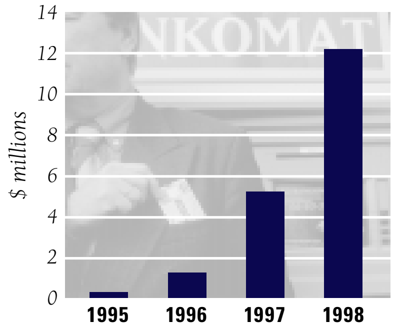
1998 ANNUAL REPORT

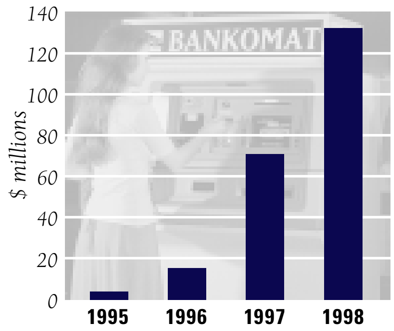
About Euronet

Euronet was established in 1994 as Central Europe's first independent ATM network. Only five years later, the network encompasses more than 1,500 ATMs located in seven European countries and processes nearly 2 million transactions monthly. Through the acquisition of a software subsidiary, ARKSYS, in December 1998, Euronet now also offers electronic payments systems software. As a result, Euronet has become a leading provider of end-to-end electronic banking and payments solutions to retail banks and companies around the world.

Revenues



Total Assets



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Fellow Shareholder:

1998 was a pivotal year for Euronet—one in which we expanded our company's scope both into new geographic markets and strategic new areas of business. We have taken advantage of some exciting opportunities, and we see many others still out there. Now, more than ever, our young company is positioned to become a major player in the field of electronic financial transactions and related banking services. We still have a long road ahead of us, but we are setting and achieving our goals step by step.

Michael J. Brown
Chairman and CEO, Euronet Services Inc.

Our plan to bring banking convenience to Central Europe by installing and operating ATMs in off-branch locations remains a key strategy for the company. Last year we increased the number of Euronet ATMs in our network from 648 to 1,087. At the same time, we increased the number of bank-owned ATMs that we operate under outsourced management agreements from 45 to 184. Not only have we grown significantly in number, but we have also uncovered new opportunities in Western Europe along the way.

ATM network expands westwards

In 1998, we expanded the ATM network into a key new market: the United Kingdom. What makes the UK unique in Europe is that surcharging–charging a convenience fee directly to the user–is now possible. Surcharging is widespread in the US but has not yet come to continental Europe. This additional revenue per transaction clearly makes the UK a very attractive market to us. Our agreement with the British bank Woolwich gives us access to LINK, the UK's national transaction switch, and means that our ATMs accept nearly all UK bankcards.

Euronet's ATM operations grew in other parts of Western Europe as well. Our first ATM in France went live in September. We are processing the French ATM transactions through our Budapest hub, which was tested and certified by the French national switch, GIE Carte Bancaire. We have sponsorship agreements with two banks, giving us access to 100% of the French bankcard market. As in the UK, we are signing agreements with major retail chains that allow us to place ATMs where shoppers need them most.

Our ATMs in Germany also accept 100% of bankcards in that market. Last year we increased by more than five times the number of ATMs we operate for Service Bank in Germany. In the first quarter of 1999, we added another 252 fully operational Service Bank ATMs to the network, bringing the total number of ATMs in operation in Germany to 455 by the end of March. As a result of this growth, we expect our German operations to contribute asignificant portion of the company's revenues from now on.

Central Europe remains a core market

Last year in Hungary, we increased the size of our own network from 287 to 359 ATMs. In addition, we tripled the number of ATMs we manage under an outsourcing agreement with GE Capital's Budapest Bank. By the end of March 1999 we had taken over responsibility for managing the bank's entire network of 173 ATMs.

The level of transactions on our Hungarian network grew throughout the year. Despite the termination of our direct link to OTP Bank at the end of July, our ATMs still accept all OTP bankcards through our gateways to Visa and Europay/MasterCard (as well as all other bankcards issued on the market). As a result, and because revenues from other sources have grown, the overall impact of the cancellation on revenues has not been significant.

In Poland, we signed agreements with several new customers including Citibank, Deutsche Bank, and PolCard, a consortium of card-issuing banks. We also took over the management of ATMs owned by BWR, our first Polish bank client for outsourced management services. We have raised our card acceptance level in Poland to over 80% in 1998 and expect to reach 100% in 1999. What's more, we are encouraged by the growth in Polish card issuance, which we estimate nearly doubled to 3.5 million cards by year-end.

ATM roll-out in Croatia and the Czech Republic has been moderate in anticipation of additional bank agreements that will increase our card acceptance in those markets. In Croatia, Euronet ATMs currently accept American Express, Diners Club, Visa, and certain proprietary bankcards totalling about 33% of the Croatian card market. We increased the number of ATMs in that market from 16 to 68 by the end of the year. In the Czech Republic, where we accept all Visa cards (representing about 35% of the card market), we increased our ATM network from zero to 50.

Synergies of the software acquisition

One of the most exciting events in 1998 was achieved nearly at the end of the year, when Euronet acquired a major US-based software subsidiary. ARKSYS is not just any software company. It is the market leader in ATM network software for the IBM AS/400 platform, the most widely used system among retail banks. We already knew ARKSYS well because we use ARKSYS software to operate our own ATM transaction processing center in Budapest. As a customer ourselves and as a supplier of ATM network services to many of the same banks that use the software, we recognized the synergies that would result from combining our strengths.

In acquiring ARKSYS, we have brought the technology that runs our business in-house and repositioned ourselves as a supplier of end-to-end electronic banking solutions to retail banks around the world. The benefits for our own combined enterprise and for our customers are many.

Our company benefits from a stronger market position. Merging the software side of the business with the network services side means we can offer a full range of electronic payments systems and services–something we believe no competitor can do.

We benefit from having direct control over the software R&D to meet the needs of retail banks and their customers, not to mention our own transaction processing center. Euronet has proven that it can easily run over 1,000 ATMs on the ARKSYS-AS/400 system–with plenty of room to spare. We plan to use our technical resources and know-how to enhance ARKSYS's current software products and remain on the cutting edge of electronic payments systems innovation.

For ARKSYS software customers–more than 160 in over 60 countries–Euronet brings the capital and management resources necessary to improve the overall level of service and responsiveness. In addition to expanding the product offerings, we are working on providing faster product delivery and more customer support at extended hours.

Our ability to provide a local touch in more and more markets is also something that sets us apart from our competitors. With technical staff now based in both Little Rock and Budapest, our customer service representatives can cover more time zones than ever before. And combining ARKSYS's regional offices in the United States, Hungary and New Zealand with Euronet's eight European offices in Budapest, Warsaw, Prague, Zagreb, Bucharest, Berlin, Paris and London gives our customers easier access to local company representatives in more locations.

Increasing diversity as we put our capital to work

The expansion of our operations into new markets and business lines means more revenues and more diversity of our revenue sources. In 1997, our $5.3 million in revenues came from three countries, with Hungary making up 87%. In 1998, revenues of $11.9 million came from five countries plus ARKSYS (for the month of December). The percentage of revenues coming from Poland (23%) and Germany (20%) began to catch up with that of Hungary (50%). In 1999, we will further benefit from a full year of ARKSYS software revenues, which comprise a whole new business line and come from dozens of countries around the world.

The ARKSYS acquisition was just one of the ways in which we have put our capital to work for the company and our shareholders. We remain strong in financial resources thanks to a bond offering completed in June 1998, as well as the proceeds of our initial public equity offering. The bond offering (which was combined with warrants) raised about $84 million for the company and reaffirmed the market's confidence in our strategy. We are prudently using the proceeds of that offering to build our business through acquisitions and organic growth into a strong, profitable enterprise.

We deliver

We have started 1999 as a larger, more able and more service-oriented company. We are now looking at our business in the context of three main lines: ATM network participation, outsourced management services, and ARKSYS software solutions, which are described in more detail on the following pages. In realigning our capabilities this way, we are making it possible for our customers to choose tailor-made solutions to suit their individual objectives. No matter what a customer's needs–ATM deployment, network connectivity, card-issuing and acquiring programs, in-house software packages, outsourcing–Euronet has a reliable and innovative solution available.

Every year, we choose an internal motto to motivate our employees to reach new heights of performance. This year, that motto is "We Deliver," embodying our ongoing commitment to outstanding levels of service to our customers. This approach is not limited to our clients. We at Euronet strive to deliver results to our investors, too, and are committed to carrying out our plans for the company intelligently, responsibly and with your best interest in mind.

Sincerely,

Michael J. Brown
Chairman and CEO

ATM NETWORK PARTICIPATION

Euronet gives local and regional banks the chance to connect to our network of more than 1,500 ATMs in major cities and suburban areas in Hungary, Poland, the Czech Republic, Croatia, Germany, France and the UK.

Participating in the Euronet network means banks can offer customers more access to their accounts without having to make any additional capital investments—a feature that is particularly attractive to new or smaller banks in our markets.

Unlike banks, we focus on placing ATMs in key, off-branch locations such as supermarkets, shopping malls and city centers—areas that are convenient to consumers. In addition, we negotiate agreements with many larger retail chains that give us exclusive rights to place ATMs in their outlets.

