1,214,181.08		
Oct 14	2,446,174.32		
Nov 14	-1,090,354.77		
Dec 14	-2,599,097.87		
Jan 15	352,144.17		

NT

Feb 15	1,360,876.69		
Mar 15	1,206,677.00		
Apr 15	1,030,775.69		
May 15	1,180,642.08		
Jun 15	1,178,725.01		8,196,845.35
Jul 15	1,034,089.28		
Aug 15	1,235,025.99		
Sep 15	1,294,246.64		
Oct 15	2,348,626.48		
Nov 15	164,703.44		
Dec 15	-3,718,879.86		
Jan 16	1,563,084.21		
Feb 16	-182,411.39		
Mar 16	1,288,435.05		
Apr 16	1,435,678.73		
May 16	1,465,007.30		
Jun 16	1,200,410.27		9,128,016.14
Jul 16	1,215,023.99		
Aug 16	1,023,892.10		
Sep 16	1,364,717.20		
Oct 16	2,552,558.13		
Nov 16	1,116,461.85		
Dec 16	-4,616,354.77		
Jan 17	342,735.02		
Feb 17	1,537,658.46		
Mar 17	1,263,366.69	45,610,789.98	
Apr 17	1,339,415.15		
May 17	1,346,060.90		
Jun 17	1,199,029.58		9,684,564.30
Jul 17	1,127,973.27		
Aug 17	1,534,989.60		
Sep 17	1,269,265.68		
Oct 17	2,537,673.42		
Nov 17	-219,668.68		
Dec 17	-3,787,683.83		
Jan 18	1,061,837.03		
Feb 18	1,156,442.92		
Mar 18	1,597,470.70	10,162,805.74	
Apr 18	0.00		
May 18	519,635.13		
Jun 18	-15,344.86		6,782,590.38
Jul 18	-191,851.23		
Aug 18	-21,325.79		
Sep 18	99,290.98	390,404.23	-113,886.04
	56,163,999.95	56,163,999.95	56,163,999.95

N ✓

2. Reflected graphically, these values are presented below.

3. From the assessment of the monthly expenses, it seems clear that when staff took leave (essentially in November, December and January), the unrealised obligation was reversed, resulting in reduced or negative values.

4. There are no indications apparent from the GL of any actual payments being made relating to leave pay. The only known, or verified, expense apparent to us is the cost transferred within the group, where a liability of R13 449 988.66 was transferred within the group to Uzalo and Lizwe, respectively (as per the table below).

		leave
01 04 18	Uzalo	R11,579,397.64
01 04 18	Lizwe	R297,221.75
01 06 18	Uzalo	R436,465.64
01 06 18	Lizwe	R1,136,903.63
		R13,449,988.66

5. From a balance sheet perspective, the TB for the Provision for Leave Pay (account 5260) reflects values at CPS financial year end dates as follows:

30 June 2012	R11,762,762.98
30 June 2013	R16,117,263.07
30 June 2014	R18,111,468.94
30 June 2015	R18,903,144.30
30 June 2016	R16,974,359.23
30 June 2017	R17,304,845.50
30 June 2018	R813,801.75

N.P

6. The leave pay provisions are not included in the annual financial statements as provisions, as demonstrated below:

7. The only significant provision carried in the audited financial statements of CPS relate to the provision for bonuses, as demonstrated by the reproduced extracts.

Provisions, contingent liabilities and contingent assets

Provisions

	2011	2012	2013	2014	2015	2016	2017	2018
bonus provision	R183,798.00	R11,081,392.00	R12,200,000.00	R16,157,932.00	R33,486,748.00	R18,458,975.00	R18,865,511.00	R1,054,299.00
balance at beginning of reporting period	158,274.00	183,798.00	11,081,392.00	12,200,000.00	16,157,932.00	33,486,748.00	18,458,975.00	18,865,511.00
Additional provisions charged to profit or loss	238,624.00	6,735,162.00	12,934,501.00	21,217,206.00	36,846,309.00	15,446,392.00	24,941,892.00	20,302,330.00
Transfers within group of companies	-	4,387,932.00					-	- 13,010,160.00
Unused amounts credited to profit or loss							- 4,540,595.00	- 3,418,847.00
Utilised in the reporting period	- 213,100.00	- 225,500.00	- 11,815,893.00	- 17,259,274.00	- 19,517,493.00	- 30,474,165.00	- 19,994,761.00	- 21,684,535.00
Classified as	R183,798.00	R11,081,392.00	R12,200,000.00	R16,157,935.00	R33,486,748.00	R18,458,975.00	R18,865,511.00	R1,054,299.00
Current liabilities	R183,798.00	R11,081,392.00	R12,200,000.00	R16,157,935.00	R33,486,748.00	R18,458,975.00	R18,865,511.00	R1,054,299.00

