



CONDENSED CONSOLIDATED INTERIM FINANCIAL  
**STATEMENTS**

For The Quarter Ended September 30, 2016



**Condensed Consolidated Interim Balance Sheet - Unaudited**

As at September 30, 2016

	NOTE	Sep-16 Unaudited	Jun-16 Audited
Rupees in '000'			
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant & equipment	5	2,218,903	2,261,721
Intangible assets	6	2,117,171	2,195,996
		<b>4,336,074</b>	<b>4,457,717</b>
Long term Investment		43,312	17,267
Long term deposits		1,600	1,600
		<b>4,380,986</b>	<b>4,476,584</b>
<b>CURRENT ASSETS</b>			
Trade debts	7	1,368,720	1,692,592
Excess of revenue over billing		1,086,267	618,020
Loans and advances	8	34,766	25,625
Trade deposits & short term prepayments		26,399	24,032
Other receivables		63,219	44,301
Due from related parties		25,226	20,068
Taxation - net		47,307	32,837
Cash & bank balances		442,761	326,902
		<b>3,094,665</b>	<b>2,784,377</b>
<b>TOTAL ASSETS</b>		<b>7,475,651</b>	<b>7,260,961</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	892,444	891,544
Share deposit money		13	1,490
Reserves	10	4,835,851	4,718,507
		<b>5,728,308</b>	<b>5,611,541</b>
Non - controlling Interest		304,685	284,470
		<b>6,032,993</b>	<b>5,896,011</b>
<b>NON-CURRENT LIABILITIES</b>			
Liabilities against assets subject to finance lease		48,426	40,744
Long term advances		5,346	8,937
		<b>53,772</b>	<b>49,681</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		559,960	482,488
Unearned revenue		263,160	271,579
Short term borrowings		512,551	514,561
Current portion of long term liabilities		53,215	46,641
		<b>1,388,886</b>	<b>1,315,269</b>
<b>CONTINGENCIES &amp; COMMITMENTS</b>	11	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>7,475,651</b>	<b>7,260,961</b>

The annexed notes from 1 to 18 form an integral part of these condensed consolidated interim financial statements.

## Condensed Consolidated Interim Profit & Loss Account - Unaudited

For The Quarter Ended September 30, 2016

	NOTE	Jul-Sep 2016	Jul-Sep 2015
Rupees in '000'			
Revenue - net	12	1,124,222	870,518
Cost of revenue		(702,271)	(636,169)
<b>Gross profit</b>		<b>421,951</b>	<b>234,349</b>
Selling and promotion expenses		(90,950)	(43,938)
Administrative expenses		(166,228)	(154,043)
Other operating expenses		(42,302)	(13,753)
Other income		2,670	4,527
<b>Operating profit</b>		<b>125,141</b>	<b>27,142</b>
Finance cost		(5,567)	(6,044)
<b>Profit before taxation</b>		<b>119,574</b>	<b>21,098</b>
Taxation			
Current period		(1,449)	(7,467)
Prior period		(734)	-
		(2,183)	(7,467)
<b>Profit after taxation for the period</b>		<b>117,391</b>	<b>13,631</b>
<b>Attributable to:</b>			
Owners of NetSol Technologies Limited		97,176	(28,005)
Non - controlling interest		20,215	41,636
		117,391	13,631
<b>Earning per share</b>			
Basic - In Rupees	14	1.09	(0.31)
Diluted - In Rupees	14	1.08	(0.31)

The annexed notes from 1 to 18 form an integral part of these condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statement of Comprehensive Income - Unaudited

For The Quarter Ended September 30, 2016

	Jul-Sep 2016	Jul-Sep 2015
	Rupees in '000'	
<b>Profit after taxation for the period</b>	<b>117,391</b>	13,631
Other comprehensive income	-	-
<b>Total comprehensive Profit for the period</b>	<b>117,391</b>	13,631
<b>Attributable to:</b>		
Owners of NetSol Technologies Limited	<b>97,176</b>	(28,005)
Non - controlling interest	<b>20,215</b>	41,636
	<b>117,391</b>	13,631

*The annexed notes from 1 to 18 form an integral part of these condensed consolidated interim financial statements.*