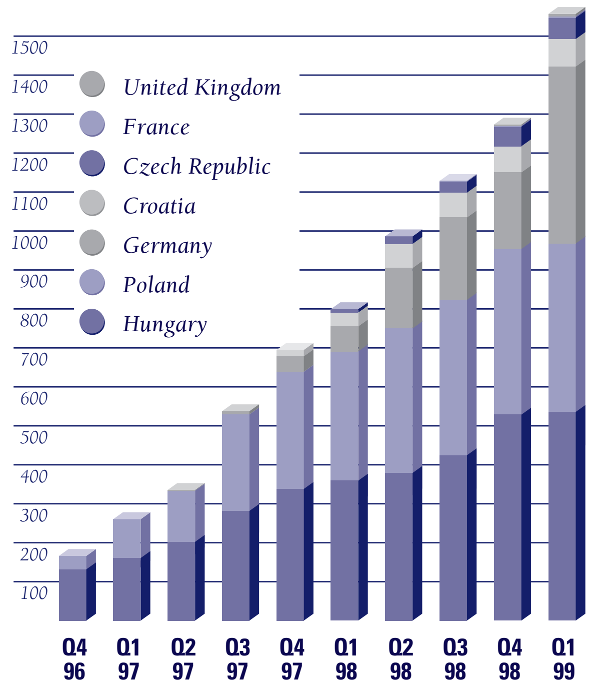
Most Euronet ATMs are linked via satellite or land-based telecommunications lines to our transaction processing center in Budapest. When a cardholder uses one of our ATMs, the transaction is routed through our processing hub to the card-issuing bank or association for authorization, and then back to the ATM. Monitored by Euronet staff 24 hours a day, 365 days a year, our network provides on-line reliability and high-quality customer service to banks, global card associations and their customers.

Our ATMs are able to accept a wide range of international cards in most markets, including cards bearing the logos of Visa and Plus,

"We're proud that our network consistently achieves up-times of over 97%. That's service you can bank on."

— TONY FICARRA, CHIEF INFORMATION OFFICER

ATM Network Growth



MasterCard/Europay and Cirrus, American Express and Diners Club. Universal card acceptance is a key goal for Euronet in all of our markets, because it means that more people can use our ATMs and we can process more transactions.

For each transaction performed at one of our ATMs, Euronet receives a fee from the cardholder's bank. The amount of that fee varies according to the market and the bank, but is generally a portion of the domestic interchange fee that banks charge each other to process transactions. It is up to the bank to decide whether or not to pass that fee on to its customer. Euronet does not directly charge cardholders a fee for using ATMs, except in the UK where there is a convenience surcharge on each cash withdrawal.

Euronet also earns revenues by selling promotional opportunities on its network, such as ATM screen advertising and coupons printed on receipt paper or dispensed with the cash.

As more and more banks connect to Euronet's ATM network, they are increasingly aware of the advantages of outsourcing the management of their own ATMs to us. We allow banks to concentrate on their core business—retail banking—by taking over the day-to-day management of their ATMs. We can do this effectively because we have already developed the infrastructure and systems necessary to run a large, multinational network.

Not only do we have an in-house team dedicated to 24-hour monitoring of the network, we have also built relationships with outside suppliers of cash delivery, maintenance and cleaning services. Our centralized functions mean that we benefit from economies of scale and can run our own and other networks with a high level of efficiency and up-time. In fact, we believe that by outsourcing, banks can even reduce their operating costs and improve the allocation of their resources.

The management of existing ATMs is not the only service included under Euronet's outsourced management solutions. We also offer banks the deployment and operation of new, branded ATMs either in their branches or in off-site locations. We are proud to have been chosen by banks such as Citibank, Deutsche Bank, ING Bank and Raiffeisen-Unicbank to provide ATM network services for their expanding retail banking operations in Central Europe.

"With Euronet's expertise and economies of scale, we offer banks an attractive alternative to running their own ATMs."

— DAN HENRY
CHIEF OPERATING OFFICER

Euronet's new software subsidiary, ARKSYS, is the leading provider of electronic payment software for the IBM AS/400 platform, one of the major hardware options for retail banks. The acquisition of ARKSYS in December 1998 established a new product line for Euronet—one that is distinct but complementary to our ATM network participation and outsourced management lines.

ARKSYS software fully integrates all aspects of electronic financial transaction processing for retail banking, including payment and transaction delivery for ATM systems, credit and debit card management, POS transactions, comprehensive card and client management, Internet banking, and other means of electronic funds transfer. The core of our software solution is Integrated Transaction Management (ITM), a suite of payment and transaction functions designed to support virtually every aspect of retail financial delivery.

Software developed by ARKSYS is currently used by more than 160 banks and companies in over 60 countries around the world, including our own transaction processing center in Budapest.

Because we understand that a well-informed customer is a satisfied customer, we have made technical support and training a key focus of our company. We now have training centers in Europe and the US, enabling us to increase our training programs and better reach our geographically diverse customer base. What's more, having our technical staff based in more time zones around the world means we can provide technical support faster and throughout more hours of the day.

"The mutual customers of ARKSYS and Euronet can benefit from an organization that inherently knows payments systems and electronic transaction delivery. We run that business every day."

—RON FERGUSON,
PRESIDENT OF ARKSYS

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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.

Consolidated Statements of Operations Data

	Year ended December 31,				*For the period from June 22, 1994 (inception) through December 31, 1994*
	1998	*1997*	*1996*	*1995*	
	(in thousands, except for share and per share data)				
Revenues:					
ATM network and related revenue	$ 11,525	$ 5,290	$ 1,261	$ 62	$ –
Software, maintenance and related revenue	356	–	–	–	–
Total revenues	11,881	5,290	1,261	62	–
Operating expenses:					
Operating costs	10,036	3,717	827	414	–
Salaries and benefits	9,723	3,796	989	452	49
Selling, general and administrative	8,650	4,468	2,459	1,032	184
Depreciation and amortization	4,955	1,731	481	133	5
In-process research and development write-off	1,020	–	–	–	–
Share compensation expense	108	108	4,172	–	–
Total operating expenses	34,492	13,820	8,928	2,012	238
Operating loss	(22,611)	(8,530)	(7,667)	(1,950)	(238)
Other income/expenses:					
Interest income	2,514	1,609	225	126	12
Interest expense	(7,826)	(1,152)	(378)	(107)	–
Foreign exchange (loss)/gain, net	(1,911)	8	(79)	(158)	(2)
Loss before income tax (expense)/benefit	(29,834)	(8,065)	(7,899)	(2,089)	(228)
Income tax (expense)/benefit	(1,430)	100	323	148	–
Loss before extraordinary item	(31,264)	(7,965)	(7,576)	(1,941)	(228)
Extraordinary gain, net	2,889	–	–	–	–
Net loss	(28,375)	(7,965)	(7,576)	(1,941)	(228)
Loss per share–basic and diluted	$ (1.87)	$ (0.64)	$ (15.18)	$ (4.00)	$ (0.66)
Weighted average number of shares outstanding	15,180,651	12,380,962	499,100	423,324	345,553

Consolidated Balance Sheet Data

	As of December 31,				
	1998	1997	1996	1995	1994
	(in thousands, except Summary Network Data)				
Cash and cash equivalents	$ 55,614	$ 7,516	$ 2,541	$ 411	$ 2,036
Restricted cash	12,972	847	152	952	–
Investment securities	3,149	31,944	194	–	–
Other current assets	10,295	2,504	605	466	140
Total current assets	82,030	42,811	3,492	1,829	2,176
Net property, plant and equipment	33,182	24,088	7,284	2,518	351
Other long-term assets	18,226	3,134	1,158	172	–
Total assets	$133,438	$ 70,033	$ 11,934	$ 4,519	$ 2,527
Current liabilities	$ 18,739	$ 9,315	$ 2,861	$ 1,303	$ 105
Obligations under capital leases, excluding current installments	6,809	11,330	3,834	1,119	–
Notes payable	83,720	–	–	–	–
Other long-term liabilities	–	169	103	–	–
Total liabilities	109,268	20,814	6,798	2,422	105
Total stockholders' equity	24,170	49,219	5,136	2,097	2,422
	$133,438	$ 70,033	$ 11,934	$ 4,519	$ 2,527

Summary Network Data:					
Number of operational ATMs at end of period	1,271	693	166	53	–
ATM transactions during the period	15,467,00	5,758,000	1,138,000	45,000	–

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

General Overview

The Company operates the only independent, non-bank owned automated teller machine ("ATM") network in Central Europe, as a service provider to banks and other financial institutions. Its principal source of revenue to date has been transaction fees from a growing number of ATMs installed in Hungary, Poland, the Czech Republic, Croatia, France, Germany, and the UK.

The Company was formed and established its first office in Budapest in June 1994. In May 1995, the Company opened its second office, in Warsaw. During 1997, the Company also opened offices in Berlin, Zagreb, Prague, Paris and Bucharest. In 1998 the Company opened an office in London and acquired Arkansas Systems Inc. with offices in Little Rock, Orlando and Budapest. The Company maintains corporate offices in Kansas City and Budapest.

To date, Euronet has devoted substantially all of its resources to establishing and expanding its ATM network through the addition of ATMs to its proprietary network and through providing outsourcing management services for bank-owned ATMs. 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 to bring the total network to 693 ATMs at December 31, 1997. A further 578 ATMs were added in 1998 to bring the total network size at December 31, 1998 to 1,271 ATMs including 1,087 owned by the Company and 184 owned by banks but operated by the Company.

Euronet has expanded its outsourcing services to include not only the operation of existing ATMs owned by banks, but also the installation and management of Company-owned ATMs for banks in their branches or offsite locations. Both types of outsourced management agreements involve the operation of ATMs in return for monthly management fees or a guaranteed monthly level of transaction fees, ensuring a certain level of return for the Company.

On December 2, 1998, the Company acquired ARKSYS, a U.S. company which produces electronic payments systems software for retail banks, for $17.9 million. This acquisition will significantly affect the Company's sources of revenues and expenses, since it will add significant revenues and expenses from software sales to the Company's ATM operation and outsource ATM management revenues.

