
# 1997 Annual Report

Euronet

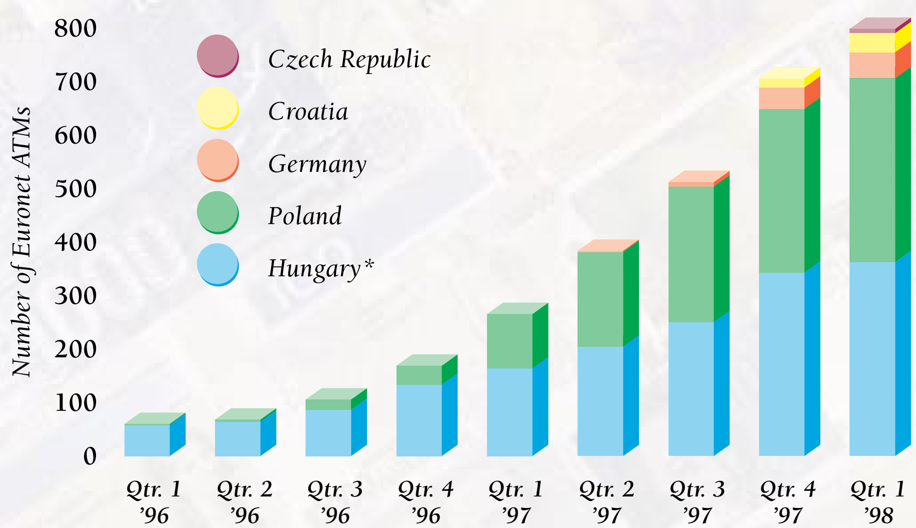
# About Euronet

Euronet Services Inc. operates the only independent, non-bank owned automated teller machine (ATM) network in Central Europe. Euronet's core objective is to process ATM transactions, for which it receives fees from local banks and international card organizations that issue cards such as Visa, Plus, MasterCard, Europay, Cirrus, American Express, and Diners Club International. Euronet also offers outsourced ATM network management services to banks that have their own ATMs.

Since the installation of its first ATM in Hungary in June of 1995, Euronet has expanded its network at a rate of more than one ATM every business day, totaling nearly 800 ATMs in five countries at the end of March 1998. As the Company continues to grow throughout Europe, it is setting the standard for convenient ATM locations, top-quality transaction processing, and cost-efficient ATM network management.

## A Growing ATM Network

*During 1997, Euronet's ATM network more than quadrupled in size, growing in both number and geographic diversity.*




*including ATMs under network management agreements

# THE ATM MARKET OPPORTUNITY IN EUROPE

Euronet addresses a fundamental demand in both emerging and developed consumer financial markets: the need for **fast and convenient access to cash**.

The company was founded on the belief that the evolution of the financial services industry in the emerging economies of Central Europe offers **attractive opportunities**. Many of the world's emerging markets, including Hungary, Poland, Croatia and the Czech Republic, are still mainly cash-based societies. These markets are characterized by a relatively low number of bank account holders, limited banking hours and services, and long waits to complete simple transactions—collectively offering great potential for the development of ATM and other electronic funds transfer services.

Euronet set out to build a network of ATMs and become the **leading low-cost provider** of Western-standard ATM services in Central Europe. The company is bringing ATM convenience to cardholders, while at the same time encouraging the development of electronic banking and the use of bank cards. Growth in the electronic banking industry has been strong and multifaceted: as the number of bank account holders in Central Europe increases, so too do the issuance of bank cards and the number of ATM transactions.

Euronet focuses on placing ATMs in **strategic locations** with high pedestrian traffic of shoppers and commuters. The company is also applying this strategy in its expansion to other regions, such as Western Europe, where bank card usage is widespread but where there are few ATMs at non-bank locations.


## *Contents*

## LETTER FROM THE CEO

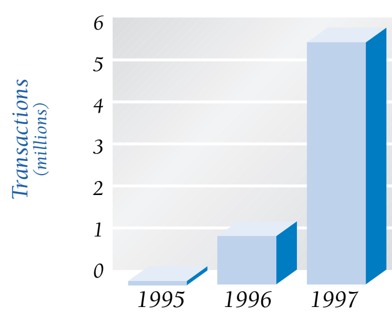
*Fellow Shareholder:*

*IN THIS FIRST* annual report since Euronet's initial public offering in March 1997, I am pleased to share with you news of our strong growth over the past year and the progress we have made toward our goal of becoming the largest non-bank processor of ATM transactions in Europe.

*Increasing economies of scale*

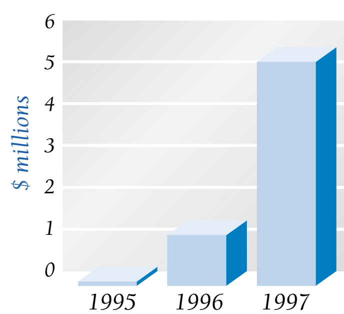
In 1997, we increased the number of ATMs in our network more than four times and increased the volume of transactions more than five times. Revenues increased nearly 320%, from $1.26 million to $5.29 million. The proceeds of the Company's public offering are being used to drive this growth. Our successful IPO raised $47.9 million of net proceeds for the Company, of which approximately $30 million were still remaining at year end for investment in further growth.

*Growth in ATM transactions*




We have expanded our geographic scope beyond Hungary and Poland by establishing operations in Germany, Croatia and the Czech Republic and by opening offices in France and Romania. Of the 527 new ATMs brought on line in 1997, 51% were added in Poland, 39% in Hungary, 7% in Germany and 3% in Croatia. The new ATMs in the Czech Republic were brought on line in the beginning of 1998.

*Growth in revenues*




As we increase the number of ATMs in our network, we also seek to increase transaction revenues by widening the scope of different bank cards that can be used on Euronet ATMs. Our goal is to be able to accept all of the cards issued in our markets as well as those of international card organizations. By the end of the year, we had concluded 21 agreements with banks and international card organizations, allowing our ATMs to process transactions for cards bearing the logos of American Express, Diners Club International, Visa, Plus, MasterCard, Europay and Cirrus, in some or all of the markets in which we operate.

*Expanding strategic client relationships*

In 1997 we began implementing ATM network management service agreements, which offer local banks an option to outsource the management of their proprietary ATM networks to Euronet. The efficiency of our state-of-the-art processing center and increasing economies of scale allow us to provide a cost-efficient ATM network solution to banks. Euronet now operates ATMs for Budapest Bank and Deutsche Bank in Hungary, and for BWR in Poland under such agreements.

Euronet is also assisting banks in becoming card issuers for the first time. Our "Blue Diamond" card management service, launched in 1997 with Raiffeisenbank Austria in Croatia, provides a combined hardware and software solution to starting bank card services. The bank's customers benefit from the added convenience of electronic banking, the bank itself is able to attract new customers, and the resulting increase in issued cards means more transaction revenues for our network.

Euronet offers cardholders convenience by providing them with access to cash when and where they need it. Our ATMs—in Central and Western Europe—are placed in high pedestrian traffic locations such as shopping centers, supermarkets, and mass transportation hubs. In 1997 we concluded a number of real estate agreements that allow us to place ATMs in premium retail sites such as McDonald's restaurants, Shell and BP gas stations, Julius Meinl, Tesco, Billa, and Kaiser's supermarkets and furniture retailer IKEA, among others.

*New products and services*

Euronet is also capitalizing on additional revenue opportunities by offering new banking and commercial services on our ATM network. The bulk of the Company's revenues comes from transaction fees charged to banks and card associations for withdrawals and balance inquiries performed by their cardholders. A growing revenue source—which increased from $63,000 in 1996 to $663,000 in 1997—is fees for advertising placed by banks and local businesses on Euronet's ATM screens and transaction receipts.

Our ATMs are state-of-the-art—they are modular and can be easily upgraded to accommodate new products and services in response to changing technology and consumer demand. All new ATMs installed by Euronet have chip-card readers and full-color screens. Developments are underway to further enhance Euronet's ATM network capabilities, permitting the introduction of new features such as bill paying and the sale of vouchers and other items at ATMs. We are also evaluating the development of point-of-sale networks that enable customers to make purchases with their debit cards directly in retail establishments.

As we enlarge our network and strategic partnerships, we strive to increase operating efficiencies and take advantage of economies of scale. By acquiring ATMs, computer equipment, maintenance, telecommunication and other services at lower unit costs, and by running a streamlined operation, we believe Euronet offers top technology and service at a competitive price. Our continually increasing economies of scale should make us more competitive in terms of cost, strengthen our market position, and eventually lead to higher long-term profit margins.

*Focused on growing sensibly*

Euronet is in a phase of rapid growth, but we are focused on growing sensibly. Together with our shareholders, we are making investments today that will position the Company as a market leader in Europe and beyond. We look at potential new markets carefully, with the strategy of expanding our geographic reach in cooperation with partner banks and global card organizations. Our proven track record has enabled us to build closer relationships with our international clients, facilitating logical and controlled expansion into new markets.

We are proud of our achievements in 1997 and energized by the enormous potential in our region and our industry. We have our work cut out for us in the coming year. The growing Euronet team is committed to meeting the Company's high standards of performance, achieving our goals, and ensuring a good return for our shareholders.

Sincerely,

Michael J. Brown

Michael J. Brown
Chairman, President and Chief Executive Officer

## Keys to Our Success

There are five main drivers of Euronet's business:

### 1 *More ATMs, in more locations, in more countries*

More ATMs in more locations and in more countries means more convenience for cardholders and more transaction revenues for Euronet. As one of the early entrants in the Central European ATM market, our growing regional network of **premium ATM sites** represents a key competitive advantage. Traditionally, most ATMs have been located in or next to banks. Euronet's placement strategy targets **non-bank, high traffic locations** with 24-hour accessibility such as shopping centers and transportation hubs. We have an increasing number of long-term agreements with well-known retail chains, gas stations, supermarkets, and fast food restaurants that allow us exclusive access to place ATMs at their establishments.

### 2 *Solid relationships with banks and international card organizations*

Signing acceptance agreements with local banks and international card organizations gives Euronet access to a **larger card base**. As a non-bank network processor, we are not dependent on any one card source. We are increasing our network's acceptance of international credit and debit cards, with the aim of reaching 100% acceptance of cards issued in our markets. Key to this regional strategy is concluding more agreements with local banks that issue cards through Visa, MasterCard, and Europay, and strengthening our strategic partnerships with international card issuers such as American Express and Diners Club International.

By connecting to the Euronet ATM network, local banks can offer their customers the convenience of cash withdrawal and balance inquiry services in numerous off-branch locations without additional capital expenditures. Through **acceptance agreements** with Euronet, banks and other card issuers generally allow their credit and debit cards to be used at all ATMs operated by Euronet. The banks provide the cash for the machines, and Euronet manages all of the monitoring, cash dispensing and maintenance tasks required to run the network. Euronet receives a fee from the bank or card issuer for each transaction performed by cardholders on Euronet ATMs.

In 1997, Euronet began offering complete ATM network management services to banks with their own ATM networks. **These ATM network management service agreements** include both management of existing bank-owned ATM networks or development of new ATM networks. Such agreements allow banks to outsource the management of their ATM networks to Euronet, thereby reducing their operating costs and improving the allocation of their own resources. ATM network management service agreements generally have a two-tier fee structure, including a monthly management service fee as well as a transaction fee.

### 3 *Top technology applied to world-class service*

Euronet runs a high-quality processing center equipped with IBM AS/400 processors and ARKSYS software. ATMs are sourced from IBM/Diebold and NCR. The network is linked with ground-based and satellite telecommunications for **maximum reliability,** and can potentially process transactions around the globe.

After Euronet closes a contract with a bank or other card issuer, our technical team analyzes the card issuer's system capabilities, proceeds with system set-up, configuration, testing, and certification and then brings the issuer "live" on the Euronet network in the shortest time possible. Once connected, Euronet's processing center routes transactions from our ATMs to the appropriate card issuer for authorization, and then instructs the ATM to complete the authorized cash withdrawal or balance inquiry for the cardholder—all in a matter of seconds.

