

CONDENSED CONSOLIDATED INTERIM FINANCIAL

# Statements

For The Half Year Ended December 31, 2015

**Condensed Consolidated Interim Balance Sheet - Unaudited**

As at December 31, 2015

	NOTE	Dec-15 Unaudited	Jun-15 Audited
Rupees in '000'			
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	5	2,350,598	2,477,636
Intangible assets	6	2,353,647	2,511,297
Long term deposits		1,600	1,600
		<b>4,705,845</b>	<b>4,990,533</b>
<b>CURRENT ASSETS</b>			
Trade debts	7	1,402,146	783,280
Excess of revenue over billing		306,504	367,994
Loans and advances	8	42,211	10,227
Trade deposits & short term prepayments		24,268	24,538
Other receivables		39,668	25,464
Due from related parties		107,296	111,312
Taxation - net		40,697	36,618
Cash and bank balances		464,357	514,011
		<b>2,427,147</b>	<b>1,873,444</b>
<b>TOTAL ASSETS</b>		<b>7,132,992</b>	<b>6,863,977</b>
<b>EQUITY &amp; LIABILITIES</b>			
<b>SHARE CAPITAL &amp; RESERVES</b>			
Authorized share capital (150,000,000 ordinary shares of Rs.10/- each)	9	1,500,000	1,500,000
Issued, subscribed and paid-up capital	9	890,464	890,464
Share deposit money		13	13
Reserves	10	4,732,093	4,588,036
		<b>5,622,570</b>	<b>5,478,513</b>
Non - controlling Interest		307,133	208,574
		<b>5,929,703</b>	<b>5,687,087</b>
<b>NON-CURRENT LIABILITIES</b>			
Liabilities against assets subject to finance lease		21,968	27,743
Deferred income		3	10
Long term advances		5,687	2,750
		<b>27,658</b>	<b>30,503</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		542,791	452,694
Unearned revenue		174,441	237,995
Short term borrowings		415,364	412,645
Current portion of long term liabilities		43,035	43,053
		<b>1,175,631</b>	<b>1,146,387</b>
<b>CONTINGENCIES &amp; COMMITMENTS</b>	11	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>7,132,992</b>	<b>6,863,977</b>

The annexed notes from 1 to 20 form an integral part of these condensed consolidated interim financial statements.

## Condensed Consolidated Interim Profit & Loss Account - Unaudited

For The Half Year Ended December 31, 2015

	NOTE	Oct-Dec 2015	Oct-Dec 2014	Jul-Dec 2015	Jul-Dec 2014
		Rupees in '000'		Rupees in '000'	
Revenue - net	12	1,098,625	751,409	1,969,143	1,385,208
Cost of revenue		(634,386)	(564,602)	(1,270,559)	(1,109,685)
<b>Gross profit</b>		<b>464,239</b>	<b>186,807</b>	<b>698,584</b>	<b>275,523</b>
Selling and promotion expenses		(63,081)	(59,077)	(107,019)	(110,136)
Administrative expenses		(147,937)	(157,656)	(301,978)	(317,012)
Other operating expenses		(14,773)	(43,412)	(28,517)	(40,499)
Other income		3,198	9,990	7,723	14,441
<b>Operating profit / (loss)</b>		<b>241,646</b>	<b>(63,348)</b>	<b>268,793</b>	<b>(177,683)</b>
Finance cost		(5,737)	(2,929)	(11,780)	(6,818)
<b>Profit / (loss) before taxation</b>		<b>235,909</b>	<b>(66,277)</b>	<b>257,013</b>	<b>(184,501)</b>
Taxation					
Current period	13	(6,930)	(6,947)	(14,397)	(10,746)
<b>Profit / (loss) after taxation for the period</b>		<b>228,979</b>	<b>(73,224)</b>	<b>242,616</b>	<b>(195,247)</b>
<b>Attributable to:</b>					
Equity holders of NetSol Technologies Limited		172,057	(97,155)	144,057	(252,928)
Non - controlling interest		56,922	23,931	98,559	57,681
		228,979	(73,224)	242,616	(195,247)
<b>Profit / (Loss) per share</b>					
Basic - In Rupees	14	1.93	(1.09)	1.62	(2.84)
Diluted - In Rupees	14	1.92	(1.09)	1.61	(2.83)

The annexed notes from 1 to 20 form an integral part of these condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statement of Comprehensive Income - Unaudited