With the expansion of operations, the Company increased the number of its employees from 36 as of December 31, 1996, to 178 as of December 31, 1997 and 331 as of December 31, 1998. The country operations and employee head counts as of December 31, 1998 are as follows: United States (157), Hungary (79), Poland (45), Germany (12), Croatia (14), Czech Republic (9), France (6), Romania (5), and United Kingdom (4).

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 amount 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 twelve 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 mature ATMs operating in the Company's network increases.

The Company sells advertising on its network by putting clients' advertisements on its ATM screens and the receipts. The Company believes that advertising revenues will increase as it expands its network and continues to market this service. The Company also generates revenues from ATM network management services that it offers to banks that own proprietary ATM networks. The Company believes that revenues from this service will increase in the future.

The Company has had substantial increases in the level of operations, including ATMs operated and total personnel in 1996, 1997 and 1998. In addition, the Company's acquisition of ARKSYS in December 1998 significantly changed the nature of the operations by adding an entirely new line of business. As a result, a comparison of the Company's results of operations between such years is not necessarily meaningful.

The Company's normal recurring expenses consist of: ATM operating costs; salaries and benefits; selling, general and administrative expenses; and depreciation and amortization. ATM operating costs are generally variable in nature and consist primarily of ATM site rentals, ATM installation costs, maintenance, telecommunications, cash delivery and security services to ATMs and interest on network cash. ATM operating expenses will necessarily increase as the Company's network expands. Salaries and benefits will increase as staff are added with the development of new markets and expansion of existing markets including software sales and installation. While selling, general and administrative expenses and depreciation and amortization expenditures are anticipated to increase with the Company's expansion into new markets and the introduction of new products, these expenses are expected to decrease as a percentage of total revenues.

Comparison of Results of Operations for the Years Ended December 31, 1998, 1997 and 1996

Revenues Total revenues increased to $11,881,000 for the year ended December 31, 1998 from $5,290,000 for the year ended December 31, 1997 and from $1,261,000 for the year ended December 31, 1996. The increase in revenues was due primarily to the significant increase in transaction revenues 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 166 ATMs, 693 ATMs and 1,271 ATMs installed at the end of 1996, 1997 and 1998, respectively. Transaction fee revenue represented approximately 89% of total revenues for the year ended December 31, 1998 and 87% of total revenues for the year ended December 31, 1997 and 95% of total revenues for the year ended December 31, 1996.

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. 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 ATM network revenues included in ATM network and related revenue of $934,000, $663,000 and $63,000 for the years ended December 31, 1998, 1997 and 1996 consisted primarily of advertising, revenue, driving contract revenue and other revenue such as consultancy services revenue. The increase during 1998 and 1997 results from the increase in the number of ATMs operated by the Company.

Software, maintenance and related revenues of $356,000 were realized by ARKSYS in 1998. This amount comprises only revenues for the period December 2, 1998 to the period end.

Operating Expenses Total operating expenses increased to $34,492,000 for the year ended December 31, 1998 from $13,820,000 for the year ended December 31, 1997 and from $8,928,000 for the year ended December 31, 1996. The increases in both years were due primarily to costs associated with the installation of significant numbers of ATMs and expansion of the Company's operations during the periods. In addition, certain non-recurring non-cash items have been included in operating expenses including: in 1998 a write-off of in-process research and development of $1,020,000; and in 1996 share compensation expense of $4,172,000 relating to the grant of certain employee and management options.

ATM operating costs, which consist primarily of ATM installation costs, ATM site rentals, costs associated with maintaining ATMs, ATM telecommunications, interest on network cash, and cash delivery and security services to ATMs, increased to $10,036,000 for the year ended December 31, 1998 from $3,717,000 for the year ended December 31, 1997 and from $827,000 for the year ended December 31, 1996. ATM depreciation of $3,602,000 in 1998, $1,463,000 in 1997 and $342,000 was previously included with ATM operating costs but has now been included with depreciation and amortization. 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.

Salaries and benefits increased to $9,723,000 for the year ended December 31, 1998 from $3,796,000 for the year ended December 31, 1997 and from $989,000 for the year ended December 31, 1996. The increase reflected the increase in employees from 57 to 178 from 1996 to 1997 and from 178 to 331 from 1997 to 1998, as previously discussed.

Selling, general and administrative related costs increased to $8,650,000, $4,468,000, and $2,459,000 respectively for the years ended December 31, 1998, 1997 and 1996. The increases relate to the expansion of the Company's operations in both years, as previously discussed.

Depreciation and amortization increased to $4,955,000, $1,731,000, and $481,000 respectively for the years ended December 31, 1998, 1997 and 1996. This increase was due to an increase in the amount of fixed assets subject to depreciation, particularly ATMs.

In 1998 a non-recurring write-off of in-process research and development of $1,020,000 was recorded. This write-off was based on an independent valuation of intangible assets acquired as part of the ARKSYS acquisition and relates only to projects involving new product research and development.

In 1996 share compensation of $4,172,000 was recorded, with respect to the grant of certain employee and management options. 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 occurred 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 years ended December 31, 1998 and 1997.

Other Income/Expense Interest income increased to $2,514,000 for the year ended December 31, 1998 from $1,609,000 for the year ended December 31, 1997 and $225,000 for the year ended December 31, 1996. The increase in 1998 was the result of additional cash available for investment subsequent to receipt in June 1998 of net proceeds of DM 145,125,372 (approximately $81,285,000) from the public offering of 12⅜% senior discount notes due July 1, 2006. 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.

Interest expense increased to $7,826,000 for the year ended December 31, 1998 from $1,152,000 for the year ended December 31, 1997 and $378,000 for the year ended December 31, 1996. The increase in 1998 was the result of the issue in June 1998 of 243,211 units of DM 1,000 12⅜% senior discount notes due on July 1, 2006. The increase in 1997 was due primarily to the increase of capital lease obligations outstanding during the period relating principally to capital leases of ATMs and Euronet's computer systems.

The Company had a net foreign exchange loss of $1,911,000 for the year ended December 31, 1998, as compared to a net foreign exchange gain of $8,000 for the year ended December 31, 1997, and net foreign exchange losses of $79,000 for the year ended December 31, 1996. Exchange gains and losses that result from remeasurement of assets and liabilities are recorded in determining net loss. A portion of the assets and liabilities of the Company are denominated in currencies other than the U.S. dollar, including capital lease obligations, notes payable (including the notes issued in the Company's public bond offering), cash and cash equivalents, investments, and forward foreign exchange contracts. It is the Company's policy to attempt to match local currency receivables and payables. The foreign currency-denominated assets and liabilities give rise to foreign exchange gains and losses as a result of U.S. dollar to currency exchange movements. The Company entered into forward foreign exchange contracts as a partial hedge against German mark (DM)-denominated liabilities to partially offset the foreign exchange loss on the Company's notes.

Income Tax Expense The Company had an income tax expense from operations of $1,430,000 for the year ended December 31, 1998, as compared to an income tax benefit of $100,000 and $323,000 for the years ended December 31, 1997 and 1996, respectively. The income tax expense in 1998 was the result of U.S. federal income taxes arising on certain realized taxable gains (such as gain on the purchase of bonds described at "Extraordinary Gain" below and interest income and realized gains on forward foreign exchange contracts) and the exclusion for tax purposes of certain expenses (such as the non-cash interest on the DM-denominated 12⅜% notes payable and the unrealized foreign exchange loss on the DM-denominated notes payable). The income tax benefit for 1997 and 1996 is the result of recognizing a portion of the future tax benefit of current taxable losses.

Extraordinary Gain In 1998 the Company recorded an extraordinary gain of $2,889,000 (net of income taxes of $1,488,000), following its repurchase of a portion of its DM-denominated 12⅜% notes payable. The gain represents the difference between the allocated carrying value of the face value of the debt repurchased of $10,191,000 less the consideration paid of $5,473,000, offset by the write-off of the allocated unamortized deferred financing costs of $341,000. The Company has not retired the bonds repurchased.

Net Loss The Company's net loss increased to $28,375,000 during the year ended December 31, 1998 from $7,965,000 for the year ended December 31, 1997 and $7,576,000 for the year ended December 31, 1996 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 1998 issue of DM-denominated notes payable, the Company's 1997 public equity offering, equipment lease financing and 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 $43,345,000 and investments in property, plant and equipment. The Company had cash and cash equivalents of $55,614,000 and working capital of $63,291,000 at December 31, 1998. The Company had $12,972,000 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 and development of ARKSYS service delivery capabilities. As a result of the Company's strategy of continuing expansion and increasing its market share, the Company's net losses are expected to continue for 1999. The Company expects improved results in the year 2000. 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 2007. The leases bear interest between 8% and 17%. As of December 31, 1998 the Company owed $11,075,000 under such capital lease arrangements.

At December 31, 1998, the Company had contractual capital commitments of approximately $4,000,000. The Company expects that its capital requirements will increase in the future as it pursues its strategy of expanding its network and increasing the number of installed ATMs. The Company anticipates that its capital expenditures for the 12 months ending December 31, 1999 could total approximately $15 million, primarily in connection with the acquisition of ATMs, scheduled capital lease payments on existing lease obligations, and related installation costs. Aggregate capital expenditures of the Company for 1999 and 2000 for such purposes could reach approximately $30 million in the Company's existing markets, including Western and Central Europe. These requirements contemplate planned expansion in existing markets. Acquisitions of related business and investments in new markets in furtherance of the Company's strategy may require additional capital expenditures.