Business Review

Financial Statement

## Condensed Consolidated Interim Statement of Cash Flows - Unaudited

For The Quarter Ended September 30, 2016

	Jul-Sep 2016	Jul-Sep 2015
	Rupees in '000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation for the period	119,574	21,098
Adjustments for non cash charges and other items:		
Depreciation - own assets	75,518	95,488
Amortization of leased assets	7,622	5,743
Amortization of intangible assets	78,825	78,825
Loss on disposal of fixed assets	6	1,231
Amortization of deferred revenue	-	(3)
Exchange loss / (gain) on debtors	42,271	12,522
Interest expense	5,130	5,873
Interest income	(1,439)	(3,918)
Deferred employee compensation expense	19,591	-
(Gain) on short term investment	(945)	(456)
	226,579	195,305
<b>Cash generated from operations before working capital changes</b>	346,153	216,403
<b>Decrease / (increase) in current assets and liabilities</b>		
Trade debts	(195,068)	(500,296)
Loans and advances	(9,141)	(9,794)
Trade deposits & short term prepayments	(2,367)	(1,269)
Other receivables	(18,918)	(7,902)
Due from related parties	(5,158)	9,350
Trade and other payables	80,799	5,566
<b>Cash (used in) / generated from operations</b>	(149,853)	(504,345)
Interest paid	(8,716)	(6,018)
Income taxes paid	(16,648)	(9,777)
Dividend paid	259	(10)
<b>Net cash (used in) / generated from operations</b>	171,195	(303,747)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property and equipments purchased	(24,804)	(41,156)
Sales proceeds of fixed asset	204	10,175
Capital work in progress	(15,730)	(5,647)
Long Term Investment	(26,045)	-
Gain on investments	945	456
Interest received	1,439	3,918
<b>Net cash (used in) investing activities</b>	(63,991)	(32,254)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of share capital	900	-
Share deposit money	(1,477)	-
Share premium	577	-
Paid against obligation under finance lease	(719)	(14,881)
Received against obligation under finance lease	9,359	12,830
Short term borrowing	(2,010)	1,351
Long term advances	2,025	664
<b>Net cash (used in) / generated from financing activities</b>	8,655	(36)
<b>Net decrease in cash and cash equivalents</b>	115,859	(336,037)
<b>Cash and cash equivalents at the beginning of the period</b>	326,902	514,011
<b>Cash and cash equivalents at the end of the period</b>	442,761	177,974

The annexed notes from 1 to 18 form an integral part of these condensed consolidated interim financial statements.

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

For The Quarter Ended September 30, 2016

	Attributable to owners of the Parent					Total	Non Controlling Interest	Total Equity
	Issued, subscribed and paid-up capital	Share deposit money	Employee share option compensation reserve	Capital reserve - Share premium	Revenue reserve - Unappropriated profit			
	Rupees In '000'							
<b>Balance as at June 30, 2015</b>	890,464	13	1,767	297,924	4,288,345	5,478,513	208,574	5,687,087
Total comprehensive income for the period								
Net (loss) / profit for the quarter ended								
September 30, 2015	-	-	-	-	(28,005)	(28,005)	41,636	13,631
Other comprehensive income	-	-	-	-	-	-	-	-
	-	-	-	-	(28,005)	(28,005)	41,636	13,631
<b>Balance as at September 30, 2015</b>	890,464	13	1,767	297,924	4,260,340	5,450,508	250,210	5,700,718
<b>Balance as at June 30, 2016</b>	891,544	1,490	1,607	298,777	4,418,123	5,611,541	284,470	<b>5,896,011</b>
Total comprehensive income for the period								
Net (loss) / profit for the quarter ended								
September 30, 2016	-	-	-	-	97,176	97,176	20,215	<b>117,391</b>
Other comprehensive income	-	-	-	-	-	-	-	-
	-	-	-	-	97,176	97,176	20,215	<b>117,391</b>
Shares issued against options exercised								
(90,000 shares at Rs. 10 each)	900	(1,477)	-	-	-	(577)	-	<b>(577)</b>
Amount transferred to share premium on issuance of shares against options exercised	-	-	(133)	-	-	(133)	-	<b>(133)</b>
(90,000 shares at Rs. 1.48 each)								
Share premium on shares issued against options exercised	-	-	-	710	-	710	-	<b>710</b>
<b>Distributions to owners</b>								
- by holding company								
Contribution of parent on account of employee share options	-	-	19,591	-	-	19,591	-	<b>19,591</b>
<b>Balance as at September 30, 2016</b>	<b>892,444</b>	<b>13</b>	<b>1,474</b>	<b>299,487</b>	<b>4,515,299</b>	<b>5,728,308</b>	<b>304,685</b>	<b>6,032,993</b>

The annexed notes from 1 to 18 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") incorporated in Pakistan on August 22, 1996 under the Companies Ordinance, 1984 as a private company limited by shares 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 Stock Exchange and Islamabad Stock Exchange. Due to de-mutualization of stock exchanges, all these stock exchanges have merged in 2015 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 its related services in Pakistan as well as abroad. The registered office of the Company is situated NetSol IT Village, Lahore Ring Road, Ghazi Road Interchange, Lahore Cantt. 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 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 Cantt. 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, 2016.