For The Half Year Ended December 31, 2015

	Oct-Dec 2015	Oct-Dec 2014	Jul-Dec 2015	Jul-Dec 2014
	Rupees in '000'		Rupees in '000'	
<b>Profit/(Loss) after taxation for the period</b>	<b>228,979</b>	<b>(73,224)</b>	<b>242,616</b>	<b>(195,247)</b>
Other comprehensive income	-	-	-	-
<b>Total comprehensive income / (loss) for the period</b>	<b>228,979</b>	<b>(73,224)</b>	<b>242,616</b>	<b>(195,247)</b>
<b>Attributable to:</b>				
Equity holders of NetSol Technologies Limited	172,057	(97,155)	144,057	(252,928)
Non - controlling interest	56,922	23,931	98,559	57,681
	<b>228,979</b>	<b>(73,224)</b>	<b>242,616</b>	<b>(195,247)</b>

*The annexed notes from 1 to 20 form an integral part of these condensed consolidated interim financial statements.*

## Condensed Consolidated Interim Statement of Cash Flows - Unaudited

For The Half Year Ended December 31, 2015

	Jul-Dec 2015	Jul-Dec 2014
	Rupees in '000'	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit / (loss) before taxation for the period	257,013	(184,501)
Adjustments for non cash charges and other items:		
Depreciation - own assets	192,606	223,918
Amortization of leased assets	11,970	14,204
Amortization of intangible assets	157,650	178,635
Loss on disposal of fixed assets	1,488	8,221
Amortization of deferred revenue	(7)	(12)
Exchange loss on debtors	27,029	29,893
Interest expense	11,207	6,356
Interest income	(6,239)	(12,558)
(Gain) on short term investment	(869)	(1,537)
	394,835	447,120
<b>Cash generated from operations before working capital changes</b>	651,848	262,619
<b>working capital changes</b>		
Trade debts	(647,957)	109,488
Loans and advances	(31,983)	8,856
Trade deposits & short term prepayments	270	1,050
Other receivables	(14,204)	(7,392)
Due from related parties	4,016	43,605
Trade and other payables	91,009	48,643
<b>Cash (used in) / generated from operations</b>	(598,849)	204,250
Interest paid	(12,279)	(16,803)
Income taxes paid	(18,477)	(19,950)
Dividend paid	(11)	(76,372)
<b>Net cash generated from operations</b>	22,232	353,744
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property and equipments purchased	(74,384)	(148,932)
Sales proceeds of fixed asset	16,331	7,420
Capital work in progress	(20,805)	(35,945)
Gain on investments	869	1,537
Interest received	6,239	12,558
<b>Net cash (used in) investing activities</b>	(71,750)	(163,362)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Paid against obligation under finance lease	(27,794)	(28,217)
Received against obligation under finance lease	22,230	17,407
Long term payable	-	(7,424)
Short term borrowing	2,719	-
Long term advances	2,709	-
<b>Net cash (used in) from financing activities</b>	(136)	(18,234)
<b>Net decrease in cash and cash equivalents</b>	(49,654)	172,148
<b>Cash and cash equivalents at the beginning of the period</b>	514,011	389,987
<b>Cash and cash equivalents at the end of the period</b>	464,357	562,135

The annexed notes from 1 to 20 form an integral part of these condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statement of Changes in Equity - Unaudited

For The Half Year Ended December 31, 2015

	Attributable to equity holders of the NetSol Technologies Limited					Total	Non Controlling Interest	Total Equity
	Issued, subscribed and paid- up capital	Share deposit money	Employee share op- tion com- pensation reserve	Capital reserve  Share premium	Revenue reserve  Unappro- priated profit			
	R u p e e s I n ' 0 0 0 '							
<b>Balance as at June 30, 2014</b>	889,699	13	1,880	297,320	4,417,072	5,605,984	151,491	5,757,475
Net (loss)/ profit for the half year ended December 31, 2014	-	-	-	-	(252,928)	(252,928)	57,681	(195,247)
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	(252,928)	(252,928)	57,681	(195,247)
<b>Balance as at December 31, 2014</b>	889,699	13	1,880	297,320	4,164,144	5,353,056	209,172	5,562,228
<b>Balance as at June 30, 2015</b>	890,464	13	1,767	297,924	4,288,345	5,478,513	208,574	<b>5,687,087</b>
Net profit for the half year ended December 31, 2015	-	-	-	-	144,057	144,057	98,559	<b>242,616</b>
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	144,057	144,057	98,559	<b>242,616</b>
<b>Balance as at December 31, 2015</b>	<b>890,464</b>	<b>13</b>	<b>1,767</b>	<b>297,924</b>	<b>4,432,402</b>	<b>5,622,570</b>	<b>307,133</b>	<b>5,929,703</b>

The annexed notes from 1 to 20 form an integral part of these condensed consolidated interim financial statements.