On June 22, 1998, the Company sold 243,211 units in a public offering, each consisting of DM 1,000 principal amount at maturity of 12⅜% senior discount notes due on July 1, 2006 (the "notes") and 729,633 warrants to purchase 766,114 shares of common stock. Each warrant entitles the holder to purchase, on or after June 22, 1998 and prior to July 1, 2006, 1.05 shares of common stock at an exercise price of $5.00 per share. Cash interest on the notes will not be payable prior to July 1, 2002. Commencing January 1, 2003, cash interest will be payable semi-annually on January 1 and July 1 of each year. The notes and the warrants are separately transferable. The gross proceeds to the Company were DM 150,000,385 (approximately $83,100,000) representing an issue price of DM 616.75 per DM 1,000 principal amount at maturity. Of this amount, $1,725,000 has been allocated to the warrants within stockholders' equity to reflect their fair market value on the date of issuance. Net proceeds to the Company after underwriting discount and offering expenses were DM 145,125,372 (approximately $81,285,000).

The Company believes the net proceeds from the public offering of the notes, 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 indenture entered into in connection with the offering of the notes 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.

Balance Sheet Items

Cash and Cash Equivalents The increase of cash and cash equivalents to $55,614,000 at December 31, 1998 from $7,516,000 at December 31, 1997 is due to the receipt in June 1998 of the net proceeds of DM 145,125,372 (approximately $81,285,000) from the public offering of 12⅜% senior discount notes due on July 1, 2006 less approximately $17,900,000 cash paid for the acquisition of ARKSYS and amounts used for fixed asset purchases and to fund operating losses in the period.

Restricted Cash Restricted cash increased to $12,972,000 at December 31, 1998 from $847,000 at December 31, 1997. The majority of restricted cash was held as security with respect to cash provided in Hungary by banks participating in Euronet's ATM network, to cover guarantees to a customer and as deposits with customs officials.

Investment Securities The decrease in investment securities from $31,944,000 at December 31, 1997 to $3,149,000 was due to the movement of funds into more liquid instruments as proceeds are required to fund expansion plans.

Other Current Assets The increase in other current assets to $10,295,000 at December 31, 1998 from $2,504,000 at December 31, 1997 was due to the increased working capital requirements of the Company's expanding operations.

Property, Plant and Equipment Net property, plant and equipment increased from $24,088,000 at December 31, 1997 to $33,182,000 at December 31, 1998. This increase is due primarily to the installation of ATMs during and acquisition of computer equipment as the network expands.

Other Long-Term Assets The increase in other long-term assets to $18,226,000 at December 31, 1998 from $3,134,000 at December 31, 1997 is due primarily to the acquisition of ARKSYS and recording of purchased intangibles of $12,634,000 and deferred financing costs related to the issuance of the notes of $3,034,000.

Current Liabilities The increase in current liabilities to $18,739,000 at December 31, 1998 from $9,315,000 at December 31, 1997 was due to the increased working capital requirements of the Company's expanding operations and an increase in taxes payable of $1,849,000.

Obligations Under Capital Leases The long-term portion of obligations under capital leases decreased to $6,809,000 at December 31, 1998 from $11,330,000 at December 31, 1997 due to the use of proceeds of the DM notes payable to repay certain lease obligations.

Notes Payable Notes payable at December 31, 1998 were $83,720,000. This was the result of the issue in June 1998 of 243,211 units of DM 1,000 12⅜% senior discount notes due on July 1, 2006.

Total Stockholders' Equity Total stockholders' equity at December 31, 1998 was $24,170,000 a decrease from $49,219,000 at December 31, 1997. This is primarily due to the 1998 loss from operations which was partially offset by the addition of warrants attached to the DM-denominated notes payable.

Implementation of New Accounting Pronouncements

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 two industry segments and operates in a number of geographical segments. The Company has disclosed separately its two business segments and its major geographical segments in 1998, as required by SFAS No. 131.

Forward-Looking Statements

This document contains statements that constitute forward-looking statements within the meaning of section 27A of the Securities Act and section 21E of the U.S. Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this document, including, without limitation, statements regarding (i) the Company's business plans and financing plans and requirements, (ii) trends affecting the Company's business plans and financing plans and requirements, (iii) trends affecting the Company's business, (iv) the adequacy of capital to meet the Company's capital requirements and expansion plans, (v) the assumptions underlying the Company's business plans, (vi) business strategy, (vii) government regulatory action, (viii) technological advances and (ix) projected costs and revenues, are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Forward-looking statements are typically identified by the words *believe, expect, anticipated, intend, estimate* and similar expressions.

Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of various factors, including: technological and business developments in the local card and electronic banking markets affecting the transaction and other fees which the Company is able to charge for its services; foreign exchange fluctuations; competition from bank-owned ATM networks, outsource providers of ATM services and software providers; the Company's relationships with its major customers, sponsor banks in various markets and International Card Organizations; unanticipated Year 2000 problems; and changes in laws and regulations affecting the Company's business. These risks, and other risks are described elsewhere in this document and the Company's periodic filings with the Securities and Exchange Commission.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Exposure

In 1998, 73% of the Company's revenues were generated in Poland and Hungary, as compared to 99% in 1997. This figure will be substantially reduced with the additional revenues from ARKSYS and the Company's expanded ATM network in Germany. While in Hungary the majority of revenues received are to be U.S. dollar-denominated, this is not the case in Poland, where the majority of revenues are denominated in Polish zloty. However, the majority of these foreign currency-denominated 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 German 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 German mark than against the dollar. Accordingly, the Company believes that the issuance of German 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.

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, none of these countries is considered to have a hyper-inflationary economy. Therefore, since Poland is no longer considered hyper-inflationary for 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 is 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 currency 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.

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, 1998 and 1997 and the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998. 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, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the threeyear period ended December 31, 1998 in conformity with generally accepted accounting principles in the United States of America.

Warsaw, Poland
March 5, 1999,
except for note 22 dated March 26, 1999

KPMG Polska Sp. z o.o.

EURONET SERVICES INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31, 1998	December 31, 1997
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents (note 7)	$ 55,614	$ 7,516
Restricted cash (note 6)	12,972	847
Investment securities (note 7)	3,149	31,994
Trade accounts receivable (less allowance for doubtful accounts of $291,000 in 1998 and $0 in 1997)	5,681	647
Costs and estimated earnings in excess of billings on software installation contracts (note 8)	745	–
Prepaid expenses and other current assets	3,869	1,857
Total current assets	82,030	42,811
Property, plant, and equipment (note 12):		
Equipment–Automated teller machines	33,911	23,581
Vehicles and office equipment	4,375	1,808
Computers and software	3,742	1,050
	42,028	26,439
Less accumulated depreciation and amortization	(8,846)	(2,351)
Net property, plant and equipment	33,182	24,088
Intangible assets, net (notes 4 and 9)	12,464	–
Deposits for ATM leases	2,157	2,542
Deferred income taxes (note 13)	571	571
Other assets, net (notes 2(g) and 2(h))	3,034	21
Total assets	$ 133,438	$ 70,033

See accompanying notes to consolidated financial statements.

EURONET SERVICES INC. AND SUBSIDIARIES

Consolidated Balance Sheets (Continued)

	December 31, 1998	1997
	(in thousands)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 4,739	$ 4,420
Short-term borrowings (note 10)	300	158
Current installments of obligations under capital leases (note 12)	4,266	3,140
Accrued expenses and other current liabilities	5,661	1,597
Advance payments on contracts	971	–
Income taxes payable (note 13)	1,849	–
Billings in excess of costs and estimated earnings on software installation costs (note 8)	953	–
Total current liabilities	18,739	9,315
Obligations under capital leases, excluding current installments (note 12)	6,809	11,330
Notes payable (note 11)	83,720	–
Other long-term liabilities	–	169
Total liabilities	109,268	20,814
Commitments (note 21)		
Stockholders' equity (note 3):		
Common stock, $0.02 par value. Authorized 30,000,000 shares; issued and outstanding 15,213,453 shares in 1998 and 15,133,321 shares in 1997	307	304
Warrants (note 11)	1,725	–
Additional paid in capital	64,688	63,358
Treasury stock	(4)	(4)
Subscription receivable	(50)	(253)
Accumulated losses	(43,345)	(14,970)
Restricted reserve (note 5)	784	784
Accumulated other comprehensive income	65	–
Total stockholders' equity	24,170	49,219
Total liabilities and stockholders' equity	$133,438	$ 70,033

See accompanying notes to consolidated financial statements.

EURONET SERVICES INC. AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Loss

	Year Ended December 31, 1998	1997	1996
	(in thousands, except share and per share data)		
Revenues:			
ATM network and related revenue	$ 11,525	$ 5,290	$ 1,261
Software, maintenance and related revenue	356	–	–
Total revenues	11,881	5,290	1,261
Operating expenses:			
Operating costs	10,036	3,717	827
Salaries and benefits	9,723	3,796	989
Selling, general and administrative	8,650	4,468	2,459
Depreciation and amortization	4,955	1,731	481
In-process research and development write-off (note 4)	1,020	–	–
Share compensation expense (note 14)	108	108	4,172
Total operating expenses	34,492	13,820	8,928
Operating loss	(22,611)	(8,530)	(7,667)
Other income/expense:			
Interest income	2,514	1,609	225
Interest expense (note 11)	(7,826)	(1,152)	(378)
Foreign exchange (loss)/gain, net	(1,911)	8	(79)
	(7,223)	465	(232)
Loss before income tax (expense)/benefit	(29,834)	(8,065)	(7,899)
Income tax (expense)/benefit (note 13)	(1,430)	100	323
Loss before extraordinary item	(31,264)	(7,965)	(7,576)
Extraordinary gain on early retirement of debt, net of applicable income taxes of $1,488,000 (note 11)	2,889	–	–
Net loss	$ (28,375)	$ (7,965)	$ (7,576)
Other comprehensive income:			
Translation adjustment	65	–	–
Comprehensive loss	$ (28,310)	$ (7,965)	$ (7,576)
Loss per share–basic and diluted (note 2(o)):			
Loss before extraordinary item	$ (2.06)	$ (0.64)	$ (15.18)
Extraordinary gain	$ 0.19	$ –	$ –
Net loss	$ (1.87)	$ (0.64)	$ (15.18)
Weighted average number of shares outstanding	15,180,651	12,380,962	499,100

See accompanying notes to consolidated financial statements.