8. The liability is, however, included under "Trade and other payables", under the subsection "Accumulating compensated absences accruals".

9. The value of the provisions at 31 March (SASSA year-end), as extracted from the TB are:

31 Mar 17	PROVISION FOR LEAVE PAY	R14,098,252.26
31 Mar 18	PROVISION FOR LEAVE PAY	R14,242,497.56

10. As demonstrated above, by June 2018 the provision had been significantly reduced to R813 801.75. Accordingly, at September 2018 (end of reporting period for SASSA), for which we have no TB relating to the balance sheet, no significant provision would remain.

11. We confirmed that the value of the TB "Leave pay provisions" agree to the "Accumulating compensated absences accruals" per year.

12. We received three schedules referring to leave pay to CPS employees, covering the period August 2015 to September 2018. CPS advised us that information prior to this period was not available electronically.

13. The schedule makes provision for "Leave Commutation 5 Day Week", "Outstanding Leave 5 Day Week" and "Outstanding Leave 6 Day Week".

14. Collectively there are 6269 line items (referring to identified employees) who were collectively paid R31 595 134.78 for accumulated leave.

15. Per period, this value is split:

Period	Value
Period 1 (portion thereof)	R20 426 301.38
Period 2	R9 917 553.75
Period 3	R1 251 279.65
	R31 595 134.78

16. The 6269 line items relate to 2824 different employees.

17. Assuming that the R31 595 134.78 was paid, and R13 449 988.66 was transferred within the group (to other BEE entities), this accounts for R45 045 123.44, of the claimed expense of R56 163 999.95. This leaves a difference of R11 118 876.51. As the leave schedule does not cover the entire period, we accept that the difference could be covered by this missing period.

18. Accordingly, we do not query the leave pay expense.

19. An extract from the Leave Policy reads:

Employees are entitled to avail of a minimum of 15 working days leave per annum (18 days for employees on a six day working week), however at least 13 working days, of which 10 are to be continuous, must be availed of annually (16 working days, of which 12 must be continuous, for employees on a six day working week). Any leave remaining thereafter may be accumulated or commuted for cash.

N.P

20. We noted that the staff, links to the calculated costs of leave pay and bonus provision were transferred with the group to a BEE compliant subsidiary.

21. As the new entities would accept liability for these associated costs, CPS paid the entities to accept the financial burden transferred to them.

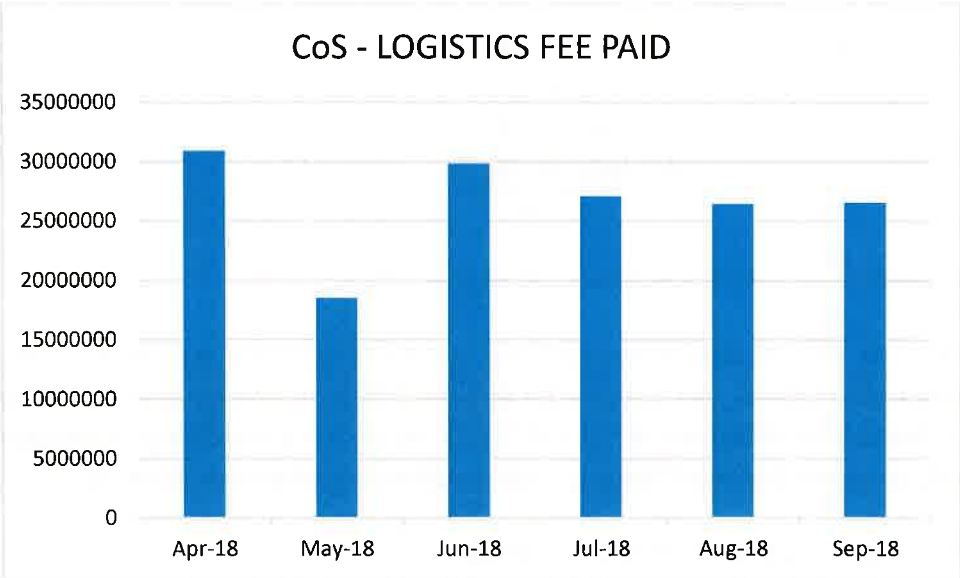
22. We understand that these costs were accounted for under General ledger cost code 6731 'Logistics Fee Paid."