For partner banks, we offer **24-hour monitoring** of the entire ATM network, real-time transaction authorization, management of cash delivery services, automatic service dispatches, and settlement and reporting.

For cardholders using our ATMs, we provide **24-hour multilingual customer service** and nearly uninterrupted on-line availability of the network. We routinely achieve "up times" (on-line service) of close to 99%. Bringing convenience to cardholders means enabling them to use our ATMs virtually 24 hours a day, 7 days a week.

## 4 *Rapid card growth within target markets*

As anticipated, the number of debit and credit cards issued in Central Europe (Hungary, Poland, Czech Republic) has grown rapidly from virtually none eight years ago to over five million cards today.

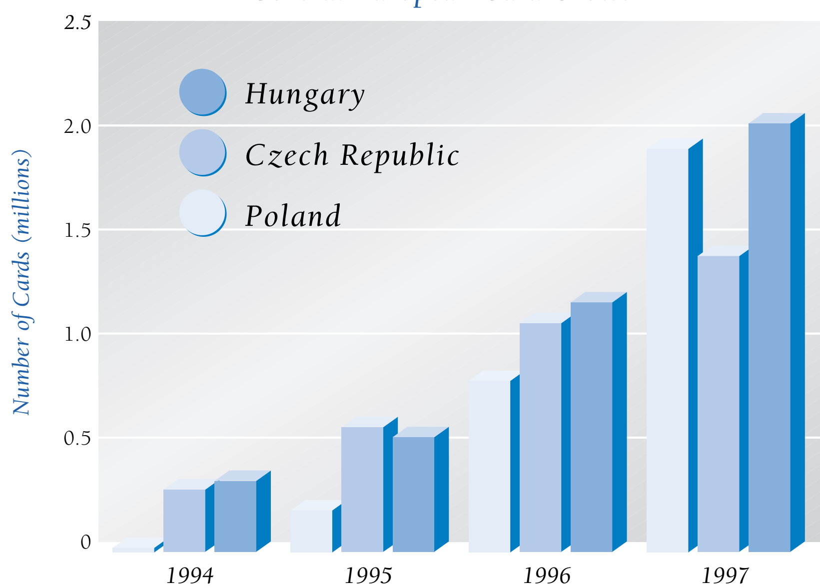
While Euronet cannot control the rate of card growth, we can encourage it by offering new services, such as **"Blue Diamond" card issuance services**, to client banks. With Blue Diamond, Euronet provides local banks with an integrated hardware and software solution to enable them to issue cards in a quick and cost efficient manner.

Euronet is well positioned to profit from the rapid growth and large potential in these markets. With state-of-the-art technology, world-class services and an international network of strategically located ATMs, Euronet expects to garner a significant percentage of the growing number of ATM transactions in our region for years to come.

## 5 *Talented and dedicated people*

Our world-class technology is matched only by our dedicated **international team** of highly-trained and experienced staff. Euronet management includes executives from the ATM and financial services industries, information technology companies, and other leading corporations. The Company's nearly 200 employees combine **the best of local talent and know-how** with Western standards of management and service, giving us a strong advantage throughout our markets. We believe our people are as important an asset to the Company as our technology, and we invest in recruitment, training and ongoing employee development. Incentive programs such as performance-based compensation and stock option plans ensure all Euronet employees have a stake in the Company's future.

*Central European Card Growth*

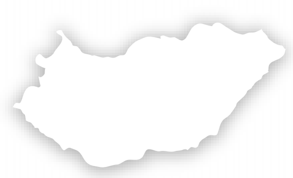



*Based on Company estimates*

# MARKET REVIEW

EURONET greatly expanded the size and scope of its ATM network during 1997. A quick glance at the status in our seven markets at the end of the first quarter of 1998 shows rapid progress since our first ATM was installed in Hungary in June 1995.

## Hungary



*Population: 10.1 million*
*Cards as a percentage of population: 20%*

| | |
|---|---|
| *Office Location* | Budapest |
| *Euronet ATMs as of March 31, 1998* | 359 |
| *Domestically-Issued Cards Accepted* | 99% |
| *International Card Acceptance* | American Express, Diners Club International, Visa, Plus, MasterCard, Europay, Cirrus |
| *Card Acceptance Agreements* | Budapest Bank, Citibank Budapest, Creditanstalt, Deutsche Bank, ING Bank, Inter-Európa Bank, Mezõbank, MKB, OTP (through July 1998), Postabank |
| *Network Management Agreements* | Budapest Bank, Deutsche Bank |
| *Key Real Estate Agreements* | Billa, CBA, Julius Meinl, Kaiser's, Plus, Profi and Tesco supermarkets; ARAL, OMV, and Shell gas stations; McDonald's; IKEA |

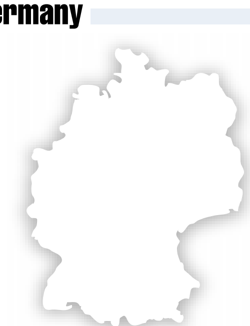
## Poland

*Population: 38.6 million*
*Cards as a percentage of population: 5%*

| | |
|---|---|
| *Office Locations* | Warsaw, Krakow, Szczecin |
| *Euronet ATMs as of March 31, 1998* | 332 |
| *Domestically-Issued Cards Accepted* | 80%* |
| *International Card Acceptance* | American Express, Diners Club International, Visa, Plus, MasterCard, Europay, Cirrus |
| *Card Acceptance Agreements* | BDK, BPH, BRE, BWR, Cuprum Bank, PeKaO, PolCard*, WBK, SKOK (Association of Polish Credit Unions) |
| *Network Management Agreements* | BWR* |
| *Key Real Estate Agreements* | Empik, Rossmann, Geant, Tesco, Makro Cash and Carry stores and supermarkets; BP gas stations; McDonald's; Warsaw Marriott |

**As of April 1998*

## Germany



*Population: 83.5 million*
*Cards as a percentage of population: 98%*

| | |
|---|---|
| *Office Location* | Berlin |
| *Euronet ATMs as of March 31, 1998* | 64 |
| *Domestically-Issued Cards Accepted* | 100% |
| *International Card Acceptance* | Visa, Plus, MasterCard, Europay, Cirrus, American Express |
| *Network Management Agreements* | Service Bank |
| *Key Real Estate Agreements* | Tengelmann Group (Tengelmann, Kaiser's, Magnet/Grosso, Plus), Metro, Edeka, Lidl & Schwarz, Allkauf, and Kaufhalle retailers, German Railways |

## Croatia

*Population: 5.0 million*
*Cards as a percentage of population: 16%*

| | |
|---|---|
| *Office Location* | Zagreb |
| *Euronet ATMs as of March 31, 1998* | 35 |
| *Domestically-Issued Cards Accepted* | 29% (under contracted agreements) |
| *International Card Acceptance* | American Express, Diners Club International |
| *Card Acceptance Agreements* | Raiffeisenbank Austria |

## Czech Republic

*Population: 10.3 million*
*Cards as a percentage of population: 14%*

| | |
|---|---|
| *Office Location* | Prague |
| *Euronet ATMs as of March 31, 1998* | 8 |
| *Domestically-Issued Cards Accepted* | 22% (under contracted agreements) |
| *International Card Acceptance* | Visa, Plus |
| *Card Acceptance Agreements* | Bank Austria |
| *Key Real Estate Agreements* | Billa and Delvita supermarkets, BP and Conoco gas stations |

## France

*Office in Paris established in December 1997*

*Population: 58.3 million*
*Cards as a percentage of population: 90%*

## Romania

*Office in Bucharest established in December 1997*

*Population: 21.7 million*
*Cards as a percentage of population: less than 1%*

## Index to Financial Statements

# SELECTED CONSOLIDATED FINANCIAL DATA

*The summary consolidated financial data set forth below have been derived from, and are qualified by reference to, the audited consolidated financial statements of the Company and the notes thereto, prepared in conformity with generally accepted accounting principles as applied in the United States ("U.S. GAAP"), which have been audited by KPMG Polska Sp. z o.o., independent public accountants. The Company believes that the period-to-period comparisons of its financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. The following information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein.*

| | Period from June 22, 1994 (inception) to December 31, 1994 | Year ended December 31, 1995 | 1996 | 1997 |
|---|---|---|---|---|
| | (in thousands, except share and per share data) | | | |
| **CONSOLIDATED STATEMENTS OF OPERATIONS DATA:** | | | | |
| Revenues: | | | | |
| Transaction fees | $ — | $ 62 | $ 1,198 | $ 4,627 |
| Other | — | — | 63 | 663 |
| Total revenues | — | 62 | 1,261 | 5,290 |
| Operating expenses: | | | | |
| ATM operating costs | — | 510 | 1,176 | 5,172 |
| Professional fees | 64 | 394 | 1,125 | 1,166 |
| Salaries | 49 | 452 | 989 | 3,796 |
| Communication | 12 | 20 | 263 | 818 |
| Rent and utilities | 8 | 112 | 290 | 783 |
| Travel and related costs | 20 | 71 | 254 | 701 |
| Fees and charges | — | 112 | 427 | 458 |
| Share compensation expense | — | — | 4,172[1] | 108 |
| Foreign exchange loss/(gain) | 2 | 158 | 79 | (8) |
| Other | 85 | 341 | 232 | 818 |
| Total operating expenses | 240 | 2,170 | 9,007 | 13,812 |
| Operating loss | (240) | (2,108) | (7,746) | (8,522) |
| Other income/expenses: | | | | |
| Interest income | 12 | 126 | 225 | 1,609 |
| Interest expense | — | (107) | (378) | (1,152) |
| Loss before income tax benefit | (228) | (2,089) | (7,899) | (8,065) |
| Income tax benefit[2] | — | 148 | 323 | 100 |
| Net loss | (228) | (1,941) | (7,576) | (7,965) |
| Loss per share—basic and diluted[3] | $ (0.64) | $ (4.00) | $ (15.18) | $ (0.64) |

| | As of December 31, 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|
| | (in thousands, except Summary Network Data) | | | |
| **CONSOLIDATED BALANCE SHEET DATA:** | | | | |
| Cash and cash equivalents | $ 2,036 | $ 411 | $ 2,541 | $ 7,516 |
| Investment Securities | — | — | 194 | 31,944 |
| Working capital | 2,071 | 526 | 631 | 33,496 |
| Total assets | 2,527 | 4,519 | 11,934 | 70,033 |
| Obligations under capital leases, less current installments | — | 1,119 | 3,834 | 11,330 |
| Total stockholders' equity | 2,422 | 2,097 | 5,136 | 49,219 |
| **SUMMARY NETWORK DATA:** | | | | |
| Number of operational ATMs at end of period | — | 53 | 166 | 693 |
| ATM transactions during the period | — | 45,000 | 1,138,000 | 5,758,000 |
| Average annual revenues per ATM | $ — | $ 2,340 | $ 11,516 | $ 12,317 |

[1] *The year ended December 31, 1996 includes a one-time non-cash compensation expense of $4,172,000 relating to the grant of certain employee and management options. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 9 to the Notes to the Consolidated Financial Statements included herein.*

[2] *See Note 8 to the Notes to the Consolidated Financial Statements included herein.*

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## *General Overview*

The Company was formed and established its first office in Budapest (Hungary) in June 1994. In May 1995, the Company opened its second office, in Warsaw (Poland). During 1997, the Company also opened offices in Berlin (Germany), Zagreb (Croatia), Prague (the Czech Republic), Paris (France) and Bucharest (Romania). To date, Euronet has devoted substantially all of its resources to establishing its ATM network through the acquisition and installation of ATMs and computers and software for its transaction processing center and through the marketing of its services to local banks as well as International Card Organizations. Euronet installed its first ATM in Hungary in June 1995, and at the end of 1995, the Company had 53 ATMs installed. An additional 113 ATMs were installed during 1996 in Hungary and Poland and as of December 31, 1996, the Company's ATM network consisted of 166 ATMs. During 1997 the Company installed a further 527 ATMs, consisting of 472 in Hungary and Poland and 55 in Germany and Croatia. With the expansion of operations, the Company increased the number of its employees in Hungary from 36 as of December 31, 1996 to 79 as of December 31, 1997. In Poland, the Company increased the number of its employees from 21 as of December 31, 1996 to 73 as of December 31, 1997. In 1997, the Company employed 9 people in Croatia, 8 in Germany, 7 in the Czech Republic, and 2 in France. In 1997, 99% of the Company's revenues were generated in Hungary and Poland. The Company's expansion of its network infrastructure and administrative and marketing capabilities has resulted in increased expenditures. Further planned expansion will continue to result in increases in general operating expenses as well as expenses related to the acquisition and installation of ATMs.