EURONET SERVICES INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

	Common Stock	Preferred Stock -Series A	Preferred Stock -Series B	Warrants	Additional Paid in Capital	Treasury Stock	Sub-scription Receivable
				(in thousands)			
Balance January 1, 1996	$ 3,716	$ –	$ –	$ –	$ 550	$ –	$ –
Net loss up to March 27, 1996	–	–	–	–	–	–	–
Transfer to restricted reserve	–	–	–	–	–	–	–
Formation of Euronet Services N.V. (note 3)	(3,709)	63	–	–	122	–	–
Capital contribution (note 3)	–	–	67	–	6,933	–	(500)
Reimbursement of capital	–	–	–	–	(57)	–	–
Change in par value of shares	3	25	26	–	(54)	–	–
Share compensation expense (note 14)	–	–	–	–	4,172	–	–
Net loss from March 28, 1996 through December 31, 1996	–	–	–	–	–	–	–
Transfer to restricted reserve	–	–	–	–	–	–	–
Balance December 31, 1996	10	88	93	–	11,666	–	(500)
GE Capital share issue (note 3)	–	–	11	–	2,989	–	–
Formation of Euronet Services Inc. (note 3)	192	(88)	(104)	–	–	–	–
Net proceeds from public offering (note 3)	77	–	–	–	47,780	–	–
Milestone awards and stock options exercised (note 14)	25	–	–	–	815	–	(253)
Subscription paid (note 3)	–	–	–	–	–	–	500
Treasury stock repurchase (note 3)	–	–	–	–	–	(4)	–
Share compensation expense (note 14)	–	–	–	–	108	–	–
Net loss for 1997	–	–	–	–	–	–	–
Balance December 31, 1997	304	–	–	–	63,358	(4)	(253)
Warrants issue (note 11)	–	–	–	1,725	–	–	–
Stock options exercised (note 14)	3	–	–	–	175	–	–
Stock options granted in ARKSYS acquisition (note 4)	–	–	–	–	96	–	–
Subscription paid (note 3)	–	–	–	–	–	–	203
Translation adjustment	–	–	–	–	–	–	–
Tax benefit from exercise of stock options (note 13)	–	–	–	–	951	–	–
Share compensation expense (note 14)	–	–	–	–	108	–	–
Net loss for 1998	–	–	–	–	–	–	–
Balance December 31, 1998	$ 307	$ –	$ –	$ 1,725	$64,688	$ (4)	$ (50)

See accompanying notes to consolidated financial statements.

EURONET SERVICES INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity (continued)

	Accumulated Losses	*Restricted Reserve*	*Accumulated Other Comprehensive Income*	*Total*
		(in thousands)		
Balance January 1, 1996	$(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 3)	3,524	–	–	–
Capital contribution (note 3)	–	–	–	6,500
Reimbursement of capital	–	–	–	(57)
Change in par value of shares	–	–	–	–
Share compensation expense (note 14)	–	–	–	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	(7,005)	784	–	5,136
GE Capital share issue (note 3)	–	–	–	3,000
Formation of Euronet Services Inc. (note 3)	–	–	–	–
Net proceeds from public offering (note 3)	–	–	–	47,857
Milestone awards and stock options exercised (note 14)	–	–	–	587
Subscription paid (note 3)	–	–	–	500
Treasury stock repurchase (note 3)	–	–	–	(4)
Share compensation expense (note 14)	–	–	–	108
Net loss for 1997	(7,965)	–	–	(7,965)
Balance December 31, 1997	(14,970)	784	–	49,219
Warrants issue (note 11)	–	–	–	1,725
Stock options exercised (note 14)	–	–	–	178
Stock options granted in ARKSYS acquisition (note 4)	–	–	–	96
Subscription paid (note 3)	–	–	–	203
Translation adjustment	–	–	65	65
Tax benefit from exercise of stock options (note 13)	–	–	–	951
Share compensation expense (note 14)	–	–	–	108
Net loss for 1998	(28,375)	–	–	(28,375)
Balance December 31, 1998	$ (43,345)	$ 784	$ 65	$24,170

See accompanying notes to consolidated financial statements.

EURONET SERVICES INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	1998	1997	1996
		Year Ended December 31, (in thousands)	
Net cash used in operating activities (note 18)	$ (22,768)	$ (6,340)	$ (2,255)
Cash flows from investing activities:			
Fixed asset purchases	(9,740)	(7,612)	(1,061)
Proceeds from sale of fixed assets	543	42	–
Purchase of investment securities	(29,778)	(75,692)	(194)
Proceeds from maturity of investment securities	58,789	43,942	–
Investment in subsidiaries, net of cash acquired	(17,338)	–	–
Net (decrease)/increase in loan receivable	(8)	–	3
Net cash provided by/(used in) investing activities	2,468	(39,320)	(1,252)
Cash flows from financing activities:			
Proceeds from issuance of shares and other capital contributions	178	51,944	6,500
Proceeds from issuance of notes payable and warrants	83,100	–	–
Costs to obtain loans	(3,294)	–	–
Repurchase of notes payable and warrants	(5,473)	–	–
Reimbursement of capital	–	–	(57)
Repayment of obligations under capital leases	(7,323)	(1,007)	(1,101)
Repurchase of treasury stock	–	(4)	–
Increase/(decrease) in short–term bank borrowings	142	(36)	194
Cash received from subscription receivable	203	–	–
(Repayment of)/proceeds from loan from shareholder	–	(262)	101
Net cash provided by financing activities	67,533	50,635	5,637
Effect of exchange differences on cash	865	–	–
Net increase in cash and cash equivalents	48,098	4,975	2,130
Cash and cash equivalents at beginning of period	7,516	2,541	411
Cash and cash equivalents at end of period	$ 55,614	$ 7,516	$ 2,541
Supplemental disclosures of cash flow information (note 19):			
Interest paid during year	$ 1,907	$ 877	$ 325

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996, 1997 AND 1998

1. Organization

Euronet Services Inc. was established as a Delaware corporation on December 13, 1997 and capitalized on March 6, 1998. Euronet Services Inc. succeeded Euronet Holding N.V. as the group holding company.

Euronet Services Inc. and its subsidiaries (the "Company" or "Euronet") is an independent shared automatic 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. Euronet also sells payment and financial transaction delivery systems worldwide and processing solutions on the IBM AS/400. Its core solution, Integrated Transaction Management ("ITM"), is a modular comprehensive software architecture for offerings such as ATM and network processing software, electronic funds transfer software interfaces, electronic funds transfer switch control software, credit/debit card processing software, and corporate cash management and personal financial management access products.

The subsidiaries of Euronet Services Inc., all of which are wholly owned, directly or indirectly, 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
Euronet Services, incorporated in Romania
Euronet Services Ltd., incorporated in the United Kingdom
Arkansas Systems, Inc. ("ARKSYS") incorporated in the United States of America

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 Euronet and its subsidiaries (refer to note 3).

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 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. Resulting 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 in accumulated other comprehensive income as a separate component of stockholders' equity.

The financial statements of foreign subsidiaries where the functional currency is the U.S. dollar are remeasured using historical exchange rates for nonmonetary 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 rates are as follows:

Automated teller machines	7 years
Computers and software	3–5 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 and intangible assets) by determining whether the carrying value of the 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 asset's 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) Goodwill and other intangible assets

Goodwill represents the excess of purchase price over fair value of net assets acquired. Other identifiable intangible assets are valued at their fair market value at the time of purchase.

Amortization is calculated on the straight-line method over the estimated useful lives of the assets as follows:

Goodwill	10 years
Developed technology	5 years
Assembled workforce	4 years
Installed base	4 years
Distributor/agent relationships	8 years
Tradename	10 years

(g) Other assets

Other assets include deferred financing costs, investments in affiliates, and loans receivable. Deferred financing costs represent expenses incurred to obtain financing which have been deferred and amortized over the life of the loan using the effective interest method.

(h) Investments in affiliates

Investment in the common stock of EFT Network Services, LLC, a 33⅓% owned affiliate, is accounted for by the equity method. Under this method, the Company's share of net income or loss is reflected in the Company's investment account, and dividends received are treated as a reduction of the investment account. The fair value of the investment in excess of the underlying equity in net assets is amortized over 10 years. The Company has the option to sell the investment to the previous shareholders of ARKSYS for $150,000 (carrying value of $200,000) which expires 180 days from the acquisition date (refer to note 4).

(i) 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.

(j) Risks and uncertainties

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.

(k) Revenue recognition

Euronet recognizes revenue at the point at which the service is performed. Revenues from licensing agreement contracts are recognized on a percentage of completion basis whereby a pro-rata portion of revenue and related costs are recognized as the work progresses. Revenues from licensing agreement contracts representing newly released products deemed to have a higher than normal risk of failure during installation are recognized on a completed contract basis whereby revenues and related costs are deferred until the contract is complete.

(l) 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.

(m) Investment securities

The Company has classified its investment securities as held-to-maturity or available-for-sale. Held-to-maturity securities are those securities in which the Company has the ability and intent to hold the security to maturity. All securities not included in held-to-maturity are classified as available-for-sale.

Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premium and discounts. Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

A decline in the market value of any held-to-maturity or available-for-sale 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. Premiums and discounts are amortized or accreted over the life or term of the related held-to-maturity security or available-for-sale security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

(n) Forward foreign exchange contracts

Forward exchange contracts are recorded at fair values in the balance sheet in other current assets or other current liabilities with the related gain or loss recognized in the consolidated statement of operations, unless the contracts meet certain hedging criteria. A foreign exchange contract is considered a hedge of an identifiable foreign currency commitment if (i) the contract is designated as, and is effective as, a hedge of foreign currency commitment and (ii) the foreign currency commitment is firm. In addition, the significant characteristics of expected terms of the anticipated transaction are identified and it is probable that the anticipated transaction will occur. Gains and losses on foreign exchange contracts meeting these hedge accounting criteria are deferred and included in the measurement of the related foreign currency transaction. Losses are not deferred if, however, it is estimated that the deferral would lead to recognition of losses in later periods.

(o) Loss per share

Loss per share has been calculated by dividing the net loss attributable to common shareholders by the weighted-average number of shares outstanding during the year. The number of shares outstanding prior to the formation of Euronet Holding N.V. has been adjusted to the equivalent shares of the Company. The effect of potential common shares (stock options and warrants outstanding) is anti-dilutive. Accordingly, dilutive loss per share does not assume the exercise of the stock options and warrants outstanding.

(p) Stock-based compensation

The Company accounts 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 stock 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 14).

(q) Comprehensive loss

On January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 established standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive loss consists of net loss and foreign currency translation and is presented in the consolidated statements of operations and comprehensive loss. The statement requires only additional disclosures in the consolidated financial statements. It does not affect the Company's financial position or results of operations.

(r) Business segment information

On January 1, 1998, the Company adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." SFAS No. 131 established standards for the reporting of information relating to operating segments in annual financial statements. This statement supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," which requires reporting segment information by industry and geographic area (industry approach). Under SFAS No. 131, operating segments are defined as components of a company for which separate financial information is available and used by management to allocate resources and assess performance (management approach).

(s) Reclassifications

Certain amounts have been reclassified in the prior year financial statements to conform to the 1998 financial statements presentation.

3. Formation of Holding Company

On February 15, 1996 the shareholders of Bank Tech, Bankomat and SatComNet terminated their amended joint venture agreement and entered into a shareholders' agreement reorganizing the ownership of such companies. Under the shareholders' agreement, the investors contributed, on March 27, 1997, 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, Euronet Holding N.V. 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, 1998, the Company repurchased 292,607 shares of Euronet 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.

Date	*Type of shares*	*Number of shares Euronet Holding N.V.*	*Value*
			(in thousands)
March 27, 1996	Common	499,100	–[1]
March 27, 1996	series A preferred	4,419,800	–[1]
March 27, 1996	series B preferred	4,200,000	$ 5,500[2]
November 26, 1996	series B preferred	466,669	$ 1,000
			$ 6,500
February 3, 1997	series B preferred	710,507[3]	$ 3,000

[1]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.
[2]The value excludes $500,000 of subscription receivable.
[3]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 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 (over-allotment)	March 17, 1997	795,000
Repurchase of GE Capital shares	June 16, 1997	(292,607)
Stock options exercised	Various	190,860
December 31, 1997		15,133,321
Stock options exercised	Various	80,132
December 31, 1998		15,213,453

4. Acquisition of ARKSYS

On December 2, 1998, the Company acquired the outstanding common stock of Arkansas Systems, Inc. for purchase consideration of approximately $17.9 million (including incidental costs of $90,000 and fair value of stock options of $96,000). ARKSYS, with headquarters in Little Rock, Arkansas, sells payment and transaction delivery systems worldwide. Its main software products include ATM and network processing, electronic funds transfer interfaces, electronic funds transfer switch control, credit/debit card processing and corporate cash management and personal financial management access products. ARKSYS is the software provider to Euronet's ATM transaction processing center in Central Europe.

The acquisition has been accounted for as a purchase; accordingly, the results of operations are included in the accompanying consolidated financial statements since the date of acquisition. The purchase price has been allocated to assets acquired ($7,256,000) and liabilities assumed ($3,055,000) based on their fair values. The excess of the purchase price over the fair value of the net assets acquired of $13,654,000 has been allocated $1,020,000 to in-process research and development (IPRD), $8,690,000 to other identifiable intangible assets and the remaining $3,944,000 to goodwill (refer to note 9). This allocation has been based on independent valuations performed. In-process research and development has been written off to operations at the date of the acquisition.

The IPRD estimates relate only to projects involving new product research and development. The methodology used in deriving the estimated IPRD was (i) to project net future cash flows for potential new products in the current research and development portfolio based on the estimated current demand and price assumptions, less relevant anticipated expenses, provided by management, (ii) to risk-adjust the projected future cash flows for the likelihood or future realization based on historical experience derived probability factors for new product success, and (iii) to discount risk-adjusted projected net future cash flows. In determining the estimated value allocated to IPRD, the result of the above valuation methodology was further reduced based on an estimation by management of the percentage of research and development activity undertaken to date compared to the total research and development activity required to complete the project.

Had the acquisition occurred on January 1, 1997, the Company's pro-forma consolidated results for the years ended December 31, 1998 and 1997 would have been as follows:

	December 31,	
	1998	*1997*
	(unaudited) *(in thousands, except per share data)*	
Revenues	$ 22,696	$ 16,289
Net loss	$(29,479)	$ (7,721)
Net loss per share	$ (1.94)	$ (0.62)

These unaudited pro-forma results of operations have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which would have actually resulted had the combination been in effect on January 1, 1997, or of future results of operations.

5. 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.

6. Restricted Cash

The restricted cash balances as of December 31, 1998 and 1997, were as follows:

	December 31,	
	1998	*1997*
	(in thousands)	
ATM deposits	$ 10,930	$ 347
Other	2,042	500
	$ 12,972	$ 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.

7. Investment Securities

The amortized cost for short-term held-to-maturity and available-for-sale securities by class security type at December 31, 1998 and 1997, were as follows:

	December 31, 1998	December 31, 1997
	(in thousands)	
Held-to-maturity:		
U.S. State and Municipal obligations	$ –	$ 12,448
Corporate debentures	14,345	8,298
U.S. Federal Agency obligations	19,183	7,967
Foreign government obligations	3,140	3,231
	36,677	31,944
Available-for-sale:		
Equity securities	9	–
Total investments	$ 36,686	$ 31,944

Securities totaling $33,537,000 and $3,149,000 have been recorded in cash and cash equivalents and investment securities, respectively, on the balance sheet at December 31, 1998. All securities are located in investment securities on the balance sheet at December 31, 1997. The carrying value of held-to-maturity investment securities at December 31, 1998 and 1997 approximates fair market value. There were no unrealized gains or losses for available-for-sale securities in 1998. At December 31, 1998, approximately $19,183,000 in U.S. Federal Agency obligations were pledged as collateral for foreign currency contracts.

8. Contracts In Progress

Amounts included in the financial statements which relate to recoverable costs and accrued profits not yet billed on contracts are classified as current assets under costs and estimated earnings in excess of billings on software installation contracts. Amounts received from clients in excess of revenues recognized to date are classified as current liabilities under billings in excess of cost and estimated earnings of software installation contracts.

The software installation contracts in progress consist of the following:

	December 31, 1998	December 31, 1997
	(in thousands)	
Value assigned in acquisition of ARKSYS	$ (33)	$ –
Costs and estimated earnings on software installation contracts	(15)	–
Less billings to date	(160)	–
	$ (208)	$ –

Components are included in the accompanying consolidated balance sheets under the following captions:

	December 31, 1998	December 31, 1997
	(in thousands)	
Costs and estimated earnings in excess of billings on software installation contracts	$ 745	$ –
Billings in excess of costs and estimated earnings on software installation contracts	(953)	–
	$ (208)	$ –

9. Intangibles

Intangible assets are carried at amortized cost and consist of the following:

	December 31, 1998	December 31, 1997
	(in thousands)	
Goodwill	$ 3,944	$ –
Developed technology	5,700	–
Assembled workforce	1,130	–
Installed base	1,080	–
Distributor/agent relationships	380	–
Tradename	400	–
	12,634	–
Less accumulated amortization	(170)	–
Total	$ 12,464	$ –

10. Short-Term Borrowings

At December 31, 1998, short-term borrowings represent a $1,500,000 line of credit with a bank to be drawn upon as needed with interest at the three month LIBOR rate plus 1.5%. The line expires on July 5, 1999. At December 31, 1998, $300,000 was outstanding under the line of credit, at an interest rate of 6.75%. The unused line of credit amounted to $1,200,000 at December 31, 1998. Accounts receivable and inventories of ARKSYS are pledged as collateral under the line of credit.

At December 31, 1997, 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 was paid on June 16, 1998 together with interest accrued at 27%.

11. Notes Payable

On June 22, 1998, the Company sold 243,211 units in a public offering, each consisting of DM 1,000 principal amount at maturity of 12⅜% senior discount notes due on July 1, 2006 and 729,633 warrants to purchase 766,114 shares of common stock. Each warrant entitles the holder to purchase, on or after June 22, 1998 and prior to July 1, 2006, 1.05 shares of common stock at an exercise price of $5.00 per share. Cash interest on the notes will not be payable prior to July 1, 2002. Commencing January 1, 2003, cash interest will be payable semi-annually on January 1 and July 1 of each year. The notes and the warrants are separately transferable. The gross proceeds to the Company were DM 150,000,385 (approximately $83,100,000) representing an issue price of DM 616.75 per DM 1,000 principal amount at maturity. Of this amount, $1,725,000 has been allocated to the warrants within stockholders' equity to reflect their fair market value on the date of issuance. Net proceeds to the Company after underwriting discount and offering expenses were DM 145,125,372 (approximately $81,285,000).