23. We reviewed these costs.

24. No costs are debited to this cost centre before April 2018. Accordingly, the full expense is accounted for within the final period.

period	CoS - LOGISTICS FEE PAID
Mar 18	R0.00
Apr 18	R30 874 558.49
May 18	R18 516 364.54
Jun 18	R29 839 498.82
Jul 18	R27 071 216.42
Aug 18	R26 426 219.38
Sep 18	R26 536 490.00
	159 264 347.65

25. A graphical overview of these expenses are presented below.



26. As stated, Logistics fees totalling R159 264 347.65 were paid to Uzalo Payment Logistics Pty (Ltd) between April 2018 and September 2018. Uzalo Payment Logistics (Pty) Ltd is 52% owned by the BEE Trust of whom the beneficiaries are a combination of black people who are youth and women. Uzalo is an associate of Net 1. Uzalo is registered on the South African government's

N.P

Central Supplier Database as an organisation that can supply goods and services to government. CPS contracted the staff of Uzalo as part of its SASSA government contract obligation.

27. Uzalo Logistics was incorporated in September 2017 and one of its founding directors is also a director of Moneyline Financial Services, a Net 1 subsidiary. The current chief financial officer of Net 1 is also the current director of Uzalo as from May 2019, rendering Uzalo as an associate of Net1.

28. We selected 10 material invoices for detailed verification and no anomalies were identified during our review. The expense is related to the nature of the contract and has been correctly included in the statement of income and expenses of CPS.

Part E - Reinstatement of disputed expenses

As reported in the introductory sections, the matter is incredibly complex and comprehensive. Our audit verification was subject to strict reporting deadlines and a severely limited budget. Accordingly, we applied our methodology, as we deemed most appropriate, to satisfy the stated objectives.

It is possible, given more time, that additional queries could be identified, alternatively, existing queries may be resolved or re-quantified.

We believe that some matters are worthy of further investigation.

In the section below, we demonstrate the financial impact, should the items we quantified as being "under dispute" be reversed from the published results.

	Initial Period (Apr 2012 to Mar 2017) KPMG report	Apr 2017 to Mar 2018 Mazars report	Apr 2018 to Sep 2018 Mazars report	Total
Reported profit per filing sheet	R705 322 484.00	R104 260 291.00	-R556 992 623.00	R252 590 152.00
Disputed matters				
Bulk Re-registration costs - overcharge	R184 500 000.00	R0.00	R0.00	R184 500 000.00
BEE Service fees	R99 000 000.00	R29 700 000.00	R14 850 000.00	R143 550 000.00
BEE Retainer	R63 157 894.76	R0.00	R0.00	R63 157 894.76
BEE transaction equity instrument charge	R118 735 900.17	R0.00	R0.00	R118 735 900.17
Expenditure "not in contract"	R97 338 997.19	R23 700 995.74	R8 388 213.08	R129 428 206.01
Legal Expenses	R96 972 107.00	R0.00	R0.00	R96 972 107.00
Retrenchment costs	R106 587 400.00	R446 318.00	R0.00	R107 033 718.00
Total value - disputed matters	R766 292 299.12	R53 847 313.74	R23 238 213.08	R843 377 825.94
Restated values	**R1 471 614 783.12**	**R158 107 604.74**	**-R533 754 409.92**	**R1 095 967 977.94**

VIII. Summary of Findings

1. Audit verification process

1. The financial transactions and financial records of CPS, and where necessary Net1, for the 78 month period under review (1 April 2012 – 30 September 2018) are very substantial. Accordingly, due to very strict reporting deadlines and a restricted budget, our audit verification process was applied to satisfy, what we believe to be, the most relevant objectives of the Constitutional Court when it made its rulings.