The Company has derived substantially all of its revenues from ATM transaction fees since inception. The Company receives a fee from the card issuing banks or International Card Organizations for ATM transactions processed on its ATMs. As the Company continues to focus on expanding its network and installing additional ATMs, the Company expects that transaction fees will continue to account for a substantial majority of its revenues for the foreseeable future. The Company's existing contracts with banks and International Card Organizations provide for reduced transaction fees with increases in transaction volume. As the Company's transaction levels continue to increase, the average fee it receives per transaction will decrease. However, the Company expects that because the decrease in transaction fees is tied to an increase in transactional volume, the overall revenues of the Company should increase despite the fee discounts. However, the Company expects that transaction levels may, however, be negatively impacted if all or a large part of the transaction fees are passed on to cardholders by client banks.

The transaction volumes processed on an ATM in any given market are affected by a number of factors, including location of the ATM and the amount of time the ATM has been installed at the location. The Company's experience has been that the number of transactions on a newly installed ATM is initially very low and takes approximately three to six months after installation to achieve average transaction volumes for that market. Accordingly, the average number of transactions, and thus revenues, per ATM are expected to increase as the percentage of ATMs operating in the Company's network for over six months increases.

The Company recently began to sell advertising on its network by putting clients' advertisements on its ATMs and on transaction receipts. In addition, the Company also began to generate revenues during 1997 from ATM network management services that it offers to banks that own proprietary ATM networks. Although the revenues generated to date have been small, the Company believes that revenues from these services will increase in the future.

The Company has had substantial increases in the level of operations, including ATMs operated and total personnel in 1995, 1996 and 1997. In addition, the Company was in the development stage until June 1995 when it began operations in Hungary. As a result, a comparison of the Company's results of operations between such years is not necessarily meaningful.

The Company's expenses consist of ATM operating expenses and other operating expenses. ATM operating expenses are generally variable in nature and consist primarily of ATM site rentals, depreciation of ATMs, ATM installation costs, maintenance, telecommunications, insurance, and cash delivery and security services to ATMs. ATM operating expenses will necessarily increase as the Company's network expands. Other operating expenses consist of items such as salaries, professional fees, communication and travel related expenditures. While these expenditures are anticipated to increase with the Company's expansion into new markets and the introduction of new products, other operating expenses are expected to decrease as a percentage of total revenues.

In January 1998 OTP notified the Company that it was terminating its contract with the Company effective as of July 27, 1998. OTP advised the Company that it terminated the contract since it desired to promote the use of its own ATM network. OTP also indicated that the Company selected ATM sites which OTP believed to be in competition with OTP ATM sites and that the Company failed to provide OTP with certain transaction reports on a timely basis. It should be noted that the reporting failure had been corrected more than two months prior to OTP's notice of termination. As a result of this termination, the Company will not have a direct connection with OTP and will not be able to accept OTP proprietary bank cards and OTP will no longer act as the Company's Europay sponsor in Hungary. The company will still be able to accept all OTP issued Visa cards through its Visa gateway. The Company is negotiating a new Europay sponsorship arrangement with a bank to replace OTP as its Europay sponsor, and subject to final execution and implementation of that agreement, the Company will still be able to accept all OTP issued Europay cards through its Europay gateway. For the year ended December 31, 1997, the Company's contract with OTP represented approximately 51% of its consolidated revenues and approximately 26% for the three months ended March 31, 1998. The financial impact of the OTP contract termination is difficult to assess. The Company believes that such impact may be mitigated in part because (i) the Company believes that Visa and Europay cards represent over 95% of the cards issued by OTP and (ii) the Company receives a higher fee for transactions processed through its Visa and Europay gateway(s) than for OTP proprietary bank cards. However, the Company believes that some of OTP's cardholders may be dissuaded from patronizing Euronet's ATMs due to the higher fees passed through to customers for transactions processed through the Visa and Europay connection.

## *Comparison of Results of Operations for the Years Ended December 31, 1995, 1996 and 1997*

### *Revenues*

Total revenues increased to $5,290,000 for the year ended December 31, 1997 from $1,261,000 for the year ended December 31, 1996 and $62,000 for the year ended December 31, 1995. The increase in revenues both in 1997 and 1996 were due primarily to the significant increase in transaction fees resulting from the increase in transaction volume attributable to additional network connections to credit and debit card issuers and an increase in the number of ATMs operated by the Company during these periods. The Company had 53 ATMs, 166 ATMs, and 693 ATMs installed at the end of 1995, 1996, and 1997, respectively. Transaction fee revenue represented approximately 87% of total revenues for the year ended December 31, 1997 and 95% of total revenues for the year ended December 31, 1996. Revenues in the year ended December 31, 1995 consisted entirely of transaction fees.



Transaction fees charged by the Company vary for the three types of transactions that are currently processed on the Company's ATMs: cash withdrawals, balance inquiries and transactions not completed because authorization is not given by the relevant Card Issuer. Approximately 98% of transaction fees in 1997, as compared to 92% in 1996, were attributable to cash withdrawals. The remaining transactions were attributable to balance inquiries and transactions not completed because authorization is not given by the relevant Card Issuer. Transaction fees for cash withdrawals vary from market to market but generally range from $0.60 to $1.75 per transaction while transaction fees for the other two types of transactions are generally substantially less.

Other revenues of $663,000 and $63,000 for the years ended December 31, 1997 and 1996 consisted primarily of advertising revenue. The increase during 1997 results from the increase in the number of ATMs operated by the Company. There were no other revenues in 1995.

*Operating expenses*

Total expenses increased to $13,812,000 for the year ended December 31, 1997 from $9,007,000 for the year ended December 31, 1996 and from $2,170,000 for the year ended December 31, 1995. This increase in both years was due primarily to costs associated with the installation of significant numbers of ATMs during the periods and expansion of the Company's operations during the periods. In addition a share compensation expense of $4,172,000 relating to the grant of certain employee and management options was charged to operating expenses in 1996.

ATM operating costs, which consist primarily of ATM site rentals, depreciation of ATMs and costs associated with maintaining, providing telecommunications and cash delivery services to ATMs increased to $5,172,000 for the year ended December 31, 1997 from $1,176,000 for the year ended December 31, 1996 and from $510,000 for the year ended December 31, 1995. The percentage of ATM operating costs to total operating expenses for the year ended December 31, 1997 increased to 37% as compared to 13% for the year ended December 31, 1996 (adjusting for the effect of the one-time non-cash share compensation expense of $4,172,000 with respect to the grant of certain employee and management options, the percentage would have been 24%), and 24% for the year ended December 31, 1995. The increase in ATM operating costs was primarily attributable to costs associated with operating the increased number of ATMs in the network during the periods. The number of ATMs installed increased from 53 to 166 from December 31, 1995 to December 31, 1996, and from 166 to 693 from December 31, 1996 to December 31, 1997.

Professional fees increased to $1,166,000 for the year ended December 31, 1997 from $1,125,000 for the year ended December 31, 1996 and from $394,000 for the year ended December 31, 1995. The fees in 1997, primarily legal, related to its expansion to new markets. The level of fees in 1996 was due primarily to legal fees attributable to the investment by new investors in the Company, the interim reorganization of the Company into a Netherlands Antilles Company and the expansion of the Company's operations into Poland.

Salaries increased to $3,796,000 for the year ended December 31, 1997 from $989,000 for the year ended December 31, 1996 and from $452,000 for the year ended December 31, 1995. The increase from 1995 to 1996 reflected the increase in employees from 31 to 57 and the increase from 1996 to 1997 reflected the increase in the number of employees from 57 to 178, as discussed above.

Communication, Rent and Utilities, and Travel related costs increased to $818,000, $783,000, and $701,000 respectively for the year ended December 31, 1997 from $263,000, $290,000, and $254,000 for the year ended December 31, 1996, and $20,000, $112,000, and $71,000 for the year ended December 31, 1995. The increases in all cases relate to the expansion of the Company's operations in both years, as previously discussed.

Fees and charges increased to $458,000 for the year ended December 31, 1997 from $427,000 and $112,000 for the years ended December 31, 1996 and 1995, respectively. These costs include $207,000 and $76,000, respectively, of expenses which the Company has recorded relating to the late payments of customs duties and Hungarian value added taxes in connection with the restructuring of its ATM leases in Hungary. Prior to any such restructuring, such leases were structured as operating leases for Hungarian accounting purposes (although treated as capital leases for U.S. GAAP purposes), and its ATMs have therefore been imported under a temporary import arrangment. The ATMs are subject to a "re-export" requirement and this has the effect of postponing payment of customs duties. The Company has decided to restructure such lease arrangements as capital leases for Hungarian accounting purposes, and the Company recorded the related charges as other expenses. Customs duties have been capitalized as part of the cost of the ATMs under capital lease and depreciated over the useful lives of the ATMs.

Share compensation of $4,172,000, with respect to the grant of certain employee and management options, was recorded in 1996. The non-cash charge, calculated in accordance with Accounting Principles Board Opinion No. 25, represents the difference between the estimated fair market value of the Shares underlying such options at the date of option grant and the exercise price. Estimated fair market value at the grant dates in the last quarter of 1996 was assumed to be the cash price for the sale of Shares in the next succeeding third party purchase of Shares, which accrued in February 1997. With respect to these options, an additional $343,000 is being amortized over the remaining vesting period of such options. Of this amount, $108,000 has been expensed during the year ended December 31, 1997. See Note 9 to the Company's Consolidated Financial Statements included herein.

The Company had a net foreign exchange gain of $8,000 for the year ended December 31, 1997, and net foreign exchange losses of $79,000, and $158,000, during the years ended December 31, 1996 and 1995, respectively. Exchange gains and losses that result from remeasurement of assets and liabilities are recorded in determining net loss. See Note 2(c) to the Company's Consolidated Financial Statements included herein. A substantial portion of the assets and liabilities of the Company are denominated in U.S. dollars, including, for instance, fixed assets, stockholders' equity and capital lease obligations. Additionally, it is the Company's policy to attempt to match local currency receivables and payables. Hence, the amount of unmatched assets and liabilities giving rise to foreign exchange gains and losses is relatively limited, consisting mostly of cash and cash equivalents. The Company has invested in German mark denominated government securities as a hedge against certain German mark denominated lease obligations.

Other operating expenses, which include marketing, depreciation of non-ATM related assets, and insurance, increased to $818,000 for the year ended December 31, 1997 from $232,000 for the year ended December 31, 1996 and $341,000 for the year ended December 31, 1995. These increases were in line with the expansion of the Company's operations during such periods. The increase of $586,000 in 1997 over 1996 results primarily from the expansion into new and existing markets.