The following table provides the composition of notes payable at December 31, 1998:

	(in thousands)
Principal amount	$ 130,175
Unamortized discount	(46,455)
Carrying balance	$ 83,720

Pursuant to the Company's indenture, the Company is subject to certain restrictions and covenants, including, without limitation, covenants with respect to the following matters: (i) limitation on additional indebtedness; (ii) limitation on restricted payments; (iii) limitation on issuance and sales of capital stock of restricted subsidiaries; (iv) limitation on transactions with affiliates; (v) limitation on liens; (vi) limitation on guarantees of indebtedness by restricted subsidiaries; (vii) purchase of Euronet notes upon a change of control; (viii) limitation on sale of assets; (ix) limitation on dividends and other payment restrictions affecting restricted subsidiaries; (x) limitation on investments in unrestricted subsidiaries; (xi) limitation on lines of business; and (xii) provision of financial statements and reports. The Company is in compliance with these covenants at December 31, 1998.

During December 1998, the Company repurchased 26,391 units (principal amount of DM 26.4 million) for $5,473,000. This repurchase has been accounted for as an extinguishment of debt with a resulting $2,889,000 (net of income taxes of $1,488,000) recognized as an extraordinary gain on such extinguishment. The extinguishment gain (pre-tax) represents the difference between the allocated carrying value of the debt extinguished ($10,191,000) and the consideration paid ($5,473,000), offset by the write-off of the allocated unamortized deferred financing costs ($341,000).

The effective interest rate relating to the aforementioned notes payable was 13.17% and interest expense was approximately $5,919,000 for the year ended December 31, 1998.

The Company entered into foreign currency exchange contracts to reduce the effect of fluctuating currency exchange rates, principally German marks on notes payable and to a lesser extent capital lease obligations. The Company does not utilize financial instruments for trading or other speculative purposes. These forward contracts have terms expiring through January 1999.

Forward contracts outstanding at December 31, 1998 amounted to $42,954,000 to purchase German marks. The Company has recognized approximately $3,450,000 during the year ended December 31, 1998 (none for 1997 and 1996) on net foreign currency gains related to these contracts. At December 31, 1998, foreign currency contracts outstanding had unrealized gains of $29,000 and unrealized losses of $29,000 which have been recognized within foreign exchange (loss)/gain, net in the statements of operations.

12. Leases

(a) Capital leases

The Company leases the majority of its ATMs under capital lease agreements that expire between 1999 and 2007 and bear interest at rates between 8% and 17%. Lease installments are paid on a monthly, quarterly or semiannual basis. Euronet has the right to extend the term of certain leases at the conclusion of the basic 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 (refer to note 16).

Euronet also has two lease agreements on 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. 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, 1998	*1997*
	(in thousands)	
ATMs	$17,276	$15,940
Other	2,106	1,161
	19,382	17,101
Less accumulated amortization	(3,474)	(1,811)
Net book value	$15,908	$15,290

Depreciation of assets held under capital leases amounted to $2,943,000, $1,401,000 and $1,314,000 for the years ended December 31, 1998, 1997 and 1996, respectively, and is included with depreciation expense.

(b) Operating leases

The Company also has non-cancelable operating rental leases for office space which expire over the next 3 to 9 years. Rent expense under these leases amounted to $1,099,000, $433,000 and $270,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

(c) Future minimum lease payments

Future minimum lease payments under the capital leases and the non-cancelable operating lease (with initial or remaining lease terms in excess of one year) as of December 31, 1998 are:

	Capital Leases	Operating Leases
	(in thousands)	
Year ending December 31,		
1999	$ 5,306	$ 2,243
2000	4,791	2,239
2001	1,779	2,286
2002	982	2,133
2003	29	1,782
2004 and thereafter	–	4,402
Total minimum lease payments	12,887	
Less amounts representing interest	(1,812)	
Present value of net minimum capital lease payments	11,075	
Less current installments of obligations under capital leases	(4,266)	
Long term capital lease obligations	$ 6,809	

13. Income Taxes

The sources of income/(loss) before income taxes are presented as follows:

	Year Ended December 31, 1998	1997	1996
		(in thousands)	
United States	$ (8,985)	$ (353)	$ –
Netherlands Antilles	700	425	(4,416)
Europe	(21,549)	(8,137)	(3,483)
Loss before income taxes	$ (29,834)	$ (8,065)	$ (7,899)

Total income tax (expense)/benefit for the years ended December 31, 1998, 1997 and 1996 was allocated as follows:

	Year Ended December 31, 1998	1997	1996
		(in thousands)	
Loss from operations	$ (1,430)	$ 100	$ 323
Extraordinary item	(1,488)	–	–
Stockholders' equity for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	951	–	–
	$ (1,967)	$ 100	$ 323

The income tax (expense)/benefit from operations consisted of the following:

	Year Ended December 31, 1998	1997	1996
		(in thousands)	
Current tax expense:			
U.S. Federal	$ (1,430)	–	–
Netherlands Antilles	–	–	–
Europe	–	–	–
Total current	$ (1,430)	–	–
Deferred tax (expense)/benefit:			
U.S. Federal	–	–	–
Netherlands Antilles	–	–	–
Europe	–	$ 100	$ 323
Total deferred	–	100	323
Total tax (expense)/benefit	$ (1,430)	$ 100	$ 323

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 to losses before taxes is attributable to the following:

	Year Ended December 31, 1998	1997	1996
		(in thousands)	
Income tax benefit at statutory rates	$ 10,143	$ 2,742	$ 267
Non-deductible expenses	(1,191)	(1,793)	(209)
Tax-exempt interest	520	265	–
Stock options exercised	(931)	1,006	–
Stock options granted in prior year	–	1,402	–
Foreign currency gains and losses	–	542	(4)
Tax rate differences	(638)	44	806
Adjustment to deferred tax asset for enacted changes in tax rates	(191)	(113)	–
Utilization of tax loss carried forward	971	145	–
Other	(175)	–	–
Change in valuation allowance	(9,938)	(4,140)	(537)
Actual income tax (expense)/benefit	$ (1,430)	$ 100	$ 323

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 tax deduction of $1,005,937. Because of the tax loss position of the Company in 1997 in the United States, this tax deduction was not realized but recharacterized as a tax loss carryforward. The Company established a valuation allowance for the deferred tax asset resulting from the tax loss carryforward in the United States. This tax loss carryforward was utilized in 1998 and therefore, $951,553 of the tax benefit was 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, 1998	1997
	(in thousands)	
Deferred tax assets:		
Tax loss carryforwards	$8,358	$3,684
Stock compensation expense	1,130	1,402
Unrealized exchange rate differences	2,025	34
Interest expense	1,650	–
Accrued expenses	1,476	213
Billings in excess of earnings	330	–
Other	240	33
Total deferred tax assets	15,209	5,366
Valuation allowance	(14,277)	(4,795)
Total deferred tax assets	932	571
Deferred tax liabilities:		
Property and equipment	107	–
Earnings in excess of billings	254	–
Total deferred tax liabilities	361	–
Net deferred tax assets	$ 571	$ 571

The valuation allowance for deferred tax assets as of January 1, 1998, 1997 and 1996 was $4,795,000, $655,000 and $118,000 respectively. The net change in the total valuation allowance for the years ended December 31, 1998, 1997, and 1996 were increases of $9,482,000, $4,140,000 and $537,000, respectively.

The valuation allowance primarily relates to deferred tax assets established under SFAS No. 109 for loss carryforwards at December 31, 1998 and 1997 of $32,170,000 and $13,210,000, respectively. The tax operating loss carryforwards will expire through 2001 for Bankomat, through 2003 for Bank Tech, SatComNet, EFT-Usluge doo, Euronet Services France SAS, Euronet Services and Euronet Holding N.V. and through 2005 for Euronet Services spol.sro. The tax operating losses for Euronet Services Inc. and ARKSYS can be carried back two years and forward twenty years. The tax operating losses for Euronet Services GmbH and Euronet Services Ltd. 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. Subsequently recognized tax benefits relating to the valuation allowance for deferred tax assets as of December 31, 1998 will be allocated entirely to income taxes in the consolidated statements of operations.

14. 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, 1998, the Company has authorized options for the purchase of 4,413,586 shares of common shares, of which 2,294,253 have been awarded to employees and 1,972,395 remain unexercised.

In accordance with the shareholders' agreement dated February 15, 1996 and amended on October 14, 1996, Euronet has reserved 2,850,925 common shares for the purpose of awarding common shares ("milestone awards") to certain investors and options to acquire common shares ("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, 1998, 1,650,196 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, 1995 (88,130 shares exercisable)	550,550	0.76
Granted	2,562,805	2.02
Balance at December 31, 1996 (271,780 shares exercisable)	3,113,355	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
Granted	941,396	5.87
Granted in ARKSYS acquisition	63,410	4.44
Exercised	(80,132)	2.13
Forfeited	(100,289)	6.23
Balance at December 31, 1998 (2,174,412 shares exercisable)	3,622,591	3.46

At December 31, 1998, the range of exercise prices, weighted-average contractual remaining life and number exercisable of outstanding options was as follows:

Range of Exercise Prices	*Number of Shares*	*Weighted-Average Exercise Price*	*Weighted-Average Contractual Remaining Life (years)*	*Number Exercisable*
0–1.39	392,546	0.75	5.6	260,414
1.40–2.79	2,089,796	2.01	7.8	1,865,169
2.80–4.18	156,562	3.42	9.7	–
4.19–5.58	67,500	5.00	9.9	–
5.59–6.97	630,320	5.87	9.3	7,424
6.98–9.75	–	–	–	–
9.76–11.15	130,426	10.48	8.9	10,343
11.16–12.54	51,731	11.62	8.5	10,325
12.55–13.94	103,710	13.94	8.3	20,737
	3,622,591	3.46		2,174,412

The Company applies APB Opinion No. 25 in accounting for its share option plans. The exercise price of the options is established generally 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 in February 1997) over the exercise price of $2.14 per share. Euronet recorded $4,172,000 of compensation expense in the 1997 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 and $108,000 has been expensed in the years ended December 31, 1998 and 1997, respectively.