## Notes to the Condensed Consolidated Interim Financial Statements Unaudited

### 1. LEGAL STATUS AND NATURE OF BUSINESS

NetSol Group consists of:

- NetSol Technologies Limited
- NetSol Innovation (Private) Limited

NetSol Technologies Limited ("the Company") was incorporated in Pakistan on August 22, 1996 under the Companies Ordinance, 1984 as a private company, limited by shares and was later on converted into public limited company on November 05, 2004. The Company was listed on Karachi Stock Exchange on August 26, 2005 and subsequently also got listed on Lahore and Islamabad Stock Exchanges. Due to de-mutualisation of stock exchanges, all these stock exchanges were integrated on January 11, 2016 to form Pakistan Stock Exchange. As a result of this merger, the Company is now listed at Pakistan Stock Exchange. The business of the Company is development and sale of computer software and provision of related services in Pakistan as well as abroad. The registered office of the Company is situated NetSol IT Village,(Software Technology Park) Lahore Ring Road, Ghazi Road Interchange, Lahore, Pakistan.

NetSol Innovation (Private) Limited ("the subsidiary Company" or "Subsidiary") is incorporated in Pakistan as a private limited company, in which NetSol Technologies Limited has a share holding of 50.52%. The subsidiary Company is engaged in business of providing online software development services. The registered office of the Company is situated NetSol IT Village, Lahore Ring Road, Ghazi Road Interchange, Lahore, Pakistan.

### 2. BASIS OF PREPARATION

#### 2.1 Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with the requirements of International Accounting Standard 34 "Interim Financial Reporting" and provisions of and directives issued under the Companies Ordinance, 1984 and are being submitted to the shareholders as required by Section 245 of the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.

These condensed interim financial statements are unaudited and do not include all the disclosures and information required in the annual financial statements and should be read in conjunction with the preceding annual published financial statements of the company for the year ended June 30, 2015.

#### 2.2 Basis of measurement

These condensed consolidated interim financial statements have been prepared under the historical cost convention and follow accrual basis of accounting.

#### 2.3 Functional and presentation currency

These condensed consolidated interim financial statements are presented in Pakistani Rupee, which is the Group's functional currency as well its presentation currency.

### 3. ACCOUNTING POLICIES

The accounting policies and method of computation adopted for the preparation of these condensed consolidated interim financial statements are consistent with those applied in the preparation of the preceding annual published financial statements of the Group for the year ended June 30, 2015.

### 4. USE OF ESTIMATES AND JUDGMENT

The preparation of condensed consolidated interim financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

In preparing these condensed consolidated interim financial statements, the judgments, estimates and assumptions made by the management were the same as those that were applied to the preceding annual published financial statements of the company for the year ended June 30, 2015.

		Dec-15 Unaudited	Jun-15 Audited			
		Rupees in '000'				
<b>5. PROPERTY, PLANT &amp; EQUIPMENT</b>						
Opening Balance - net book value		2,477,636	2,749,862			
Additions	5.1	104,303	340,050			
		2,581,939	3,089,912			
Less:						
Disposals - net book value	5.2	(26,763)	(118,907)			
Depreciation & amortization		(204,578)	(493,369)			
		2,350,598	2,477,636			
<b>5.1 Following is the detail of additions:</b>						
Building on freehold land		-	288,183			
Furniture & fixture		5,118	19,667			
Vehicles		42,334	45,187			
Computers		32,567	132,669			
Air conditioners		1,710	20,658			
Office equipment		4,452	10,763			
Electric fittings		-	48,253			
Generator		5,158	8,500			
Leasehold improvements		19,381	10,011			
Computer software		-	25,540			
Capital work-in-progress		(6,417)	(269,381)			
Total		104,303	340,050			
<b>5.2 Following is the detail of disposals:</b>						
	Cost	Dec-15 Unaudited Acc. Deprecia- tion	Written down Value	Cost	Jun-15 Audited Acc. Depre- ciation	Written down Value
	Rupees in '000'					
Land - freehold				76,915	-	76,915
Furniture & fixture	60	19	41	2,918	1,314	1,604
Vehicles	35,596	10,561	25,035	48,507	22,982	25,525
Computers	6,449	4,765	1,684	37,231	29,924	7,307
Air conditioners	-	-	-	987	538	449
Office equipment	8	5	3	169	72	97
Leasehold improvements	-	-	-	11,589	9,989	1,600
Computer software	-	-	-	49,846	44,436	5,410
Total	42,113	15,350	26,763	228,162	109,255	118,907
<b>6. INTANGIBLE ASSETS</b>						
Opening Balance - net book value		2,511,297	2,868,568			
Additions		-	-			
		2,511,297	2,868,568			
Less:						
Amortization		(157,650)	(357,271)			
		2,353,647	2,511,297			
<b>7. TRADE DEBTS</b>						
Considered good - unsecured	7.1	1,402,146	783,280			
Considered doubtful - unsecured	7.2	48,748	51,850			
		1,450,894	835,130			
Less: provision for doubtful debts		(48,748)	(51,850)			
		1,402,146	783,280			