***Other income/expense***

Interest income increased to $1,609,000 for the year ended December 31, 1997 from $225,000 for the year ended December 31, 1996 and $126,000 for the year ended December 31, 1995. The increase in 1997 was the result of the investments made by the Company in U.S. State and Municipal obligations, Corporate debentures, U.S. Federal Agency and foreign government obligations using the proceeds from the 1997 equity offering. The amount held under such investments at December 31, 1997 was $31,944,000 compared to $194,000 at December 31, 1996. During 1996 the increase was due to larger amounts held in interest bearing accounts, including restricted cash held as security for certain of the Company's vendors, banks supplying cash to Euronet's ATMs and certain other parties. See "—Liquidity and Capital Resources".

Interest expense relating principally to capital leases of ATMs and Euronet's computer systems increased to $1,152,000 during the year ended December 31, 1997 from $378,000 during the year ended December 31, 1996 and $107,000 during the year ended December 31, 1995. This increase was due primarily to the increase of capital lease obligations outstanding during the periods.

***Net loss***



The Company's net loss increased to $7,965,000 during the year ended December 31, 1997 from $7,576,000 during the year ended December 31, 1996 and $1,941,000 during the year ended December 31, 1995 as a result of the factors discussed above.

## *Liquidity and Capital Resources*

Since its inception, the Company has sustained negative cash flows from operations and has financed its operations and capital expenditures primarily through the proceeds from the 1997 equity offering, through equipment lease financing and through private placements of equity securities. The net proceeds of such transactions, together with revenues from operations and interest income have been used to fund aggregate net losses of approximately $17,710,000 and investments in property, plant and equipment. The Company had cash and cash equivalents of $7,516,000 and working capital of $33,496,000 at December 31, 1997. At December 31, 1997, the Company had $847,000 of restricted cash held as security with respect to cash provided by banks participating in Euronet's ATM network, to cover guarantees to a customer and as deposits with customs officials. The Company expects to continue to generate losses from operating activities, and negative cash flow while it concentrates on the expansion of its ATM network business. As a result of the Company's strategy of continuing expansion and increasing its market share, the Company's net losses are expected to increase. There can be no assurance that the Company's revenues will grow or be sustained in future periods or that the Company will be able to achieve or sustain profitability or positive cash flow from operations in any future period. If the Company cannot achieve and sustain operating profitability or positive cash flow from operations, it may not be able to meet its debt service or working capital requirements.

The Company leases the majority of its ATMs under capital lease arrangements that expire between 1999 and 2002. The leases bear interest between 11% and 15%. As of December 31, 1997 the Company owed $14,470,000 under such capital lease arrangements. The Company anticipates using approximately $10,000,000 to $12,000,000 of the proceeds from the Offering (defined below) to repay a significant portion of the amounts outstanding under such lease arrangements.

At December 31, 1997, the Company had contractual capital commitments of approximately $1.2 million. The Company expects that its capital requirements will increase in the future as it pursues its strategy of expanding its network and increase the number of installed ATMs. The Company anticipates that its capital expenditures for the 12 months ending December 31, 1998 will total approximately $30 million, primarily in connection with the acquisition of ATMs, scheduled capital lease payments on existing lease obligations, and related installation costs. Aggregate capital expenditures for 1998 and 1999 for such purposes are expected to reach approximately $60-70 million in its existing markets which assumes the installation of approximately 2,000 additional ATMs over the next two years in accordance with the Company's current strategy. These requirements contemplate both planned expansion in Hungary, Poland, Germany, Croatia, the Czech Republic and certain other European markets. Acquisitions of related businesses in Europe and other markets in furtherance of the Company's strategy may require additional capital expenditures.

The Company filed a Registration Statement on Form S-1 with the Securities and Exchange Commission on March 20, 1998 in connection with the proposed public offering of USD $100,000,000 (or Deutsche Mark equivalent) of the Company's Senior Discount Notes due 2006 (the "Offering").

The Company believes the net proceeds from the Offering, together with its cash flows from operations and remaining proceeds from the 1997 equity offering, will be sufficient to fund the company's operating losses, debt service requirements and capital expenditures associated with its expansion plans through the year 2000. There can be no assurance, however, that the Company will achieve or sustain profitability or generate significant revenues in the future. It is possible that the Company may seek additional equity or debt financing in the future.



The Company will have substantial indebtedness after the Offering. As of December 31, 1997, after giving pro forma effect to the Offering and the application of the net proceeds therefrom, the Company's total indebtedness would be approximately $103.1 million, its stockholders' equity would be approximately $49.2 million and the Company's total assets would be approximately $158.5 million. The Indenture limits, but does not prohibit, the Company and its subsidiaries from incurring additional indebtedness. If an opportunity to consummate a strategic acquisition arises or if one or more new contracts is executed requiring a more rapid installation of

ATM machines or a significant increase in the number of ATM machines in any market area, the Company may require substantial additional financing for such purpose and to fund its working capital needs. Such additional financing may be in the form of additional indebtedness which would increase the Company's overall leverage. See "Selected Financial Data."

The level of the Company's indebtedness could have important consequences to holders of the Notes, including the following: (i) the Company may not be able to generate sufficient cash flows to service the Notes and its other outstanding indebtedness and to fund adequately its planned capital expenditures and operations; (ii) the ability of the Company to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes may be limited or such financing may be unavailable; (iii) a substantial portion of the Company's cash flow, if any, must be dedicated to the payment of principal and interest on its indebtedness and other obligations and will not be available for use in its business; (iv) the Company's level of indebtedness could limit its flexibility in planning for, or reacting to, changes in its business and markets; and (v) the Company's high degree of indebtedness will make it more vulnerable to changes in general economic conditions and a downturn in its business, thereby making it more difficult for the Company to satisfy its obligations under the Notes.

The Company must substantially increase its net cash flows in order to meet its debt service obligations, including obligations under the Notes, and there can be no assurance that the Company will be able to meet such obligations, including its obligations under the Notes. If the Company is unable to generate sufficient cash flows or otherwise obtain funds necessary to make required payments or if it otherwise fails to comply with the various covenants under its indebtedness, it would be in default under the terms thereof, which would permit the holders of such indebtedness to accelerate the maturity of such indebtedness and could cause defaults under other indebtedness of the Company. Such defaults could result in a default on the Notes and could delay or preclude payments of interest or principal thereon.

## *Balance Sheet Items*

***Cash and cash equivalents.***

The increase of cash and cash equivalents to $7,516,000 at December 31, 1997 from $2,541,000 at December 31, 1996 is due to receipt of proceeds from the maturity of investment securities during the period and to the expansion of operations in the countries where the Company operated in 1996 and the new countries in which the Company has commenced operations in 1997.

Cash and cash equivalents increased from $411,000 at December 31, 1995 to $2,541,000 at December 31, 1996 due primarily to the subscription for shares by certain shareholders on March 27, 1996.

***Restricted Cash***

Restricted cash increased from $152,000 at December 31, 1996 to $847,000 at December 31, 1997 due to the expansion of operations in the countries where the Company operated, and was also attributable to a lease deposit.

Restricted cash decreased from $180,000 at December 31, 1995 to $152,000 at December 31, 1996, and investment securities increased from none at December 31, 1995 to $194,000 at December 31, 1996.



***Investment Securities***

The increase in investment securities from $194,000 at December 31, 1996 to $31,944,000 at December 31, 1997 was due to the investment of proceeds from the 1997 equity offering not currently used in funding the Company's operations.

***Property, plant and equipment***

Total property, plant and equipment increased from $7,906,000 at December 31, 1996 to $26,439,000 at December 31, 1997. This increase is due primarily to the installation of 527 ATMs during 1997. The increase in total property, plant and equipment from $2,656,000 at December 31, 1995 to $7,906,000 at December 31, 1996 is due primarily to the installation of 113 ATMs in 1996.

***Deposits for ATM leases***

Deposits for ATM leases increased from $666,000 at December 31, 1996 to $2,542,000 at December 31, 1997 as a result of the Company's expansion. Lease deposits at December 31, 1995 were $772,000.

***Obligations under capital leases***

In connection with the increase of property, plant and equipment, obligations under capital leases increased from $384,000 at December 31, 1995 to $4,471,000 at December 31, 1996 to $14,470,000 at December 31, 1997. The majority of the 482 ATMs installed in 1997 and the 166 ATMs installed in 1995 and 1996 were financed under capital leases.

***Trade accounts payable***

Trade accounts payable increased from $1,670,000 at December 31, 1996 to $4,420,000 at December 31, 1997. The increase is due primarily to the significant increase in operations in 1997, including approximately $2,000,000 related to ATM purchases. The increase of trade accounts payable from $364,000 at December 31, 1995 to $1,670,000 at December 31, 1996 is also attributable to a significant increase in operations in 1996. These increases are consistent with the Company's projected growth in the earlier years of its operations.

***Foreign Exchange Exposure***

In 1997, 99% of the Company's revenues were generated in Poland and Hungary. While in Hungary the majority of revenues received are to be US dollar denominated, this is not the case in Poland, where the majority of revenues are denominated in Polish zloty. However the majority of these contracts are linked either to inflation or the retail price index. While it remains the case that a significant portion of the Company's expenditures are made in or are denominated in U.S. dollars, the Company is also striving to achieve more of its expenses in local currencies to match its revenues.

The Company anticipates that in the future, a substantial portion of the Company's assets, including fixed assets, will be denominated in the local currencies of each market. As a result of continued European economic convergence, including the increased influence of the Deutsche Mark, as opposed to the U.S. dollar, on the Central European currencies, the Company expects that the currencies of the markets where the proceeds from the offering will be used will fluctuate less against the Deutsche Mark than against the Dollar. Accordingly, the Company believes that the issuance of Deutsche Mark denominated debt will provide, in the medium to long term, for a closer matching of assets and liabilities than a dollar denominated issuance would.

***Year 2000 Compliance***

The Company has made an assessment of the impact of the advent of the year 2000 on its systems and operations. The Processing Center will require certain upgrades which have been ordered and are scheduled for installation by the fourth quarter 1998. Most of the ATMs in the Euronet network are not year 2000 compliant, and hardware and software upgrades will be installed under contract with Company's Euronet's ATM maintenance vendors. According to the Company's current estimates, the cost will be approximately $1,000 per ATM, and the required installation will be finished by the end of 1998. The Company estimates that approximately 560 of its ATMs will require upgrades for year 2000 compliance.

The Company is currently planning a survey of its bank customers concerning the compliance of their back office systems with year 2000 requirements, and anticipates launching such survey in the third quarter of 1998. If the Company's bank customers do not bring their card authorization systems into compliance with year 2000 requirements, the Company may be unable to process transactions on cards issued by such banks and may lose revenues from such transactions. This could have a material adverse effect on the Company's revenues. Therefore, the Company will monitor, and hopes to assist its bank clients in, implementation of their year 2000 compliance programs, and may, if required to accelerate such compliance programs, create consulting capabilities in this respect.

***Inflation and Functional Currencies***

In recent years, Hungary, Poland and the Czech Republic have experienced high levels of inflation. Consequently, these countries' currencies have continued to decline in value against the major currencies of the OECD over this time period. However, due to the significant reduction in the inflation rate of these countries in recent years, it is expected that none of these countries will be considered to have a hyper-inflationary economy in 1998. Therefore, since Poland will no longer be considered hyper-inflationary beginning in 1998 and a significant portion of the Company's Polish subsidiary's revenues and expenses are denominated in zloty, the functional currency of the Company's Polish subsidiary will now be the zloty. The functional currency of the Company's Hungarian subsidiary will continue to be the U.S. dollar. It is expected that the functional currency of the Company's Czech subsidiary will also be the U.S. dollar.

Germany and France have experienced relatively low and stable inflation rates in recent years. Therefore, the local currencies in each of these markets is the functional currency. Although Croatia, like Germany and France, has maintained relatively stable inflation and exchange rates, the functional currency of the Croatian company is the U.S. dollar due to the significant level of U.S. dollar denominated revenues and expenses. Due to the factors mentioned above, the Company does not believe that inflation will have a significant effect on results of operations or financial condition. The Company continually reviews inflation and the functional currency in each of the countries that it operates in.