The following table provides the fair value of options granted during 1998, 1997 and 1996 together with a description of the assumptions used to calculate the fair value:

	Year ended December 31, 1998	1997	1996
Pricing model / method used	*Black-Scholes pricing model*	*Black-Scholes pricing model*	*Minimum value method*
Expected volatility	100%	54%	0%
Average risk-free rate	8.80%	6.86%	7.17%
Average expected lives	5 years	2.5 years	3 years
Expected dividend yield	0%	0%	0%
Weighted-average fair value (per share)	$ 3.51	$ 4.90	$ 1.14

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

	Year ended December 31, 1998	1997	1996
	(in thousands, except per share data)		
Net loss, as reported	$ (28,375)	$ (7,965)	$ (7,576)
Net loss, pro-forma	$ (29,067)	$ (8,484)	$ (8,189)
Loss per share, as reported	$ (1.87)	$ (0.64)	$ (15.18)
Loss per share, pro-forma	$ (1.91)	$ (0.69)	$ (16.41)

Pro-forma impact 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.

15. Business Segment Information

Euronet and its subsidiaries operate in two business segments, the service of providing an independent shared ATM network to the banks and financial institutions that it serves and producing application software for payment and transaction delivery systems. During 1998 and 1997, the corporate function resources were allocated to the ATM services segment and are included in the ATM services segment information disclosed. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from operations before income taxes not including non-recurring gains. The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices. As a result of the acquisition of ARKSYS, the Company established the software development segment. During 1997, Euronet and its subsidiaries operated in one business segment (ATM services).

	ATM Services	*Software Development*	*Total*
		(in thousands)	
Revenues from external customers	$ 11,525	$ 371	$ 11,896
Intersegment revenues	–	15	15
Operating loss	(20,311)	(2,300)	(22,611)
Interest income	2,513	1	2,514
Interest expense	(7,826)	–	(7,826)
Foreign exchange loss, net	(1,911)	–	(1,911)
Depreciation and amortization	(4,765)	(190)	(4,955)
Income tax (expense)/benefit	(1,447)	17	(1,430)
Extraordinary gain, net of tax expense	2,889	–	2,889
Net loss	(26,091)	(2,284)	(28,375)
Segment assets	114,218	19,493	133,438
Capital expenditures	9,740	–	9,740

The following is a reconciliation of the segmented information to the consolidated financial statements.

	1998
	(in thousands)
Revenues:	
Total revenues for reportable segments	$ 11,896
Elimination of intersegment revenues	(15)
Total consolidated revenues	$ 11,881

Total revenues and long-lived assets for the years ended December 31, 1998 and 1997 for the Company analyzed by geographical location are as follows:

	Total Revenues			Long-lived Assets	
	1998	1997	1996	1998	1997
		(in thousands)		(in thousands)	
United States	$ 356	$ –	$ –	$ 697	$ –
Hungary	5,936	4,562	1,246	11,571	10,212
Poland	2,787	663	15	11,164	9,204
Germany	2,394	65	–	4,530	2,270
Other	408	–	–	5,220	2,402
Total	$ 11,881	$ 5,290	$ 1,261	$ 33,182	$ 24,088

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

16. 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 $21,000, $94,000 and $425,000 have been made for the years ended December 31, 1998, 1997 and 1996 respectively, to Windham. These payments cover the services and related expenses of consultants seconded by Windham to the Company. These services include AS/400 computer expertise, bank marketing and management support.

17. Financial Instruments

Most of Euronet’s financial instruments (cash, receivables, investment securities, accounts payable, accrued expenses and borrowings) are short term in nature. Accordingly, the carrying value of these instruments approximates their fair values. The fair value of notes payable has been determined based on quoted market prices for the same issue and amounted to $45,561,000 (carrying value of $83,720,000) at December 31, 1998.

The fair value of forward exchange contracts has been estimated by valuing the net position of the contracts using applicable spot and forward rates. Forward exchange contracts are accounted for at fair value which represents their carrying value ($0) at December 31, 1998.

18. Reconciliation of Net Loss to Net Cash Provided by Operating Activities

The reconciliation of net loss to net cash used in operating activities for the years ended December 31, 1998, 1997, and 1996 follows.

	Year Ended December 31,		
	1998	1997	1996
		(in thousands)	
Net loss	$ (28,375)	$ (7,965)	$ (7,576)
Adjustments to reconcile net loss to net cash used in operating activities:			
Share compensation expense	108	108	4,172
Depreciation and amortization	4,955	1,761	481
Unrealized foreign exchange losses	5,690	–	–
Loss on disposal of fixed assets	28	11	–
In-process research and development write-off	1,020	–	–
Amortization of deferred financing costs	147	–	–
Accretion of discount on notes payable	5,772	–	–
Extraordinary gain on extinguishment of debt	(4,377)	–	–
Realization of deferred tax benefit from stock compensation credited to additional paid-in capital	951	–	–
Deferred income taxes	–	(100)	(323)
(Increase)/derease in restricted cash	(12,125)	(695)	28
Increase in trade accounts receivable	(473)	(475)	(139)
Increase in costs and estimated earnings in excess of billings on software installation contracts	(326)	–	–
Increase in prepaid expenses and other current assets	(1,692)	(1,424)	–
Decrease/(increase) in deposits for ATM leases	385	(1,876)	106
Decrease in cash surrender value of life insurance policies	489	–	––
Increase in trade accounts payable	94	2,750	1,309
Increase/(decrease) in accrued expenses	2,523	1,565	(313)
Decrease in advance payments on contracts	(32)	–	–
Increase in income taxes payable	1,969	–	–
Increase in billings in excess of costs and estimated earnings of software installation costs	501	–	–
Net cash used in operating activities	$ (22,768)	$ (6,340)	$ (2,255)

19. Non-cash Financing and Investing Activities

Capital lease obligations of $3,993,000, $11,006,000, and $4,189,000 during the years ended December 31, 1998, 1997 and 1996 were incurred when the Company entered into leases primarily for new automated teller machines.

During the year ended December 31, 1998, the Company issued warrants to purchase common stock totaling $1,725,000.

20. Concentrations of Business and Credit Risk

Euronet is subject to concentrations of business and credit risk. Euronet's financial instruments mainly include trade accounts receivables, cash and cash equivalents and investment securities. 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's operations are directly affected by the financial condition of those entities. The Company has one individually significant customer in Germany which accounted for 20% of total consolidated revenue for the year ended December 31, 1998.

Cash and cash equivalents and investment securities are placed with high-credit quality financial institutions or in short-term duration, high-quality debt securities. The counterparties to the foreign currency forward contracts are major financial institutions with investment grade or better credit ratings. This credit risk is generally limited to the unrealized gains in such contracts should any of these counterparties fail to perform as contracted. Euronet does not require collateral or other security to support financial instruments subject to credit risk. Management believes that the credit risk associated with its financial instruments 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 has been upgraded with fully compliant software. Most of the ATMs in the Euronet network are not year 2000 compliant, and hardware and software upgrades will be installed during the second quarter of 1999. The Company expects to upgrade 750 ATMs at a cost of approximately $500 per ATM for an expected total project cost of approximately $375,000.

The Company has launched a survey of its bank customers concerning the compliance of their back office systems with year 2000 requirements. 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.

21. Commitments

The Company had unused letters of credit outstanding totaling $290,000 and $0 at December 31, 1998 and 1997, respectively.

The Company is committed to purchase ATMs from certain suppliers for approximately GBP 2.5 million (approximately $4 million at December 31, 1998).

22. Subsequent Event

On March 26, 1999 the Company signed an agreement with Service Bank GmbH & Co. KG ("Service Bank") to acquire 252 installed ATMs in Germany and 36 ATMs in inventory. The purchase price for this established ATM network was DM 12.2 million (US$6.7 million). Under the agreement, Euronet will receive monthly fees based on revenues realized from the ATMs, less certain expenses and management fees payable to Service Bank. The risks and rewards of ownership of the ATM network transfer to Euronet on January 1, 1999, and revenues and expenses from the operation of the ATM network will accrue to Euronet from that date. The acquisition will be accounted for using the purchase method, whereby the purchase price will be allocated to the underlying assets based on their proportionate share of fair values on the date of acquisition and any excess to goodwill.

DIRECTORS AND OFFICERS

Board of Directors

Michael J. Brown, Chairman
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Euronet Services Inc.

Daniel R. Henry
Chief Operating Officer
Euronet Services Inc.

Thomas A. McDonnell
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DST Systems, Inc.
(information processing and computer software company)

Nicholas B. Callinan
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(venture capital investment and management company)

Steven J. Buckley
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Andrzej Olechowski
Chairman of the Supervisory Board
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Stockholder Information

Copies of the Company's Form 10-K, filed with the Securities and Exchange Commission, are available from the Company at no charge. Requests for copies of Form 10-K and other corporate information should be addressed to:

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Common Stock Information

Euronet Services Inc.'s common stock trades on the Nasdaq Stock Market® under the symbol EEFT. As of December 31, 1998, the Company had 102 stockholders of record. The Company has never paid dividends on its common stock.

The table below sets forth the high and low sales prices for the stock as reported by Nasdaq.

1998	*High*	*Low*
First Quarter	$ 13.25	$ 6.50
Second Quarter	$ 7.50	$ 3.75
Third Quarter	$ 4.50	$ 1.81
Fourth Quarter	$ 4.00	$ 2.13

1997	*High*	*Low*
First Quarter	$ 16.25	$ 12.75
Second Quarter	$ 14.63	$ 9.25
Third Quarter	$ 14.75	$ 10.00
Fourth Quarter	$ 12.75	$ 6.19

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