7.1 It represents amount receivable from customers. It is unsecured but considered good by the management.

7.2 The Company has created a general provision for doubtful debts and the management believes that this provision provides sufficient cover for any future bad debts, based on the premise of a minimum bad debt history and a history of generally high recoveries from its debtors.



	Dec-15 Unaudited	Jun-15 Audited
	Rupees in '000'	
<b>8. LOANS AND ADVANCES - Unsecured</b>		
Loan to employees - considered good	10,753	3,096
Advances		
- to employees	1,252	227
- against expenses	30,206	6,904
	42,211	10,227

**9. SHARE CAPITAL**

9.1 Authorised share capital					
	Dec-15 Unaudited	Jun-15 Audited			
Number of shares					
	150,000,000	150,000,000	Ordinary Shares of Rs. 10/- each.	1,500,000	1,500,000
<b>9.2 Issued, subscribed &amp; paid-up capital</b>					
	41,895,691	41,895,691	Ordinary Shares of Rs. 10/- each fully paid in cash	418,957	418,957
	47,150,732	47,150,732	Ordinary Shares of Rs. 10/- each issued as fully paid bonus shares	471,507	471,507
	89,046,423	89,046,423		890,464	890,464

NetSol Technologies Inc., 24025 Park Sorrento, Suite 410, Calabasas CA 91302, USA, is the parent of the Company and holds majority of issued capital of the Company.

**10. RESERVES**

<b>Capital reserve</b>					
Premium on issue of ordinary shares				297,924	297,924
<b>Revenue reserve</b>					
Un - appropriated profit				4,432,402	4,288,345
<b>Employee share option compensation reserve</b>				1,767	1,767
				4,732,093	4,588,036

**11. CONTINGENCIES & COMMITMENTS****11.1 Contingencies**

There are no contingencies as at December 31, 2015 (June 2015: Nil) to which the Company is a party.

**11.2 Commitments**

**11.2.1** The Company has issued worth Rs. 7.016 million (June 2015: Rs. 6.204 Million) bank guarantees and bid bonds to various customers against sale of software and allied services.

**11.2.2** The subsidiary shall indemnify Innovation Group (EMEA) Limited up to £2,000,000 in case of physical damage or loss to its tangible property. However at present the subsidiary is not using / in possession of any tangible property of Innovation Group (EMEA) Limited.

	Oct-Dec 2015	Oct-Dec 2014	Jul-Dec 2015	Jul-Dec 2014
	Rupees in '000'		Rupees in '000'	
<b>12. REVENUE - NET</b>				
<b>Export Revenue</b>				
License	48,931	-	145,173	147,465
Services	868,906	588,141	1,482,279	948,274
Maintenance	175,127	156,488	330,626	280,233
	1,092,964	744,629	1,958,078	1,375,972
<b>Local Revenue</b>				
Services	3,303	3,808	7,866	6,657
Maintenance	3,098	3,756	6,196	3,756
	6,401	7,564	14,062	10,413
Sales tax	(740)	(784)	(2,997)	(1,177)
	1,098,625	751,409	1,969,143	1,385,208

**13. TAXATION**

Income of the Company from export of computer software and its related services developed in Pakistan is exempt from tax up to Tax Year 2016 as per clause 133 of the Second Schedule to the Income Tax Ordinance, 2001. However tax as per applicable rates is charged to the income of the Company generated from other than core business activities.