***Implementation of New Accounting Pronouncements***

The Company, effective for the year ended December 31, 1997, has adopted the following Statements of Financial Accounting Standards (SFAS): SFAS No. 128, "Earnings per Share." Pursuant to the provisions of the statement, basic loss per share has been computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. The effect of potential common shares (stock options outstanding) is anti-dilutive. Accordingly, dilutive loss per share does not assume the exercise of stock options outstanding.

SFAS No. 130, "Reporting Comprehensive Income." Comprehensive income can be defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company had no significant comprehensive income during the period.

SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." The Company has one industry segment but operates in a number of geographical segments. The Company has disclosed separately its two major geographical segments in 1997, being Hungary and Poland as required by SFAS No.131.



***Forward Looking Statements***

Any statements contained in this annual report which concern the Company's or management's intentions, expectations, or are predictions of future performance, are forward looking statements. The Company's actual results may vary materially from those predicted or anticipated in those forward looking statements as a result of a number of factors, including changes in transaction pricing levels on bank ATM networks, cancellation or re-negotiation of contracts on which the Company is dependent, the level of card growth in emerging markets and changes in laws and regulations affecting the Company's business in the countries in which it operates. Additional explanation of these factors and other factors affecting the Company's performance are set forth from time to time in the Company's periodic reports filed with the U.S. Securities and Exchange Commission, including, but not limited to, the Company's Forms 10-Q for the periods ended March 31, June 30, and September 30, 1997 and March 31, 1998, and its Form 10-K for the year ended December 31, 1997. Copies of these filings may be obtained by contacting the Company or the SEC.

## Independent Auditors' Report

The Board of Directors and Stockholders
Euronet Services Inc.:

We have audited the accompanying consolidated balance sheets of Euronet Services Inc. and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Euronet Services Inc. and subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997 in conformity with generally accepted accounting principles in the United States of America.

KPMG Polska Sp. z o.o.

Warsaw, Poland
March 17, 1998

# Consolidated Balance Sheets

| | December 31, 1996 | December 31, 1997 |
|---|---|---|
| | *(in thousands)* | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,541 | $ 7,516 |
| Restricted cash (note 4) | 152 | 847 |
| Trade accounts receivable | 172 | 647 |
| Investment securities (notes 5 and 6) | 194 | 31,944 |
| Prepaid expenses and other current assets | 433 | 1,857 |
| Total current assets | 3,492 | 42,811 |
| Property, plant, and equipment, at cost: | | |
| Equipment—Automatic teller machines | 6,773 | 23,581 |
| Vehicles and office equipment | 471 | 1,808 |
| Computers and software | 662 | 1,050 |
| | 7,906 | 26,439 |
| Less accumulated depreciation and amortization | (622) | (2,351) |
| Net property, plant and equipment | 7,284 | 24,088 |
| Loans receivable, excluding current portion | 21 | 21 |
| Deposits for ATM leases | 666 | 2,542 |
| Deferred income taxes (note 8) | 471 | 571 |
| Total assets | $ 11,934 | $ 70,033 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Trade accounts payable | $ 1,670 | $ 4,420 |
| Short term borrowings (note 6) | 194 | 158 |
| Current installments of obligations under capital leases (note 7) | 637 | 3,140 |
| Note payable—shareholder | 262 | — |
| Accrued expenses | 98 | 1,597 |
| Total current liabilities | 2,861 | 9,315 |
| Obligations under capital leases, excluding current installments (note 7) | 3,834 | 11,330 |
| Other long-term liabilities | 103 | 169 |
| Total liabilities | 6,798 | 20,814 |
| Stockholders' equity (note 1): | | |
| Common stock, $0.02 par value. Authorized 30,000,000 shares in 1997 and 2,100,000 in 1996; issued and outstanding 15,133,321 shares in 1997 and 499,100 shares in 1996 | 10 | 304 |
| Preferred stock, $0.02 par value. Authorized 10,000,000 shares in 1997, none issued and outstanding | — | — |
| Series A convertible preferred stock, $0.02 par value. Authorized 7,700,000 shares in 1996, issued and outstanding 4,419,800 in 1996 | 88 | — |
| Series B convertible preferred stock, $0.02 par value. Authorized 7,700,000 shares in 1996, issued and outstanding 4,666,669 in 1996 | 93 | — |
| Additional paid in capital | 11,666 | 63,358 |
| Treasury stock | — | (4) |
| Subscription receivable | (500) | (253) |
| Accumulated losses | (7,005) | (14,970) |
| Restricted reserve (note 3) | 784 | 784 |
| Total stockholders' equity | 5,136 | 49,219 |
| Total liabilities and stockholders' equity | $ 11,934 | $ 70,033 |

*See accompanying notes to consolidated financial statements.*

## Consolidated Statements of Operations

| | Years Ended December 31, 1995 | 1996 | 1997 |
|---|---|---|---|
| | *(in thousands, except share and per share data)* | | |
| Revenues: | | | |
| Transaction fees | $ 62 | $ 1,198 | $ 4,627 |
| Other | — | 63 | 663 |
| Total revenues | 62 | 1,261 | 5,290 |
| Operating expenses: | | | |
| ATM operating costs | 510 | 1,176 | 5,172 |
| Professional fees | 394 | 1,125 | 1,166 |
| Salaries | 452 | 989 | 3,796 |
| Communication | 20 | 263 | 818 |
| Rent and utilities | 112 | 290 | 783 |
| Travel and related costs | 71 | 254 | 701 |
| Fees and charges | 112 | 427 | 458 |
| Share compensation expense (note 9) | — | 4,172 | 108 |
| Foreign exchange loss/(gain) | 158 | 79 | (8) |
| Other | 341 | 232 | 818 |
| Total operating expenses | 2,170 | 9,007 | 13,812 |
| Operating loss | (2,108) | (7,746) | (8,522) |
| Other income/expense: | | | |
| Interest income | 126 | 225 | 1,609 |
| Interest expense | (107) | (378) | (1,152) |
| | 19 | (153) | 457 |
| Loss before income tax benefit | (2,089) | (7,899) | (8,065) |
| Income tax benefit (note 8) | 148 | 323 | 100 |
| Net loss | $ (1,941) | $ (7,576) | $ (7,965) |
| Loss per share—basic and diluted (note 2(k)) | $ (4.00) | $ (15.18) | $ (0.64) |
| Weighted average number of shares outstanding | 483,324 | 499,100 | 12,380,962 |

*See accompanying notes to consolidated financial statements.*

# Consolidated Statements of Changes in Stockholders' Equity

| | Common Stock | Preferred Stock Series A | Preferred Stock Series B | Additional Paid in Capital | Treasury Stock |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Balance January 1, 1995 | $ 2,650 | $ — | $ — | $ — | $ — |
| Capital contributions (note 1) | 1,066 | — | — | 550 | — |
| Net loss for 1995 | — | — | — | — | — |
| Transfer to restricted reserve | — | — | — | — | — |
| Balance December 31, 1995 | 3,716 | — | — | 550 | — |
| Net loss up to March 27, 1996 | — | — | — | — | — |
| Transfer to restricted reserve | — | — | — | — | — |
| Formation of Euronet Services N.V. (note 1) | (3,709) | 63 | — | 122 | — |
| Capital contribution (note 1) | — | — | 67 | 6,933 | — |
| Reimbursement of capital | — | — | — | (57) | — |
| Change in par value of shares | 3 | 25 | 26 | (54) | — |
| Share compensation expense (note 9) | — | — | — | 4,172 | — |
| Net loss from March 28, 1996 through Dec. 31, 1996 | — | — | — | — | — |
| Transfer to restricted reserve | — | — | — | — | — |
| Balance December 31, 1996 | 10 | 88 | 93 | 11,666 | — |
| GE Capital share issue (note 1) | — | — | 11 | 2,989 | — |
| Formation of Euronet Services Inc. (note 1) | 192 | (88) | (104) | — | — |
| Net proceeds from public offering (note 1) | 77 | — | — | 47,780 | — |
| Milestone awards and options exercised (note 9) | 25 | — | — | 815 | — |
| Subscription paid (note 1) | — | — | — | — | — |
| Treasury stock repurchase (note 1) | — | — | — | — | (4) |
| Share compensation expense (note 9) | — | — | — | 108 | — |
| Net loss for 1997 | — | — | — | — | — |
| Balance December 31, 1997 | $ 304 | $ — | $ — | $ 63,358 | $ (4) |

| | Subscription Receivable | Accumulated Losses | Restricted Reserve | Total |
|---|---|---|---|---|
| | | (in thousands) | | |
| Balance January 1, 1995 | $ — | $ (457) | $ 229 | $ 2,422 |
| Capital contributions (note 1) | — | — | — | 1,616 |
| Net loss for 1995 | — | (1,941) | — | (1,941) |
| Transfer to restricted reserve | — | (421) | 421 | — |
| Balance December 31, 1995 | — | (2,819) | 650 | 2,097 |
| Net loss up to March 27, 1996 | — | (657) | — | (657) |
| Transfer to restricted reserve | — | (48) | 48 | — |
| Formation of Euronet Services N.V. (note 1) | — | 3,524 | — | — |
| Capital contribution (note 1) | (500) | — | — | 6,500 |
| Reimbursement of capital | — | — | — | (57) |
| Change in par value of shares | — | — | — | — |
| Share compensation expense (note 9) | — | — | — | 4,172 |
| Net loss from March 28, 1996 through December 31, 1996 | — | (6,919) | — | (6,919) |
| Transfer to restricted reserve | — | (86) | 86 | — |
| Balance December 31, 1996 | (500) | (7,005) | 784 | 5,136 |
| GE Capital share issue (note 1) | — | — | — | 3,000 |
| Formation of Euronet Services Inc. (note 1) | — | — | — | — |
| Net proceeds from public offering (note 1) | — | — | — | 47,857 |
| Milestone awards and options exercised (note 9) | (253) | — | — | 587 |
| Subscription paid (note 1) | 500 | — | — | 500 |
| Treasury stock repurchase (note 1) | — | — | — | (4) |
| Share compensation expense (note 9) | — | — | — | 108 |
| Net loss for 1997 | — | (7,965) | — | (7,965) |
| Balance December 31, 1997 | $ (253) | $ (14,970) | $ 784 | $ 49,219 |

*See accompanying notes to consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31, 1995 | 1996 | 1997 |
|---|---|---|---|
| | | (in thousands) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net loss | $ (1,941) | $ (7,576) | $ (7,965) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Share compensation expense | — | 4,172 | 108 |
| Depreciation and amortization of property, plant and equipment | 133 | 484 | 1,761 |
| Loss on disposal of fixed assets | — | — | 11 |
| Deferred income taxes | (148) | (323) | (100) |
| (Increase)/decrease in restricted cash | (180) | 28 | (695) |
| Increase in trade accounts receivable | (33) | (139) | (475) |
| (Increase)/decrease in deposits for ATM leases | (772) | 106 | (1,876) |
| Increase in trade accounts payable | 288 | 1,306 | 2,750 |
| Increase in prepaid expenses and other current assets | (293) | — | (1,424) |
| Increase/(decrease) in accrued expenses and other long-term liabilities | 485 | (313) | 1,565 |
| Net cash used in operating activities | (2,461) | (2,255) | (6,340) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Fixed asset purchases | (394) | (1,061) | (7,612) |
| Proceeds from sale of fixed assets | — | — | 42 |
| Purchase of investment securities | — | (194) | (75,692) |
| Proceeds from maturity of investment securities | — | — | 43,942 |
| Net (increase)/decrease in loan receivable | (24) | 3 | — |
| Net cash used in investing activities | (418) | (1,252) | (39,320) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Proceeds from issuance of shares and other capital contributions | 1,616 | 6,500 | 51,944 |
| Reimbursement of capital | — | (57) | — |
| Repayment of obligations under capital leases | (523) | (1,101) | (1,007) |
| Repurchase of treasury stock | — | — | (4) |
| Decrease/(increase) in bank borrowings | — | 194 | (36) |
| Proceeds from/(repayment of) loan from shareholder | 161 | 101 | (262) |
| Net cash provided by financing activities | 1,254 | 5,637 | 50,635 |
| Net (decrease)/increase in cash and cash equivalents | (1,625) | 2,130 | 4,975 |
| Cash and cash equivalents at beginning of period | 2,036 | 411 | 2,541 |
| Cash and cash equivalents at end of period | $ 411 | $ 2,541 | $ 7,516 |
| Supplemental disclosures of cash flow information: | | | |
| Interest paid during year | $ 107 | $ 325 | $ 877 |

Supplemental schedule of noncash investing and financing activities (in thousands):

Capital lease obligations of $1,906, $4,189 and $11,006 during the years ended December 31, 1995, 1996 and 1997, respectively, were incurred when the Company entered into leases primarily for new automated teller machines.