#### 2.2 Basis of measurement

These condensed consolidated interim financial statements have been prepared under the historical cost convention, except for revaluation of certain financial instruments at fair value as disclosed in respective accounting notes.

#### 2.3 Functional and presentation currency

These condensed consolidated interim financial statements are presented in Pak Rupee, which is the Group's functional currency. All financial information presented in Pak Rupee has been rounded off to the nearest thousand unless stated otherwise.

### 3. ACCOUNTING POLICIES

The accounting policies 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, 2016.

### 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, 2016.



		Sep-16 Unaudited	Jun-16 Audited
Rupees in '000'			
<b>5. PROPERTY, PLANT &amp; EQUIPMENT</b>			
Opening Balance - net book value		2,261,721	2,477,636
Additions	5.1	47,012	282,267
		<b>2,308,733</b>	2,759,903
Less:			
Disposals - net book value	5.2	(6,688)	(78,687)
Depreciation & amortization		(83,142)	(419,495)
		<b>2,218,903</b>	2,261,721
<b>5.1 Following is the detail of additions :</b>			
Building on freehold land		-	45,898
Furniture & fixture		1,515	10,407
Vehicles		15,270	159,549
Computers		12,498	48,686
Air conditioners		866	3,385
Office equipment		1,133	9,348
Generator		-	7,372
Leasehold improvements		-	19,381
Computer software		-	56
Capital work-in-progress		15,730	(21,815)
Total		<b>47,012</b>	282,267

	Cost	Sep-16 Unaudited Acc. Depreciation	Written down Value	Cost	Jun-16 Audited Acc. Depreci- ation	Written down Value
Rupees in '000'						
<b>5.2 Following is the detail of deletions</b>						
Furniture & fixture	-	-	-	60	19	41
Vehicles	6,072	2,845	3,226	97,871	20,991	76,880
Computers	11,807	8,345	3,462	6,449	4,767	1,682
Air conditioners	-	-	-	163	82	81
Office equipment	-	-	-	8	5	3
Total	17,879	11,191	<b>6,688</b>	104,551	25,864	78,687

	Sep-16 Unaudited	Jun-16 Audited
Rupees in '000'		
<b>6. INTANGIBLE ASSETS</b>		
Opening Balance - net book value	2,195,996	2,511,297
Additions	-	-
	<b>2,195,996</b>	2,511,297
Less:		
Amortization	(78,825)	(315,301)
	<b>2,117,171</b>	2,195,996
<b>7. TRADE DEBTS</b>		
Considered good - unsecured	1,368,720	1,692,592
Considered doubtful - unsecured	48,748	48,748
	<b>1,417,468</b>	1,741,340
Less: provision for doubtful debts	(48,748)	(48,748)
	<b>1,368,720</b>	1,692,592

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

7.2 The Group has created a general provision for future doubtful debts, if any. However, there is no history of doubtful debts from any of existing customers.

<b>8. LOANS AND ADVANCES - Unsecured</b>		Sep-16	Jun-16
		Rupees in '000'	
Considered good			
Loan to employees		7,158	6,984
Advances			
- to executives		426	159
- against expenses	8.1	27,182	18,482
		<b>34,766</b>	<b>25,625</b>
<b>8.1</b> The advances to employees are given to meet business expenses and are settled as and when the expenses are incurred.			
<b>9. SHARE CAPITAL</b>			
<b>9.1 Authorised share capital</b>			
	Sep-16	Jun-16	
	Unaudited	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>			
	42,093,691	42,003,691	Ordinary Shares of Rs. 10 each fully paid in cash
			420,937
	47,150,732	47,150,732	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares
			471,507
	<b>89,244,423</b>	<b>89,154,423</b>	<b>892,444</b>
			891,544
NetSol Technologies Inc., 24025 Park Sorrento, Suite 410, Calabasas CA 91302, USA, is the parent company holding majority of issued capital of the Company.			
<b>10. RESERVES</b>			
<b>Capital reserve</b>			
Premium on issue of ordinary shares		299,487	298,777
<b>Revenue reserve</b>			
Un - appropriated profit		4,515,299	4,418,123
<b>Employee share option compensation reserve</b>			
		21,065	1,607
		<b>4,835,851</b>	<b>4,718,507</b>

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

**11.1.1** Mr. Ahsan Zubair, ex-employee of the Company has filed a case for recovery of damages for malicious prosecution before the civil court, Lahore and has sought the damages to the tune of PKR 500 million. The case was filed after the complaint filed by NetSol pertaining to use of NetSol's IP without authority by a company formed by Mr. Ahsan Zubair and his partner who was also an ex-employee of the Company. Keeping in view the facts and circumstances of the case, including the nature of evidence of the plaintiff and the laws applicable, it can safely be inferred that, on merits, no case for damages is made out. This is also endorsed by the fact that case is barred by the laws relating to limitation as it has been filed by some two years beyond prescribed time. Moreover none of the ingredients forming basis for allowing a case of malicious prosecution are attracted. Therefore, on the facts of the case, there appears to be no chances of the case being allowed and there is no likelihood of this case having any adverse financial impact on the Company.

