

2 February 2017

ASX ANNOUNCEMENT AND PRESS RELEASE

## **OPERATIONS UPDATE**

- Indian government recent policy on demonetisation providing short term disruption on revenues and transactions to all ATM and ATM services owners and operators;
- Indian medium to long term economic growth outlook still strong: World Bank quoting 7.0% growth;
- TSI India now successfully cash loading approx. 80% of its ATMs with 100% expected to be fully converted and loaded by March 2017;
- Agreement between Kindred Technologies (loyalty program) and TSI India completed;
- TSI India e-surveillance solution now successfully deployed at 400 locations for Andhra Bank;
- TSI India in-house e-surveillance solution for Kotak Mahindra Bank successfully completed at over 170 locations;
- With demonetisation of old bank notes, Bill Pay transactions increased 32% for the quarter; and
- TSN continues to review its buy out option over the balance of the TSI India 75% stake.

### **Quarterly Operations Update**

Strong growth experienced in October 2016 – the festival month of Diwali:

- Transaction volumes grew by 9.15% month-on-month over September 2016; and
- Revenues grew by 9.94% month-on-month over September 2016.

### ***Indian Government policy initiatives to drive long term growth and curb black money***

On 8 November 2016, the Indian government introduced a policy to scrap two banknotes which made up 86% of all rupees in circulation. The existing 500 and 1,000 Rupee (Rs) notes were scrapped and replaced by new Rs 500 and Rs 2,000 notes. The implemented policy saw queues in and around banks for approximately 8 weeks, as the only way for Indians to exchange their old notes for the new ones was to deposit old notes held directly into their bank accounts.