2. Whilst every effort has been made to achieve compliance to the stated objectives, due to the vastness of the documentation, it remains possible that material matters remain unaddressed.

3. At the onset of our audit verification process we requested, and received, financial data on which the audited reports were based.

4. The data was consolidated and reviewed from a month-to-month basis, ultimately agreeing these to the trial balances and the audited outcome of income earned, expenses incurred and profits earned.

5. The reconciliation process was complicated by incomplete data. Ultimately, however, the general ledger transactions agreed to the trial balances and the reported outcomes.

6. The trial balances for the reporting periods were reconciled to the trial balance of CPS's Annual Returns and their Annual Financial Statements.

7. We categorised individual expense categories into High, Medium and Low Priority, which was influenced by not only the magnitude of the expense, but also our assessment of its relevance and risk assessment.

8. The level and extent of audit verification processes were influenced by this priority rating.

9. For the High and Medium priority categories, we selected a number of transactions for detailed verification, in addition to performing an analytical review. Samples were selected on a judgmental basis, also influenced by their materiality.

10. Beyond that, selected transactions were subjected to a forensic review, investigating these in great detail, relying on internal documentation and information from the public domain.

11. Low priority expense items were reviewed, and where necessary, subjected to limited sampling.

12. CPS staff extracted the payment packs and other supporting documentation and availed them to us for our audit verification.

13. For the entire period, the General Ledger refer to more than 200 000 individual transactions.

14. We selected several hundred transactions for detailed verification, beyond our general analytical review and detailed investigation, where appropriate.

N.P

15. The objectives and methodology of our audit verification included to establish and confirm that the expenses existed, in addition to verifying that it:

    - was due and payable;
    - was paid;
    - was recorded accurately;
    - was allocated to an expense category appropriately;
    - was consistent with supporting documentation; and,
    - could reasonably be assigned to the contract with SASSA in terms of interpretation of "under the contract".

16. Income items were matched from the invoices, to the creditors' reconciliation undertaken by SASSA, agreed to payment reports and finally agreed to the General Ledger and the Trial Balances of CPS.

17. Staff related expenses were analysed and reviewed in detail. Apart from the analytical reviews, we reconciled expenses to monthly payroll reports, reviewed reproductions of the individual payslips, etc.

18. In addition, samples of appointment contracts were studied, comparing the appointment contracts to the remuneration reflected in the payroll schedules.

19. Where discrepancies occurred, or where we questioned specific details of claimed expenditure, we elevated these for detailed analysis and, where necessary, forensic review.

20. For the primary income our audit verification was satisfactory, confirming the completeness and accuracy of the claimed income. This covered the Pension and Welfare Payment Distribution Fees as well as the Card Sales.

21. We disputed the quantum of the Bulk Re-Registration charge, which has also been the subject of litigation and adverse rulings.

22. For Payroll related costs, we accepted the majority of claimed expenditure, beyond querying the quantum of the claimed Retrenchment Fees, which remains a disputed item.

23. With minor adjustments, our audit verification for the majority of expense items was successful.

24. We do, however, dispute a number of material expense claims, which we investigated in greater detail.

25. Generally speaking, the disputed items arise either on grounds that we believe the expense did not materialise (as claimed), alternatively that these expenses could not reasonably be assigned to the SASSA/CPS contract ("under the contract") and, per our view, were more likely to represent Net1 Group expenses.

26. Most of the disputed expenses relate to the initial five year contract term, covering the period 1 April 2012 to 31 March 2017.

NP

27. Except for the disputed transactions, we accept the claimed expenditure.

2. Disputed matters

We summarise the matters which we classify to be under dispute where, for a number of reasons, we do not concur with the audited outcomes, as presented to the Constitutional Court. These are elaborated on below.