**11.1.2** The company received show cause notice u/s 161(1A)/205 of the Income tax Ordinance, 2001 from FBR in respect of tax year 2015. In the judgement dated 26-07-2016, the assessing authority contended and considered the commission paid to non-resident as fee for technical services and imposed tax of Rs. 1,516,535 u/s 152 of the Income Tax Ordinance, 2001. The company filed appeal u/s 127 of the said ordinance before the Commissioner Inland Revenue (Appeals), Lahore as company is of the view that amount paid to non resident is in respect of commission and not the fee for technical services and hence exempt for which decision is pending with the competent authority. The Company is confident that final outcome will be in its favour and accordingly no provision has been made in these financial statements in this respect.

**11.2 Commitments**

- 11.2.1** The Company has issued worth Rs. 7,977 million (June 2016: 7,062 million) bank guarantees and bid bonds to LESCO and 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.

	Jul-Sep 2016	Jul-Sep 2015
	Rupees in '000'	
<b>12. REVENUE - NET</b>		
<b>Export Revenue</b>		
License	418,107	96,242
Services	524,059	613,373
Maintenance	177,152	155,499
	1,119,318	865,114
<b>Local Revenue</b>		
Services	3,360	4,563
Maintenance	2,272	3,098
	5,632	7,661
Sales tax	(728)	(2,257)
	1,124,222	870,518

**13. TAXATION**

Income of the Company from export of computer software and its related services developed in Pakistan is exempt from tax up to 2019 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**

<b>Basic</b>		
Profit/(Loss) after taxation for the period	97,176	(28,005)
Average number of ordinary shares in issue during the period	89,233	89,046
Basic - In Rupees	1.09	(0.31)
<b>Diluted</b>		
Profit/(Loss) after taxation for the period	97,176	(28,005)
Average number of ordinary shares in issue during the period	89,946	89,565
Diluted - In Rupee	1.08	(0.31)

**15. TRANSACTION WITH RELATED PARTIES**

Related parties comprise of holding company, subsidiary, associated undertakings, key management personnel of the company and post employment benefits. The Company in its normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables. Parent, subsidiary and associated undertakings also have some common directorship.

Details of transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows.

	Relationship with the Company	Nature of transactions		
(i)	Associated undertaking	Rental Income	600	150
		Provision of services	211,090	335,021
		Purchase of services	4,851	4,060
(ii)	Key management personnel	Remuneration of CEO and Directors	4,313	4,257
(iii)	Post employment benefit	Contribution to defined contribution plan	23,481	19,093

- (vi) 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.

	Sep-16			Total
	NFS	IS	BPO	
	Rupees in '000			
Revenue - net				
External sales				
Licence	418,107	-	-	418,107
Services	305,574	2,632	218,485	526,691
Maintenance	177,152	2,272	-	179,424
Inter-segment sales				-
Total revenue	900,833	4,904	218,485	1,124,222
Cost of revenue	(558,368)	(18,314)	(125,589)	(702,271)
Segment results	342,465	(13,410)	92,896	421,951
Unallocated corporate expenses:				
Selling and promotion expenses				(90,950)
Administrative expenses				(166,228)
Other operating expenses				(42,302)
Other income				2,670
Finance cost				(5,567)
Taxation				(2,183)
Profit after taxation				117,391
	Sep-15			Total
	NFS	IS	BPO	
	Rupees in '000			
Revenue - net				
External sales				
Licence	96,242	-	-	96,242
Services	397,294	2,307	216,078	615,679
Maintenance	155,499	3,098	-	158,597
Inter-segment sales				-
Total revenue	649,035	5,405	216,078	870,518
Cost of revenue	(491,677)	(30,871)	(113,621)	(636,169)
Segment results	157,358	(25,466)	102,457	234,349
Unallocated corporate expenses:				
Selling and promotion expenses				(43,938)
Administrative expenses				(154,043)
Other operating expenses				(13,753)
Other income				4,527
Finance cost				(6,044)
Taxation				(7,467)
Profit after taxation				13,631

\*Key

NFS = NetSol Financial Solutions

IS = Information Security and other services

BPO = Business Process Outsourcing

**17. DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on October 28, 2016 by the Board of Directors.

**18. FIGURES**

Figures have been rounded off to the nearest thousand rupees.





NetSol IT Village (Software Technology Park)  
Lahore Ring Road, Ghazi Road Interchange  
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