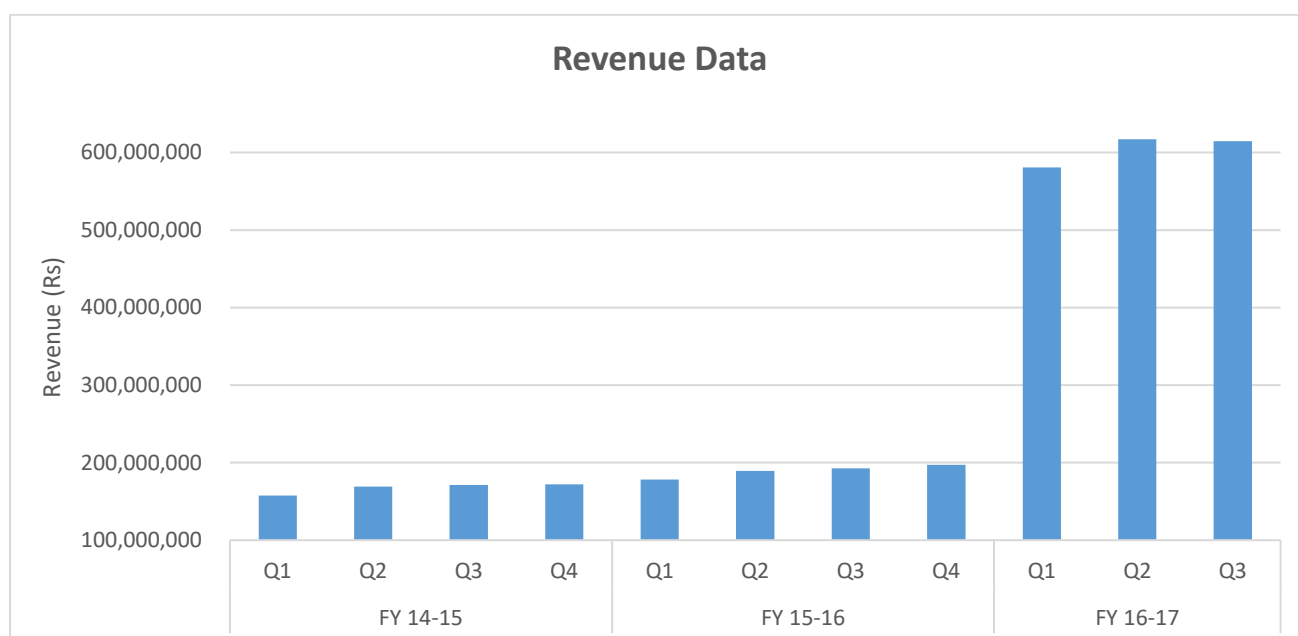
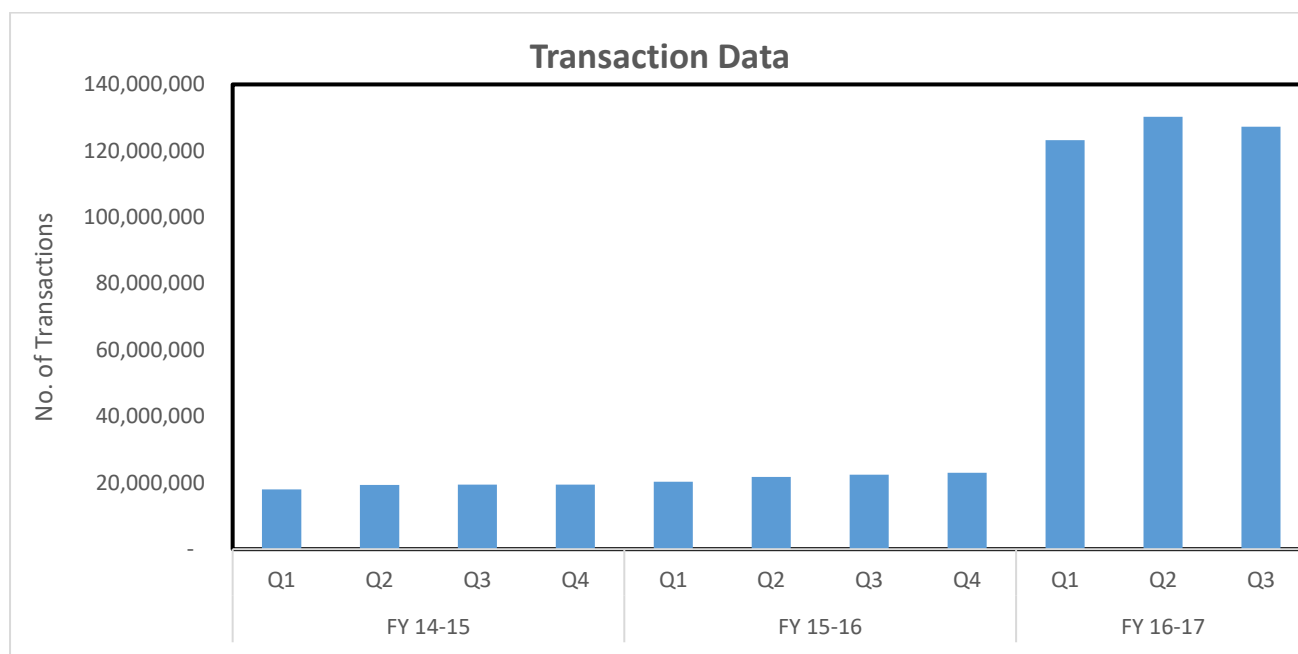
This process is now complete given the window to exchange the notes closed on 30 December 2016. The number of fresh (new) notes that can be withdrawn from ATMs or bank counters is still limited, but the acute cash shortage is abating, at least in the larger cities. The new year has brought some stabilisation to monetary policy.

TSI India and its network has been affected by the restriction in the availability of new notes and the costs and processes involved in “swapping out” old notes for new. TSI India reports that:

- I. The business was impacted in November 2016 as business days were lost due to swapping of old currency in ATMs and reconfiguring ATMs to dispense the new Rs 500 and Rs 2000 denominations. The currency supply is expected to return to normal by the end of March 2017. This has led to a dip in quarterly transactions of 2.24%;
- II. The supply of currency to ATMs was very limited during December 2016 but has shown weekly improvements since. 80% of TSI’s ATMs are now receiving constant cash supply. The average cash availability has improved by 50% as compared to November 2016. Cash supply in ATMs is expected to return to normal by March 2017;
- III. Given certain contracts within the TSI India portfolio, direct costs did rise during the period, attributable mainly to higher than expected cash replenishment and Cash in Transit (C.I.T) costs due to the policy change;
- IV. Given the change of policy, the mix of financial versus non-financial transactions that occurred on ATMs also impacted some contracts and therefore overall performance;
- V. TSI India is part of the Confederation of ATM Industry (CATMI). CATMI is expected to seek compensation for losses from reduced transaction volumes due to the regulatory changes and resulting limited availability of cash;
- VI. 80% of TSI India’s bank branded ATM contracts have a form of protection for compensation of revenue loss on account of bank infrastructure issues. Accordingly, TSI has raised compensation claims, although at this point no decision of entitlement or time frame for settlement has been determined; and
- VII. Both CIT costs and the mix of financial and non-financial transactions on ATMs are expected to return to normal or better over the coming months once the “new norm” is realised. For example:
  - Restocking of ATMs is expected to become cheaper in the long term as less loads are required with the new Rs 2,000 denomination versus the old smaller currencies; and
  - Average transaction volume per ATM for TSI India may show an increase once stabilisation occurs versus pre-demonetisation.

**Other Business highlights – TSI India:**

- During the period to remove the old notes, Bill Payment transactions increased 32% for the quarter as people queued to clear old dues and make advance payments using the old denomination notes;
- TSI India’s bank e-surveillance solution has now been successfully deployed at over 400 locations for Andhra Bank; and
- Installation of TSI India’s in-house e-surveillance solution for Kotak Mahindra Bank has been successfully completed at over 170 locations.



#### Policy changes impact ATM Owners on strategy/decision making

A number of banks and financial institutions have taken a prudent approach to decision making since the November 2016 policy changes. TSI India has been informed that since the policy change, SREI has been unable to consistently receive cash from its banking partners for ATM loading and hence very few transactions have occurred on the SREI network.

Given this, SREI has informed TSI India that they will delay their decision to roll out any further ATMs until currency circulation normalised and clarity can be seen for their business model. This may take another 2 to 3 months for SREI to re-commit to the TSI India-SREI deal, as TSI's management expects normalisation to occur by the end of March 2017.

## **Agreement secured with Kindred Technologies and TSI India**

TSI India has recently closed engagement terms with Kindred Technologies, a loyalty and reward management company which has existing contracts with a number of utility companies. TSI expects to leverage off the Kindred utility relationships and work together to identify ways to monetise traffic at ATM transactions.

### **Review of TSN's buy out option over the remaining 75% of TSI India shareholding**

TSN has undertaken a review of the TSI India business with the assistance of an independent accounting and advisory firm and TSN's corporate adviser, Cadmon Advisory. The TSI India internal forecasts and a number of assumptions for growth have been impacted by the change in the Indian government's policy.

As such, TSN continues to receive and monitor the latest updated information from TSI India, to ensure that should TSN exercise its option, it is creating value to TSN shareholders. CX Partners is understanding of the current situation caused by changes in government policy and have been supportive throughout this process.

TSN looks forward to providing further information as it comes to hand.

### **For more information:**

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### **About TSN and TSI India**

Transaction Solutions International (TSN) was founded in 2005 by current directors, Paul Boyatzis and Gary Foster, Australian nationals with considerable experience in the financial services industry. Based on their knowledge of financial markets in more developed countries, TSI India was formed to take advantage of the opportunity to create shareholder value by creating scalable operations in the field of e-transactions and payments within India. TSN and its subsidiaries hold a 24.89% equity interest in TSI India.

At the time of entering India, TSI India was first to market with its unique recurring revenue outsourcing model, focussed on partnering with Banks to increase the size of its bank branded ATM network.

Today, TSI India remains firmly entrenched in the e-transaction sector. With the implementation of recent agreements, TSI India will become one of the largest operators of ATMs in India, with approximately 14,000 ATMs under management along with its automated Bill Pay solutions for utility companies.