*See accompanying notes to consolidated financial statements.*

# Notes to Consolidated Financial Statements

## 1. *Organization and formation of holding company*

Euronet Services Inc. (the "Company") was established as a Delaware corporation on December 13, 1996 and capitalized on March 6, 1997. Euronet Services Inc. succeeded Euronet Holding N.V. as the group holding company.

Euronet Services Inc. and its subsidiaries (collectively "Euronet") is an independent shared automated teller machine (ATM) network and service provider to banks and financial institutions. Euronet serves banks by providing ATMs that accept cards with international logos such as Visa, American Express and MasterCard and proprietary bank cards issued by member banks. The subsidiaries of Euronet, all of which are wholly owned, are:

- Euronet Holding N.V., incorporated in the Netherlands Antilles
- Euronet-Bank Tech Rt. (Bank Tech), incorporated in Hungary
- SatComNet Kft (SatComNet), incorporated in Hungary
- Bankomat 24/Euronet Sp. z o.o. (Bankomat), incorporated in Poland
- EFT-Usluge d o.o., incorporated in Croatia
- Euronet Services GmbH, incorporated in Germany
- Euronet Services France SAS, incorporated in France
- Euronet Services spol. sro, incorporated in the Czech Republic

The following is a description of the events leading up to the formation of the Company. Bank Tech was established on June 22, 1994 by Michael Brown (Chairman, President and Chief Executive Officer of Euronet) and Daniel Henry with an initial capital contribution of $10,000. Pursuant to a joint venture agreement dated July 19, 1994, certain new shareholders and Michael Brown contributed $2,640,000 in cash as additional capital to Bank Tech and Daniel Henry transferred his interest to Michael Brown for a purchase price equal to his original contribution. The additional capital raised by Bank Tech did not result in a new controlling group, accordingly the accounting bases of the assets and liabilities of Bank Tech remained unchanged. On February 20, 1995, the joint venture agreement was amended under which a new investor and a shareholder of Bank Tech acquired SatComNet for a purchase price of $491,000 in cash. SatComNet was a shell entity with no substantive operations before such date. SatComNet is engaged in telecommunication services by facilitating satellite link up to Bank Tech. The acquisition was accounted for under the purchase method of accounting, accordingly, the results of operations of SatComNet are included in the consolidated statements of operations since the date of acquisition. The purchase price approximated the fair value of the net assets acquired, which mainly consisted of cash and equipment. Furthermore and pursuant to such amended joint venture agreement, the shareholders of SatComNet and a new shareholder agreed to contribute $956,000 in cash as additional capital to Bank Tech and also agreed to exchange their interest held in such companies to create identical ownership of Bank Tech and SatComNet. The capital raised by Bank Tech and the exchange of shares did not result in a new controlling group, accordingly, the accounting bases of the assets and liabilities of Bank Tech and SatComNet remained unchanged. Michael Brown established Bankomat on August 8, 1995 with $2,000 in capital. A further capital increase of $61,000 was made by Michael Brown on December 7, 1995.



On February 15, 1996 the shareholders of Bank Tech and SatComNet terminated their amended joint venture agreement and entered into a shareholders' agreement reorganizing the ownership of Bank Tech, SatComNet and Bankomat. Under the shareholders' agreement, the investors contributed, on March 27, 1996, all of their shares and interest in Bank Tech, SatComNet and Bankomat in exchange for 499,100 common shares and 4,419,800 Series A convertible preferred shares of Euronet Holding N.V. The transaction has been accounted for as a combination of entities under common control at historical cost in a manner similar to pooling of interest accounting. Under this method, the Company recorded the assets and liabilities received at their historical cost, common shares ($7,000) and Series A convertible preferred shares ($63,000) were established for the par value of the shares issued, accumulated losses were eliminated ($3,524,000) and the resulting difference was recorded as additional paid in capital ($122,000). In addition, new shareholders contributed $5,500,000 in cash and a subscription receivable of $500,000 to the capital of Euronet Holding N.V. in exchange for 4,200,000 Series B convertible preferred shares.

On November 26, 1996, Euronet Holding N.V. called on a $1 million dollar standby commitment from certain existing investors (Poland Partners LP, Advent Partners LP, Advent Private Equity Fund-CELP, Poland Investment Fund LP, Hungarian Private Equity Fund and DST Systems Inc.) in return for 466,669 series B convertible preferred shares.

On February 3, 1997, Euronet Holding N.V. signed a Subscription Agreement with General Electric Capital Corporation ("GE Capital") under which GE Capital purchased 710,507 shares of Series B Convertible Preferred Shares of Euronet Holding N.V. for an aggregate purchase price of $3 million. Pursuant to the "claw back" option of this agreement, on June 16, 1997, the Company repurchased 292,607 shares of Euronet Holding N.V. at the original par value.

The following table illustrates the issuance of equity securities by date, including the number of shares issued for cash or other consideration, the nature of the non-cash consideration received and the values assigned to each issuance up to the capitalization of the Company on March 6, 1997.

| | | Number of shares | | | | |
|---|---|---|---|---|---|---|
| *Date* | *Type of shares* | *Bank Tech*[1] | *SatComNet* | *Bankomat* | *Euronet Holding N.V.* | *Value* |
| | | | | | | *(in thousands)* |
| June 22, 1994 | Common | 1,044 | — | — | — | $ 10 |
| July 19, 1994 | Common | 275,522 | — | — | — | $ 2,640 |
| | | | | | | $ 2,650 |
| February 20, 1995 | Common | 53,434 | 1[2] | — | — | $ 1,447 |
| August 8, 1995 | Common | — | — | 3,140 | — | $ 2 |
| December 7, 1995 | [3] | — | — | — | — | $ 167 |
| | | | | | | $ 1,616 |
| March 27, 1996 | Common | — | — | — | 499,100 | —[4] |
| March 27, 1996 | series A preferred | — | — | — | 4,419,800 | —[4] |
| March 27, 1996 | series B preferred | — | — | — | 4,200,000 | $ 5,500[5] |
| November 26, 1996 | series B preferred | — | — | — | 466,669 | $ 1,000 |
| | | | | | | $ 6,500 |
| February 3, 1997 | series B preferred | — | — | — | 710,507[6] | $ 3,000 |

1 *On March 28, 1995, Bank Tech changed its legal structure from a company limited by quotas ("Kft") to a company limited by shares ("RT"). Upon the transformation, the quotas were exchanged for 330,000 shares of common shares.*
2 *SatComNet's legal structure is a company limited by quotas.*
3 *No shares were issued at this date. Amount contributed was recorded as an increase to additional paid capital. The consideration includes $61,000 of non-cash contribution (2 ATMs) which was valued at the transferors' historical cost basis.*
4 *On March 27, 1996, the common shares and series A preferred shares were issued in exchange for the shares of Bank Tech, SatComNet and Bankomat. Such shares were recorded on an historical cost basis.*
5 *The value excludes $500,000 of subscription receivable.*
6 *On June 16, 1997, Euronet repurchased 292,607 shares at the original par value.*



Effective March 5, 1997, Euronet Holding N.V. changed the stated par value of all common and preferred shares of the Company from $0.10 to $0.14. Euronet Holding N.V. then effected a seven-for-one stock split which became effective on March 5, 1997, thus reducing the par value of such shares to $0.02. This change in par value and stock split was retroactively taken into account for common and preferred shares. Subsequently, effective March 6, 1997, the holders of all of the preferred shares of Euronet Holding N.V. converted all of such preferred shares into common shares of Euronet Holding N.V.

Pursuant to an Exchange Agreement which became effective on March 6, 1997, entered into between Euronet Services Inc. and the shareholders and option holders of Euronet Holding N.V., 10,296,076 shares of common stock in the Company were issued to the shareholders of Euronet Holding N.V. in exchange for all the common shares of Euronet Holding N.V. In addition, options to acquire 3,113,355 shares of common stock of the Company were issued to the holders of options to acquire 3,113,355 common shares of Euronet Holding N.V. and awards with respect to 800,520 shares of common stock of the Company were issued to the holders of awards with respect to 800,520 preferred shares of Euronet Holding N.V. in exchange for all such awards.

On March 7, 1997, the Company consummated an initial public offering of 6,095,000 shares of common stock at a price of $13.50 per share. Of the 6,095,000 shares sold, 3,833,650 shares were sold by the Company and 2,261,350 shares by certain selling shareholders. Net proceeds to the Company were approximately $47.9 million after deduction of the underwriting discount and other expenses of the offering.

The following table provides a summary of common stock issued since the establishment of Euronet Services Inc. in December 1996:

| | Date | Number of shares |
|---|---|---|
| Exchange agreement with Euronet Holding N.V. | March 6, 1997 | 10,296,076 |
| Exercise of awards in the initial public offering | March 7, 1997 | 800,520 |
| Stock options exercised in the initial public offering | March 7, 1997 | 304,822 |
| Shares issued in the initial public offering | March 7, 1997 | 3,038,650 |
| Additional shares issued in the initial public offering to cover over-allotment | March 16, 1997 | 795,000 |
| Repurchase of GE Capital shares | June 16, 1997 | (292,607) |
| Stock options exercised | Various | 190,860 |
| | | 15,133,321 |

## 2. Summary of significant accounting policies and practices

### (a) Basis of presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America.

The financial statements for the period from January 1, 1995 through March 27, 1996 have been presented as if the operating entities had been combined from their respective dates of incorporation/acquisition. For the period from March 27, 1996 to March 6, 1997 the consolidated financial statements include the accounts of Euronet Holding N.V. and its subsidiaries. Subsequent to March 6, 1997 the consolidated financial statements include the accounts of the Company and its subsidiaries.

All significant intercompany balances and transactions have been eliminated.

### (b) Transfer of non monetary assets

The transfer of the share holdings held by the shareholders in Bank 24, SatComNet and Bankomat in exchange for shares in Euronet Holding N.V. have been recorded at the underlying net equity of the operating entities which is the historical cost. The formation of the Euronet Services Inc. has also been accounted for at historical cost. The transfer of assets by shareholders have been recorded at the transferors' historical cost basis.



### (c) Foreign currencies

Foreign currency transactions are recorded at the exchange rate prevailing at the date of the transactions. Assets and liabilities denominated in foreign currencies are remeasured at rates of exchange at balance sheet date. Gains and losses on foreign currency transactions are included in the statement of operations.

The financial statements of foreign subsidiaries where the local currency is the functional currency are translated to U.S. dollars using (i) exchange rates in effect at period end for assets and liabilities, and (ii) average exchange rates during the period for results of operations. Adjustments resulting from translation of financial statements are reflected as a separate component of stockholders' equity.

The financial statements of foreign subsidiaries where the functional currency in the U.S. dollar are remeasured using historical exchange rates for non-monetary items while current exchange rates are used for monetary items. Foreign exchange gains and losses arising from the remeasurement are reported in the statement of operations.

***(d) Property, plant and equipment***

Property, plant, and equipment are stated at cost. Equipment under capital leases are stated at the lesser of fair value of the leased equipment and the present value of future minimum lease payments.

Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Equipment held under capital leases and leasehold improvements are amortized straight line over their estimated useful lives.

Depreciation and amortization periods are as follows:

| | |
|---|---|
| Automated teller machines | 7 years |
| Computers and software | 3 years |
| Vehicles & office equipment | 5 years |
| Cassettes | 1 year |
| Leasehold improvements | Over the lease term |

***(e) Impairment of long-lived assets***

Euronet assesses the recoverability of long-lived assets (mainly property, plant and equipment) by determining whether the carrying value of the fixed assets can be recovered over the remaining lives through projected undiscounted future operating cash flows expected to be generated by the assets. If an impairment in value is estimated to have occurred, the assets carrying value is reduced to its estimated fair value. The assessment of the recoverability of long-lived assets will be impacted if estimated future operating cash flows are not achieved.

***(f) Income taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income in the period that includes the enactment date.

A valuation allowance for deferred tax assets has been established on the basis of the Company's estimate of taxable income for future periods.



***(g) Risks and uncertainties***

Euronet at this time remains dependent on a limited group of customers and network services are limited to those areas where ATMs have been installed.

The Company has made a number of estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

***(h) Revenue recognition***

Euronet recognizes revenue at the point at which the service is performed.

***(i) Cash equivalents***

For the purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

***(j) Investment securities***

The Company has classified all of its investment securities as held-to-maturity. Held-to-maturity securities are those securities in which the Company has the ability and intent to hold the security to maturity. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premium and discounts. A decline in the market value of any held-to-maturity security below cost that is deemed other than temporary results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Premium and discounts are amortized or accreted over the life or term of the related held-to-maturity security as an adjustment to yield using the effective interest method.

***(k) Loss per share***

The Company, effective for the year ended December 31, 1997, adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." Pursuant to the provisions of the statement, basic loss per share has been computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. The number of shares outstanding prior to the formation of Euronet Holding N.V. have been adjusted to the equivalent shares of the Company. The effect of potential common shares (stock options outstanding) is antidilutive. Accordingly, dilutive loss per share does not assume the exercise of stock options outstanding.

***(l) Stock-based compensation***

SFAS No. 123 "Accounting for Stock-Based Compensation", encourages but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. Accordingly, compensation cost for share options is measured as the excess, if any, of the fair market value of the Company's shares at the date of the grant over the exercise price. Such compensation cost is charged to expense on a straight-line basis over the vesting period of the respective options. If vesting is accelerated as a result of certain milestones, the unrecognized compensation would be recorded as expense on the date such milestones have or have been deemed to have been achieved. The Company has adopted the disclosure-only provisions of SFAS No. 123 (refer to note [9]).

***(m) Reclassifications***

Certain amounts have been reclassified in the prior year financial statements to conform to the 1997 financial statements presentation.

## 3. Restricted reserve

The restricted reserve arose from the provisions of Hungarian accounting law in relation to share capital contributed in foreign currency to Bank Tech and SatComNet. Under these rules, a foreign currency capital contribution is recorded in the local accounting records of the companies using the rate when the capital was contributed. The foreign currency gain (or loss) which arises upon usage of the foreign currency is recorded as a separate non distributable reserve.

The reserve has remained frozen during the year as the laws in Hungary have now changed and no longer require this accounting. However, the change in the law is not retroactive and the historical reserve remains undistributable.

## 4. Restricted cash

The restricted cash balances as of December 31, 1996 and 1997 were as follows:

| | *December 31,* | |
|---|---|---|
| | *1996* | *1997* |
| | *(in thousands)* | |
| ATM deposits | $ 152 | $ 347 |
| Other | — | 500 |
| | $ 152 | $ 847 |

The ATM deposit balances held are equivalent to the value of certain banks' cash held in Euronet's ATM network. The Company also has deposits with commercial banks to cover guarantees and deposits with customs officials to cover charges.

## 5. Investment securities

The amortized cost for short-term held-to-maturity securities by class security type at December 31, 1996 and 1997, were as follows:

| | *December 31,* | |
|---|---|---|
| | *1996* | *1997* |
| | *(in thousands)* | |
| U.S. State and Municipal obligations | $ — | $ 12,448 |
| Corporate debentures | — | 8,298 |
| U.S. Federal Agency obligations | — | 7,967 |
| Foreign government obligations | 194 | 3,231 |
| Total | $ 194 | $ 31,944 |

The carrying value of these investment securities at December 31, 1996 and 1997 approximates fair market value. All investment securities held at December 31, 1997 mature on or before July 1, 1998.

## 6. Short term borrowings



Short term borrowings represent Hungarian forint denominated loans granted by a commercial bank in Hungary to permit such bank to supply cash to the ATM network. The loan outstanding at December 31, 1997 is due on June 16, 1998 together with interest accrued at 27%. Euronet has collateralized this loan by the pledge of certain investment securities with a value approximately the outstanding balance of the loan.

## 7. Leases

### (a) Capital leases

The Company leases the majority of its ATMs under capital lease agreements that expire between 1999 and 2002 and bear interest at rates between 11% and 15%. Lease installments are paid on a monthly, quarterly or semi-annual basis. Euronet has the right to extend the term of certain leases at the conclusion of the lease period. In addition to the related equipment, one lease in Poland is secured by a pledge of certain accounts receivable and a letter of credit from a commercial bank.

A related entity, Windham Technologies Inc. has the option to purchase the ATMs under capital lease in Hungary at the end of the lease term at a bargain purchase price of $1 plus incidental expenses (see note [11]).

Euronet also has two lease agreements for computers for use as its central processing and authorization center for ATM transactions. One lease has a term expiring in 1999 and the other in 2000 and they bear interest at a rate of 15% and 12%, respectively, and are payable quarterly.

The gross amount of the ATMs and IBM computer and related accumulated amortization recorded under capital leases were as follows:

| | December 31, 1996 | December 31, 1997 |
|---|---|---|
| | (in thousands) | |
| ATMs | $ 5,870 | $ 15,940 |
| Other | 225 | 1,161 |
| | 6,095 | 17,101 |
| Less accumulated amortization | (410) | (1,811) |
| Net book value | $ 5,685 | $ 15,290 |

Amortization of assets held under capital leases, amounted to $96,000, $1,314,000 and $1,401,000 for the years ended December 31, 1995, 1996 and 1997, respectively. These amounts are included with depreciation expense.

### (b) Operating leases

The Company also has non-cancellable operating rental leases for office space which expire over the next 2 to 5 years. Rent expense under these leases amounted to $158,000, $270,000 and $433,000 for the years ended December 31, 1995, 1996 and 1997, respectively.

### (c) Future minimum lease payments

Future minimum lease payments under the capital leases and the non-cancellable operating lease (with initial or remaining lease terms in excess of one year) as of December 31, 1997 are:

| Year ending Decmeber 31, | Capital Leases | Operating Leases |
|---|---|---|
| | (in thousands) | |
| 1998 | $ 5,031 | $ 962 |
| 1999 | 5,536 | 1,007 |
| 2000 | 5,256 | 1,007 |
| 2001 | 1,103 | 1,007 |
| 2002 | 959 | 1,007 |
| Total minimum lease payments | 17,885 | |
| Less amounts representing interest | (3,415) | |
| Present value of net minimum capital lease payments | 14,470 | |
| Less current installments of obligations under capital leases | (3,140) | |
| Long term capital lease obligations | $ 11,330 | |

## 8. *Income taxes*

The income tax benefit consisted of the following:

| | Years Ended December 31, 1995 | 1996 | 1997 |
|---|---|---|---|
| | | (in thousands) | |
| Current tax expense: | | | |
| U.S. Federal | — | — | — |
| Netherlands Antilles | — | — | — |
| Europe | — | — | — |
| Total current | — | — | — |
| Deferred tax benefit: | | | |
| U.S. Federal | — | — | — |
| Netherlands Antilles | — | — | — |
| Europe | $ 148 | $ 323 | $ 100 |
| Total deferred | 148 | 323 | 100 |
| Total income taxes | $ 148 | $ 323 | $ 100 |
| The sources of income/(loss) before income taxes are presented as follows: | | | |
| United States | — | — | (353) |
| Netherlands Antilles | (2,089) | (4,416) | 425 |
| Europe | (2,089) | (3,483) | (8,137) |
| Loss before income taxes | $ (2,089) | $(7,899) | $(8,065) |

The income tax benefit has been calculated on the basis of the taxable losses of the combined entities for the year ended December 31, 1995 and the period January 1, 1996 through March 27, 1996. Upon formation of Euronet Holding N.V. on March 27, 1996 and through March 7, 1997, the income tax benefit was calculated solely on the basis of the taxable loss of Euronet Holding N.V. Subsequent to March 7, 1997, the income tax benefit was calculated solely on the basis of the taxable loss of the Company. The difference between the actual income tax benefit and the tax benefit computed by applying the statutory income tax rate (34% for United States, 3% for Netherlands Antilles, 18% for Hungary and 38% for Poland) to losses before taxes is attributable to the following:

| | Years Ended December 31, 1995 | 1996 | 1997 |
|---|---|---|---|
| | | (in thousands) | |
| Income tax benefit at statutory rates | $ 427 | $ 267 | $ 2,742 |
| Non-deductible expenses | (153) | (209) | (261) |
| Tax-exempt interest | — | — | 265 |
| Stock options exercised | — | — | 1,006 |
| Stock options granted in prior year | — | — | 1,402 |
| Foreign currency gains and losses | — | — | 542 |
| Tax holiday | (8) | (4) | — |
| Difference in foreign tax rates | — | 806 | 44 |
| Adjustment to deferred tax asset for enacted changes in tax rates | — | — | (113) |
| Utilization of tax loss carried forward | — | — | 145 |
| Change in valuation allowance | (118) | (537) | (5,672) |
| Actual income tax benefit | $ 148 | $ 323 | $ 100 |

As a result of the formation of the Company a portion of the stock compensation cost recorded in 1996 became a temporary difference for which the Company recognized a gross deferred tax asset of $1,402,404 in 1997. A valuation allowance for this deferred tax asset was established. During 1997, certain of the stock options were exercised resulting in a deduction of $1,005,937 in the Company's tax return. Because of the tax loss position of the Company in the United States, this tax deduction has not been realized but recharacterized as a tax loss carryforward. The Company has also established a valuation allowance for the deferred tax asset resulting from the tax loss carryforward in the United States. Should this tax loss carryforward be utilized in the future, $951,553 of the tax benefit would be recorded as an adjustment to additional paid in capital.

The tax effect of temporary differences and carryforwards which give rise to deferred tax assets and liabilities are as follows:

| | December 31, 1996 | December 31, 1997 |
|---|---|---|
| | *(in thousands)* | |
| Tax loss carryforwards | 989 | 4,808 |
| Leasing | 5 | 167 |
| Leasehold improvements | 48 | 82 |
| Stock compensation costs | — | 1,402 |
| Unrealized exchange rate differences | — | 34 |
| Accrued expenses | 84 | 321 |
| Other | — | 84 |
| Deferred tax asset | 1,126 | 6,898 |
| Valuation allowance | (655) | (6,327) |
| Net deferred tax assets | 471 | 571 |

The valuation allowance relates to deferred tax assets established under SFAS No. 109 for loss carryforwards at December 31, 1996 and 1997 of $8,686,000 and $19,989,000, respectively. The tax operating loss carryforwards will expire through 2000 for Bankomat and through 2002 for Bank Tech, SatComNet and Euronet Holding N.V. The tax operating losses for Euronet Services Inc. and Euronet Services GmbH can be carried forward indefinitely. Based on the Company's forecast of sufficient taxable income for future periods in which the tax losses are expected to be absorbed, the Company believes that it will realize the benefit of the deferred tax assets, net of the existing valuation allowance.