2.1. Bulk Re-registration costs

1. On 10 March 2014 CPS charged SASSA R306 447 361.41 as once-off Bulk Re-registration of all beneficiaries. It was claimed that this had been agreed with the Executive of SASSA as the instruction to re-register had not been contemplated in the original tender specification and represented an additional cost CPS incurred, which they sought to recover.

2. The invoice was supported by a KPMG "agreed procedures" report, on which the quantification was based. The KPMG report purported to confirm the number of re-registrations which it applied to their calculation of the cost per transaction. KPMG calculated that each transaction had cost CPS R23.20 (pre-VAT). KPMG claimed that it had agreed the total cost (R488.3 million) to audited financial statements for the Net1 U.E.P.S. Technologies Inc. Annual Report of June 2013.

3. The report from KPMG emphasised that this did not constitute an audit.

4. On the recommendation of its Bid Adjudication Committee, SASSA paid an advance of 80% of this fee, with a note that the balance would be settled in the next financial year, following independent audit verification of the quantum. The Bid Adjudication Committee erroneously claimed that the claim had been audited by KPMG.

5. CPS returned the payment of R253 157 889.13, on grounds that their auditors (not KPMG) had indicated that it was not prudent to recognise this as income, as it was still subject to verification and confirmation.

6. Shortly thereafter, the Bid Adjudication Committee recommended that the full amount be paid to CPS, but also stated that it would have to be verified by an independent audit and that, if the quantum was in dispute, CPS would be invited to repay the disputed value (if they agree with it). Once again, it was incorrectly stated that the claim had been based on an audit by KPMG.

7. The full invoiced amount was paid in June 2014.

8. Notwithstanding that it was still "subject to verification and audit", CPS did not return this, and recognised it in its financials.

9. The payment was objected to by Corruption Watch and became the subject of litigation.

10. The High Court of South Africa Gauteng Division ruled on 23 March 2018 that the payment was made based on unlawful conduct and should be repaid.

11. CPS took the matter on appeal to the SCA.

NJ.P

12. The SCA ruled on 30 September 2019 that there was no lawful basis for the variation agreement and confirmed that CPS had to repay the full amount of R316 447 361.41.

13. Net1 announced that it would consider its options.

14. Our dispute is independent of the judicial review.

15. We contest the quantum arrived at by KPMG.

16. We dispute KPMG's assertion that it had obtained the value from audited Annual Financial Statements of Net1. The value they quote is what we describe as an unsubstantiated, unaudited estimation extracted from a "discussion" document.

17. In addition, we do not agree with KPMG's approach, where the total costs were considered and divided by the "new registrations" and maintain that this claim should have been, at best, limited to additional variable costs, actually incurred.

18. On review, we estimate that CPS did not incur more than R93 million in additional staff costs during the process of re-registration. We consider this to be a generous concession.

19. Accordingly, we amend the claimed R277 585 404.75 by approximately R93 million to arrive at a rounded R184 500 000, which we raise as a disputed expense.

20. The expense relates to the initial period.

21. We note that the significant portion of these fees were disbursed to Net1 as Inter Company Royalty fees within the same month of receipt. The royalty fees charges by Net1 to CPS aggregated more than R1.7 billion for the duration of the contract, which is almost 10 times the amount estimated at the time of the original tender submission.

22. We believe that the royalty fees provided an opportunity to redistribute "profits" from CPS to Net1.

2.2. BEE Service Fees and BEE Retainer

1. CPS processed an expense of R63 157 894.76, which is the pre-VAT amount of R72 million, as a BEE Retainer fee. The expense was incurred and paid in December 2013 but the cost was spread within the contract period between December 2013 and June 2015, in which month the balance of the expense was processed as an accelerated charge.

2. The retainer fee is based on an agreement signed between CPS and its BEE partners, represented by Global Retriever Product Sourcing CC and Born Free Investments 272 (Pty) Ltd.

3. The agreement specifies services to be rendered in return for which the Empowerment partners would be paid both retainer fees of R72 million (inclusive of VAT) and service fees of R4.4 million per month, exclusive of VAT.