14. EARNING PER SHARE	Oct-Dec 2015	Oct-Dec 2014	Jul-Dec 2015	Jul-Dec 2014
	Rupees in '000'		Rupees in '000'	
<b>Basic</b>				
Profit / (loss) after taxation for the period	172,057	(97,155)	144,057	(252,928)
Average number of ordinary shares in issue during the period	89,046	88,970	89,046	88,970
Basic - In Rupees	1.93	(1.09)	1.62	(2.84)
<b>Diluted</b>				
Profit / (loss) after taxation for the period	172,057	(97,155)	144,057	(252,928)
Average number of ordinary shares in issue during the period	89,555	89,392	89,563	89,355
Diluted - In Rupee	1.92	(1.09)	1.61	(2.83)

#### 15. TRANSACTIONS WITH RELATED PARTIES

Related parties of the Company comprise of its holding company, subsidiary, associated undertakings, key management personnel of the company and post employment benefit plans. The Company in its normal course of business carries out transactions with various related parties. The amounts due from and to related parties are included in receivables and payables. Parent, subsidiary and associated undertakings also have some common directorship. Details of transactions with related parties during the period are outlined below:

Relationship with the Company	Nature of transactions	Jul-Dec 2015	Jul-Dec 2014
		Rupees in '000'	
(i) Parent	Management fee	-	30,779
(ii) Associated undertaking	Rental Income	600	150
	Provision of services	741,076	435,695
	Purchase of services	8,033	3,889
	Purchase of assets	-	47,657
(iii) Key management personnels	Remuneration of CEO and Directors	8,659	6,625
	Commission paid to Key Management Personnel	2,721	63,014
(iv) Post employment benefit	Contribution to defined contribution plan	38,208	28,179
(v)	There are no transactions with any key management personnel other than under the terms of employment.		

#### 16. SEGMENT REVENUES AND RESULTS

Following is an analysis of the Group's revenue and results by reportable segment.

	Dec-15 (Unaudited)			Total
	NFS	IS	BPO	
	Rupees in '000'			
Revenue - net				
External sales				
Licence	145,173	-	-	145,173
Services	1,015,510	4,869	466,769	1,487,148
Maintenance	330,626	6,196	-	336,822
Total revenue	1,491,309	11,065	466,769	1,969,143
Cost of revenue	(978,572)	(63,135)	(228,852)	(1,270,559)
Segment results	512,737	(52,070)	237,917	698,584
Unallocated corporate expenses:				
Selling and promotion expenses				(107,019)
Administrative expenses				(301,978)
Other operating expenses				(28,517)
Other income				7,723
Finance cost				(11,780)
Taxation				(14,397)
<b>Profit after taxation</b>				<b>242,616</b>

	Dec-14 (Unaudited)			Total
	NFS	IS	BPO	
Rupees in '000'				
Revenue - net				
External sales				
Licence	147,465	-	-	147,465
Services	635,254	5,480	312,899	953,754
Maintenance	280,233	3,756	-	283,989
Total revenue	1,062,952	9,236	312,899	1,385,208
Cost of revenue	(883,517)	(67,505)	(158,663)	(1,109,685)
Segment results	179,435	(58,269)	154,236	275,523
Unallocated corporate expenses:				
Selling and promotion expenses				(110,136)
Administrative expenses				(317,012)
Other operating expenses				(40,499)
Other income				14,441
Finance cost				(6,818)
Taxation				(10,746)
<b>(Loss) after taxation</b>				<b>(195,247)</b>

\*Key

NFS = NetSol Financial Solutions

IS = Information Security and other services

BPO = Business Process Outsourcing

## 17 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### 17.1 Financial risk factors

The Company's activities expose it to a variety of financial risks namely market risk (including currency risk, price risk and interest rate risk), credit risk, foreign exchange risk and liquidity risk. There has been no change in the risk management policies during the period, consequently this condensed interim financial information does not include all financial risk management information and disclosures required in the annual financial statements.

### 17.2 Fair Value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in this condensed interim financial information approximate their fair value.

## 18. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, where necessary, for the purpose of comparison. During the period following corresponding figures have been reclassified for better presentation

Description	Head of Account in Financial Statements for the period ended June 30, 2015	Head of Account in Financial Statements for the period ended December 31, 2015	Dec-15	Jun-15
			Unaudited	Audited
Rupees in '000'				
Security deposits	Trade deposits and short term prepayments	Long term deposits	1,600	1,600
Description	Head of Account in Financial Statements for the period ended December 31, 2014	Head of Account in Financial Statements for the period ended December 31, 2015	Dec-15	Dec-14
			Unaudited	Unaudited
Rupees in '000'				
Research and development cost	Cost of revenue	Administrative expenses	24,089	14,963

## 19. GENERAL

Figures have been rounded off to the nearest thousand of rupees.

## 20. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 10, 2016 by the Board of Directors.



## NetSol Technologies Limited

NetSol IT Village (Software Technology Park)  
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