## 9. *Stock plans*

The Company has established a share compensation plan which provides certain employees options to purchase shares of its common stock. The options vest over a period of five years from the date of grant. Options are exercisable during the term of employment or consulting arrangements with the Company and its subsidiaries. The Company has the right to repurchase shares within 180 days from an employee who has exercised his options but has ceased to be employed by Euronet. At December 31, 1997, the Company has authorized options for the purchase of 1,299,550 shares of common stock, of which 1,289,447 have been awarded to employees and 1,061,316 remain unexercised.

In accordance with the shareholders' agreement dated February 15, 1996 and amended on October 14, 1996, the Company has reserved 2,850,925 shares of common stock for the purpose of awarding common stock ("milestone awards") to certain investors and options to acquire shares of common stock ("milestone options") to the founders, management and key employees. The Company granted 800,520 milestone awards at an exercise price of $0.02 per share and 2,050,405 milestone options at an exercise price of $2.14 per share.

Upon the initial public offering, all milestone awards and milestone options granted under the milestone arrangement (with the exception of 49,819 options to certain key employees which will vest equally over two years following the initial public offering) vested and all shares became immediately issuable to beneficiaries of milestone awards and options. Upon the initial public offering, 800,520 milestone awards and 232,078 milestone options were exercised. As at December 31, 1997, 1,736,890 milestone options remain unexercised.

Share option activity during the periods indicated is as follows:

| | *Number of Shares* | *Weighted-Average Exercise Price* |
|---|---|---|
| Balance at December 31, 1994 (none exercisable) | 440,440 | 0.71 |
| Granted | 110,110 | 0.71 |
| Balance at December 31, 1995 (88,130 shares exercisable) | 550,550 | 0.76 |
| Granted | 2,562,805 | 2.02 |
| Balance at December 31, 1996 (271,780 shares exercisable) | 3,113,335 | 1.80 |
| Granted | 226,497 | 12.65 |
| Exercised | (495,682) | 1.34 |
| Forfeited | (45,964) | 3.25 |
| Balance at December 31, 1997 (1,984,365 shares exercisable) | 2,798,206 | 2.67 |

At December 31, 1997, the range of exercise prices, weighted-average remaining contractual life and number exercisable of outstanding options was as follows:

| *Exercise Price* | *Number of Shares* | *Weighted-Average Contractural Remaining Life (Years)* | *Number Exercisable* |
|---|---|---|---|
| 0.71 | 326,396 | 6.6 | 150,220 |
| 0.95 | 66,150 | 7.3 | 11,018 |
| 1.43 | 378,700 | 7.8 | 116,900 |
| 2.14 | 1,806,890 | 8.2 | 1,706,227 |
| 10.75 | 51,191 | 9.8 | — |
| 11.50 | 28,260 | 9.6 | — |
| 11.77 | 27,804 | 9.8 | — |
| 13.94 | 112,815 | 9.3 | — |
| | 2,798,206 | | 1,984,365 |

The Company applies APB Opinion No. 25 in accounting for its share option plans. The exercise price of the options is established based on the estimated fair value of the underlying shares at grant date. For options granted prior to the initial public offering, the fair value was determined by taking into consideration the per share price at which the most recent sale of equity securities was made by Euronet to investors. For options granted after the initial public offering, the fair value is determined by the market price of the share at the date of grant. However, in contemplation of the initial public offering in March 1997, compensation expense was recognized in 1996 relating to all options granted during the fourth quarter of 1996. Such compensation expense was calculated as the excess of the fair market value of the underlying shares (determined as $4.22, which is the cash price per share at which GE Capital subscribed for preferred shares of Euronet Holding N.V. in February 1997) over the exercise price of $2.14 per share. Compensation expense of $4,172,000 has been recorded in the 1996 consolidated financial statements and an additional compensation expense of $343,000 with respect to these options will be recognized over the remaining vesting period of such options. Of this amount, $108,000 has been expensed in the year ended December 31, 1997.

The following table provides the fair value of options granted during 1995, 1996 and 1997 together with a description of the assumptions used to calculate the fair value:

| | Years Ended December 31, 1995 | 1996 | 1997 |
|---|---|---|---|
| *Pricing model/method used* | *Minimum value method* | *Minimum value method* | *Black-Scholes pricing model* |
| Expected volatility | 0% | 0% | 54% |
| Average risk-free rate | 7.17% | 7.17% | 6.86% |
| Average expected lives | 3 years | 3 years | 4 years |
| Expected dividend yield | 0% | 0% | 0% |
| Weighted-average fair value (per share) | $ 0.18 | $ 2.10 | $ 6.20 |

Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, consolidated net loss and net loss per share would have been increased to the amounts indicated below:

| | Years Ended December 31, 1995 | 1996 | 1997 |
|---|---|---|---|
| | *(in thousands, except per share data)* | | |
| Net loss-as reported | $ (1,914) | $ (7,576) | $ (7,965) |
| Net loss-pro forma | $ (1,914) | $ (7,576) | $ (8,240) |
| Loss per share-as reported | $ (4.00) | $ (15.18) | $ (0.64) |
| Loss per share-pro forma | $ (4.00) | $ (16.41) | $ (0.69) |

Pro forma import reflects only options granted since December 31, 1994. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma amounts presented above because compensation cost is reflected over the options' vesting periods and compensation cost for options granted prior to January 1, 1995 is not considered.

## *10. Business segment information*

Euronet and its subsidiaries operate in one business segment, the service of providing an independent shared ATM network to the banks and financial institutions that it serves.

Total revenues for the years ended December 31, 1995, 1996 and 1997 and long lived assets at December 31, 1996 and 1997 for the Company analyzed by geographical location is as follows:

| | Total Revenues 1995 | 1996 | 1997 | Long-lived Assets 1996 | 1997 |
|---|---|---|---|---|---|
| | *(in thousands)* | | | *(in thousands)* | |
| Hungary | $ 62 | $ 1,246 | $ 4,562 | $ 4,709 | $10,212 |
| Poland | — | 15 | 663 | 2,575 | 9,204 |
| Other | — | — | 65 | — | 4,672 |
| Total | $ 62 | $ 1,261 | $ 5,290 | $ 7,284 | $24,088 |



Total revenues are attributed to countries based on location of customer. Long-lived assets consist of property, plant, and equipment.

## 11. Related parties

Windham Technologies Inc. ("Windham") holds the option to purchase certain ATMs at the end of the lease term. Windham is jointly owned by two shareholders of the Company. Windham has signed an undertaking to contribute these assets to Euronet at the end of the lease at a bargain purchase price of $1 plus incidental expenses.

In addition, payments of $320,000, $425,000 and $94,000 have been made for the years ended December 31, 1995, 1996 and 1997, respectively, to Windham. These payments cover the services and related expenses of consultants seconded by Windham to the Company. These services include AS400 computer expertise, bank marketing and management support.

## 12. Financial instruments

Euronet's financial instruments (cash, receivables, investment securities, accounts payable, short term borrowings, notes payable and accrued expenses) are principally short-term in nature. Accordingly, the carrying value of these investments approximates its fair value.

## 13. Concentrations of business and credit risk

Euronet is subject to concentrations of business and credit risk. Euronet's financial instruments mainly include trade receivables, cash and short-term investments. Euronet's customer base, even though limited, includes the most significant international card organizations and certain banks in the markets in which it operates. Therefore, the Company is dependent on these entities and its operations are directly affected by the financial condition of those entities. The Company has two individually significant customers in Hungary which account for 51% and 18%, respectively, of total consolidated revenue for the year ended December 31, 1997. In January 1998, the Company's most significant customer which accounts for 51% of consolidated revenues for the year ended December 31, 1997, notified the Company that it was terminating its contract effective July 1998.

Cash and short-term investments are placed with high-credit quality financial institutions or in short-term duration, high-quality debt securities issued by the Hungarian government. Euronet does not require collateral or other security to support financial instruments subject to credit risk. Management believes that the credit risk associated with trade receivables, cash and short-term investments is minimal due to the control procedures which monitor credit worthiness of customers and financial institutions.

The Company has made an assessment of the impact of the advent of the year 2000 on its systems and operations. The Processing Center will require certain upgrades which have been ordered and are scheduled for installation by the fourth quarter of 1998. Most of the ATMs in the Company's network are not year 2000 compliant, and hardware and software upgrades will be installed under contract with the Company's ATM maintenance vendors. According to the Company's current estimates, the cost will be approximately $1,000 per ATM, and the required installation will be finished by the end of 1998. The Company estimates that approximately 560 of its ATMs will require upgrades for year 2000 compliance.



The Company is currently planning a survey of its bank customers concerning the compliance of their back office systems with year 2000 requirements, and anticipates launching such survey in the third quarter of 1998. If the Company's bank customers do not bring their card authorization systems into compliance with year 2000 requirements, the Company may be unable to process transactions on cards issued by such banks and may lose revenues from such transactions. This could have a material adverse effect on the Company's revenues. Therefore, Euronet will monitor, and hopes to assist its bank clients in, implementation of its customers' year 2000 compliance programs, and may, if required to accelerate the compliance programs of its banks, create consulting capabilities in this respect.

## *14. Commitments*

The Company is committed to purchase ATMs from certain suppliers for approximately $1.2 million.

## SHAREHOLDER INFORMATION

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Fax: (36-1) 224 1005
E-mail: info@eeft.com

***Independent Auditors***

KPMG Polska Sp. z o.o.
LIM Center, IX Floor
Al. Jerozolimskie 65/79
00-697 Warsaw, Poland

***Legal Counsel***

Arent Fox Kintner Plotkin & Kahn
1050 Connecticut Avenue, N.W.
Washington, D.C. 20036

***Transfer Agent***

Boston EquiServe Limited Partnership
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Canton, Massachusetts 02021

***Investor Contact***

A copy of the Euronet Services Form 10-K for the year ended December 31, 1997, filed with the Securities and Exchange Commission, is available from the Company at no charge. Requests for copies of Form 10-K, the exhibits to Forms 10-K, as well as for Forms 10-Q, quarterly earnings releases, news releases, and general information about the Company should be addressed to Pamela Small, Investor Relations Manager, at the address of the Corporate Office above.

***Common Stock Information***

The common stock of Euronet Services Inc. has been traded on the Nasdaq National Market under the symbol EEFT since its initial public offering on March 6, 1997. The prices in the table below represent the high and low sales prices for the stock as reported by Nasdaq. The Company has never paid dividends on its common stock.

| *1997* | *High* | *Low* |
|---|---|---|
| First Quarter | $ 16¼ | $ 12¾ |
| Second Quarter | 14⅝ | 9¼ |
| Third Quarter | 14¾ | 10 |
| Fourth Quarter | 12¾ | 6 3/16 |

# DIRECTORS AND OFFICERS

## *Board of Directors*

Michael J. Brown, Chairman
*President and Chief Executive Officer*
*Euronet Services Inc.*

Daniel R. Henry
*Chief Operating Officer*
*Euronet Services Inc.*

Thomas A. McDonnell
*President and Chief Executive Officer*
*DST Systems, Inc.*
*(information processing and computer software company)*

Nicholas B. Callinan
*Managing Director of Emerging Markets*
*Advent International Corporation*
*(venture capital investment and management company)*

Steven. J. Buckley
*President and Chief Executive Officer*
*Poland Partners Management Company*
*(advisor to Poland Partners venture capital fund)*

Eriberto R. Scocimara
*President and Chief Executive Officer*
*Hungarian-American Enterprise Fund*
*(private investment company, funded by U.S. Government)*

Andrzej Olechowski
*Chairman*
*Central Europe Trust*
*(consulting firm)*

## *Executive Officers*

Michael J. Brown
*President and Chief Executive Officer*

Daniel R. Henry
*Chief Operating Officer*

Dennis H. Depenbusch
*Vice President - Poland*

Bruce S. Colwill
*Chief Financial Officer and*
*Chief Accounting Officer*

Jeffrey B. Newman
*Vice President and General Counsel*