4. The payments would be split in the ratio of 3:1 between Global Retriever and Born Free.

N.P

5. The Service Fee of R3.3 million and R1.1 million respectively was processed for every month the contract operated (up to September 2018), culminating in a pre-VAT expense of R255 200 000.

6. Per the consortium agreement, the retainer would be paid independent of "interference by the court in the SASSA contract", but the service fee would be dependent on the continuation of this contract.

7. The services to be rendered in terms of the agreement are relatively vague. For the retainer the entities have to advise Net1 of tender opportunities and not to compete with the group.

8. For the service fee a number of generic essentially Net1 Business opportunities were to be performed, but a few CPS activities, which might be affiliated to the SASSA contract, were included.

9. The fees were payable on presentation of invoices.

10. The full retainer value was invoiced and paid at the time the agreement was signed (December 2013).

11. The monthly service fees were paid on presentation of invoices.

12. This BEE agreement is inconsistent with the undertakings Net1 had made in its tender submission for the SASSA contract. In its original submission, the BEE initiatives were aligned to services related to the contract.

13. Born Free Investments is owned by an individual historically affiliated with the group.

14. The owners of Global Retriever, however, appear to have no historic affiliation with the group, nor do they have any apparent links to the industry operated by CPS. They have been subjected to media reports linking them to prominent politicians, including the erstwhile Minister of Social Welfare, under whose auspices SASSA operates.

15. We assessed which of the services, for which the retainer and the service fee were allegedly paid, could reasonably be aligned either to CPS (as opposed to the Net1 group) and secondly could conceivably be linked to the SASSA contract.

16. Per our assessment, at least 75% of the service fee "services to be rendered" are directly linked to Net1 and not specifically to CPS. For this reason, we state that these cannot reasonably be assigned to the expenses incurred by CPS "under the contract".

17. As the owner of Born Free Investments had a historic association with CPS, we accept that their fees of R63.8 million may have been incurred "under the contract" by CPS. The balance, paid to Global Retriever, with no discernible links to the industry and/or CPS, seem to be subject to Group Services for Net1. Accordingly, we estimate that 75% of their fee of R191.4 million should be aligned to Net1 and not CPS.

18. Accordingly, we dispute service fees of R143 550 000 as an expense incurred "under the contract".

N.P

19. The BEE Service Fees are split as R99 million relating to the initial contract period, i.e. 1 April 2012 to 31 March 2017, R29.7 million relating to the period 1 April 2017 to 31 March 2018 and R14.85 million relating to the period 1 April 2018 to 30 September 2018.

20. For the BEE Retainer, we dispute the full R63 157 894.76 as not "under the contract".

21. The entire BEE Retainer fee relates to the initial contract period, i.e. 1 April 2012 to 31 March 2017.

2.3. BEE transaction equity instrument charge

1. KPMG was commissioned to undertake a valuation of a BEE transaction as at 16 April 2014, which was ultimately processed as "BEE transaction equity instrument charge under IFRS 2" for R118 735 900.17.

2. As background, as part of an apparent BEE Empowerment initiative, Net1 granted a loan of R246 million to its empowerment partner, Business Venture Investments No1567 (Pty) Ltd (BVI), represented by Mr Brian Mosehla, to purchase 4.1 million discounted Net1 shares.

3. In terms of the transaction, BVI was offered the shares at a discounted value of R60 per share, reduced from the ruling price of R80 (as at December 2013). In terms of the agreement, the empowerment partner was obliged to repay the loan over five years, with the understanding that shares might be sold to finance the repayment.

4. Net1 included a clause that it would purchase the shares back, should the shares dip below R60 per share (on the open market), representing the discounted value of the offer. They also included a clause obliging the compulsory sale of the shares, should they increase to R120 per share (representing a 100% return). Another clause stated that Net1 could, at its discretion, repurchase the shares and exchange these for shares of CPS.

5. A similar deal was made with the other Empowerment Partner, Born Free Investments, who had been offered 300 000 shares, presumably under similar conditions.

6. KPMG was tasked in June 2014 to value the "equity instrument charge", effectively simplified as the financial "discount" Net1 had offered its Empowerment Partners, as at 16 April 2014.

7. KPMG applied a complex valuation model, effectively estimating the effect of share price movement over the next five years, considering that there would be partial repayments on an annual basis. KPMG also considered the effects of the trigger values, where there was a contractual obligation to sell back the shares if they reached a high of R120 per share or a low of R60 per share.

8. KPMG valued the equity charge to be R110 643 964 for the transaction of 4.1 million shares, which was extrapolated to the 4.4 million shares to arrive at an adjusted valuation amount of R118 739 864.

9. KPMG issued its report on 1 August 2014.

10. CPS posted the transaction in its general ledger, backdated to 30 June 2014.

11. Separate events occurred, however, before the report was released. Possibly as a result of external developments (a confirmation of the extension of their contract, announced by the Constitutional Court, as well as the receipt of the R277 bulk re-registration fee) had a positive impact on the publically traded Net1 shares, causing these to rise to more than R120 per share, which represented the forced sale trigger price.

12. Within June 2014, i.e. before the valuation report was released, a sizeable percentage of the Net1 shares were sold to settle the full loan of R246 million, leaving the BEE partners with significant additional shareholding, unencumbered by any financial liabilities. Shortly thereafter, as also provided for in the contract, the balance of the Net1 shares were sold and apparently exchanged for CPS shares.

13. At the time that the KPMG report was issued, on 1 August 2014, the valuation had become irrelevant and wrong. At that time there was no need for a five year prediction of what might happen, as it had happened already. Accordingly, the valuation estimate of R118 739 864 did not materialise and no such cost was incurred by CPS or anyone else.

14. We express our criticism of KPMG where they issued their valuation report, at the time when they knew, or ought reasonably to have known, that the report had become irrelevant and fatally inaccurate.

15. We also express our criticism to CPS in processing the transaction as an expense, apparently invoiced by Net1, where no such cost had been incurred.

16. Finally, we once again criticise KPMG in its audit of the income received and expenses incurred, for not repudiating this fictitious charge.

17. Accordingly, we register the full expense of R118 735 900.17 as a dispute.

2.4. Income "not under contract" excluded without adjusting expenditure

1. CPS provided a reconciliation between the trial balances relating to this submission and the trial balances linked to their audited financial statements for their financial year ends, ending in June.

2. As our report (pursuant to the Constitutional Court ruling) seeks to verify expenses claimed "under the contract", as opposed to the audit of CPS's financial statements, adjustments to their financial records are expected and appropriate.

3. In its reconciliation, CPS flags an income stream "Death benefit policies collection fees" of R142 337 778.69 as "not under the contract", and therefore not applicable.

4. This is consistent with the policy described and applied by the Director's to satisfy the Constitutional Court's directive.

5. In this section, we do not challenge this interpretation but, for our review, we tested its consistent application, not only for the exclusion of income, but also for the inclusion of expenses.

N.P

6. We submit further that the death benefit income of approximately R142.3 million would have corresponding expenses (akin to cost of sales and related attributable other expenses).

7. CPS did not, when it excluded this income, exclude the related expenses.

8. We believe that these expenses should also have been removed and have endeavoured to provide a reasonable estimation of what these may have entailed.

9. Prior to the adjustment, where the R142 million was removed, the death benefit would represent approximately 1.28% of total income for the period (R142 337 779/R11 081 020 546).

10. In the absence of details, we applied the 1.28% derived above to the total operational costs and staff cost (but excluding administrative and audit costs) to quantify reasonable "attributable" expenses at R129 428 206.01.

11. Simplistically stated, we submit that when CPS adjusted the income by approximately R142 million, they should reasonably have adjusted the expenses by approximately R129 million, which they did not.

12. When applied across the reporting periods we quantify this disputed R129 428 206.01 as follows:

	Apr 12 - Mar 17	Apr 17 - Mar 18	Apr 18 - Sep 18
Expenditure "not in contract"	R97 338 997.19	R23 700 995.74	R8 388 213.08

2.5. Legal Expenses

1. The SASSA contract has embroiled CPS and Net1 in a significant number of allegations of malfeasance and other negative media reports.

2. Some of these refer to allegations on how the CPS contract had been secured.

3. Possibly as a result thereof, considering that Net1 is listed on the Nasdaq Stock Market, Net1 was exposed to an investigation by the United States Department of Justice and the SEC.

4. Net1 has been transparent in its disclosures and has consistently denied any allegations.

5. They claimed they would defend their reputation and co-operate with the investigation.

6. In that process, it seems that significant legal expenses were incurred, essentially in the USA.

7. A separate class action claim against Net1 was successfully defended, but at the expense of significant legal costs.

8. These expenses were apparently carried by Net1 and not CPS.

9. For purposes of this contract they had been quantified as R96 972 107.

10. The transaction has not been processed in the financial records of CPS.

NP

11. It was introduced into this submission by means of an adjustment.

12. Accordingly, it has not been subjected to their annual audit by Deloitte.

13. Whilst not contesting the validity of the expense, we submit that the DOJ legal expense should reasonably be classified as an expense applicable to, and carried by, Net1 to defend its reputation.

14. Whilst it could be linked as "incidental" to the CPS/SASSA contract, we believe it should not be categorised as "under the contract", consistent with the methodology applied by CPS.

2.6. Retrenchment costs

1. In its submission, CPS claimed retrenchment costs of R107 474 277.05.

2. The significant majority of that expense was claimed for the initial period at R106 587 400.00.

3. This expense is not reflected in the financial statements of CPS and is introduced to their claim as an adjustment.

4. As such, it is not contained within the audited financial statements of CPS and would be deemed to be in conflict with their audited results.

5. We are satisfied that the expense claimed for the initial period of R106 587 400 was not incurred at the time, as claimed, and dispute the expense.

6. Beyond that, we also question the validity of the calculation and submit that, even if it had been paid, it was inflated for purposes of this report as it contemplated possible retrenchment entitlements of CPS and Net1 staff based on their entire service history with the group and therefore included costs not attributable to the SASSA/CPS contract.

7. Per our findings, we also note that, of the R886 877.05 claimed as an expense, within the 12 months ending March 2018, only R440 559 was paid. The balance of R446 318 is disputed.

N rP

3. Summary of disputed matters

In the section below, we demonstrate the financial impact, should the items we quantified as being "under dispute" be reversed from the published results.

	Initial Period (Apr 2012 to Mar 2017) KPMG report	Apr 2017 to Mar 2018 Mazars report	Apr 2018 to Sep 2018 Mazars report	Total
Reported profit per filing sheet	R705 322 484.00	R104 260 291.00	-R556 992 623.00	R252 590 152.00
Disputed matters				
Bulk Re-registration costs - overcharge	R184 500 000.00	R0.00	R0.00	R184 500 000.00
BEE Service fees	R99 000 000.00	R29 700 000.00	R14 850 000.00	R143 550 000.00
BEE Retainer	R63 157 894.76	R0.00	R0.00	R63 157 894.76
BEE transaction equity instrument charge	R118 735 900.17	R0.00	R0.00	R118 735 900.17
Expenditure "not in contract"	R97 338 997.19	R23 700 995.74	R8 388 213.08	R129 428 206.01
Legal Expenses	R96 972 107.00	R0.00	R0.00	R96 972 107.00
Retrenchment costs	R106 587 400.00	R446 318.00	R0.00	R107 033 718.00
Total value - disputed matters	R766 292 299.12	R53 847 313.74	R23 238 213.08	R843 377 825.94
Restated values	**R1 471 614 783.12**	**R158 107 604.74**	**-R533 754 409.92**	**R1 095 967 977.94**

NP

14 October 2019

Mr Kuduku Mowa

South African Social Security Agency of South Africa

501 Prodinsa Building

Cnr Steve Biko and Pretorius Streets

Pretoria

0001

Dear Mr Mowa

Please find attached the final report on the independent review of the statement of income and expenses of Cash Paymaster Services (Pty) Ltd for the period 01 April 2012 to 30 September 2018.

Yours faithfully,

RAiN Chartered Accountants Incorporated

I.E. Pierce

Director