NETSOL™

For the Half Year Ended December 2016

Financial Statements
(Un-Audited)

NETSOL Technologies Limited

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BOARD OF DIRECTORS

SHAHAB-UD-DIN GHAURI
Chairman/Non-Executive Director

SALIM ULLAH GHAURI
Chief Executive Officer

VASEEM ANVAR
Independent Director

SHAHID JAVED BURKI
Independent Director

ANWAAR HUSSAIN
Independent Director

NAJEEB ULLAH GHAURI
Non-Executive Director

OMAR SHAHAB GHAURI
Executive Director

AUDIT COMMITTEE

VASEEM ANVAR
Chairman

ANWAAR HUSSAIN
Member

NAJEEB ULLAH GHAURI
Member

COMPANY SECRETARY

BOO-ALI SIDDIQUI

CHIEF INTERNAL AUDITOR

MUHAMMAD ABDUL WAHAB HAFEEZ

AUDITORS

KABANI & CO.
Chartered Accountants
SKP House
321-Upper Mall, Lahore

LEGAL ADVISOR

CORPORATE LAW ASSOCIATES
1st Floor Queen's Centre
Shahra-e-Fatima Jinnah
Lahore

BANKERS

Askari Bank Limited
MCB Bank Limited
Bank Alfalah Limited
Bank Al Habib Limited
Summit Bank Limited

SHARE REGISTRAR

VISION CONSULTING LIMITED
3-C, LDA Flats,
Lawrence Road, Lahore.
Tel:+92-42-36283096-97
Fax:+92-42-36312550

CONTACT DETAILS

REGISTERED OFFICE
NETSOL IT Village
(Software Technology Park)
Lahore Ring Road,
Ghazi Road Interchange,
Lahore Cantt. 54792, Pakistan
Tel: +92-42-111-44-88-00,
+92-42-35727096-7
Fax: +92-42-35701046, 35726740

RAWALPINDI OFFICE
House No. 04, Safari Villas,
Bahria Town, Rawalpindi
Tel: +92-51-5707011
Fax: +92-51-5595376

KARACHI OFFICE
Building No. 26 – C,
Main Khayaban-e-Jami
Phase – 7 Extension, Defence,
Karachi
Tel: +92-21-35319401-20

WEB PRESENCE

www.netsolpk.com
info@netsolpk.com

بسم الله الرحمن الرحیم

Directors' Report

On behalf of the Board of Directors of NETSOL Technologies Limited, I feel immense pleasure to present the half yearly financial statements of your company together with its consolidated accounts for the period ended December 31, 2016.

GENERAL OVERVIEW

The first half of the fiscal 2017 concluded at a very positive note for the Company. One of the global giants in the auto manufacturing industry in China signed a new contract with NETSOL for the implementation of web point of sale solution. The project is in final stages of implementation and will go live soon. After the initial, extremely encouraging response from Indonesia, we have intensified our efforts in the country. In order to generate more leads and to resonate its presence, the Company is going to sponsor several events in Indonesia in the coming year. Implementation of different modules of NFS Ascent at four different customer sites is also under process. Out of these four implementations, Wholesale Finance System at New Zealand has already went live in November 2016. This is a major achievement for the Company and further demonstrates the confidence of our customers in the next generation product. We also rebranded ourselves by introducing a new logo at the turn of the year which retains the essence of the old logo but is made on more modern lines and current design concepts. The new logo mirrors company's ethos of innovation and its future focused products that are revolutionizing the finance and leasing industry. Additionally, NETSOL's Nspire project continues to do well. Towards the end of 2016, Nspire and Microsoft Innovation Center Lahore signed a memorandum of understanding to jointly foster innovation, encourage entrepreneurship and provide senior mentorship to promising new start-ups in the country.

FINANCIAL PERFORMANCE

Comparison of un-audited consolidated results for the second quarter ended December 31, 2016 with the corresponding period of 2015 and cumulative results for the half year ended December 31, 2015 with those of December 31, 2015 of the company are given below:

	Oct-Dec 2016	Oct-Dec 2015	**Jul-Dec 2016**	Jul-Dec 2015
	---------- Rupees in '000'	----------		
Revenue	**1,331,546**	1,098,625	**2,455,768**	1,969,143
Gross Profit	**521,190**	464,239	**943,142**	698,584
Net Profit	**148,155**	228,979	**265,544**	242,616
EPS/ (LPS) – basic (in Rs.)	**1.41**	1.93	**2.50**	1.62
EPS/ (LPS) – diluted (in Rs.)	**1.40**	1.92	**2.48**	1.61
EBITDA per share-diluted (in Rs.)	**4.69**	4.70	**7.85**	6.96

Revenues during the quarter ended December 31, 2016 have improved by 21% compared to the revenues posted in the same quarter of previous fiscal year. In absolute numbers, the Company posted a net consolidated revenue of PKR 1,332 million compared to PKR 1,099 million in the same quarter of last fiscal year. License revenues increased from PKR 49 million to PKR 359 million in the current period. Services revenues slightly decreased from PKR 869 million to PKR 746 million in the second quarter of fiscal 2017. Maintenance revenue also improved PKR 175 million to PKR 224 million. Gross profit increased to PKR 521 million compared to PKR 464 million in the corresponding period. Company posted a consolidated net profit of PKR 148 million compared to PKR 229 million previous year. Earnings per diluted share were PKR 1.41 in comparison of PKR 1.93 in the corresponding period of last fiscal year. Company posted net EBITDA profit of PKR 4.69 per diluted share compared to an EBITDA profit of PKR 4.70 per share in the corresponding period. On half yearly basis, revenues increased to PKR 2,456 million compared to PKR 1,969 million in the corresponding period. Gross profit improved to PKR 943 million in comparison of PKR 699 million last year. As a percentage of sales, gross profit increased from 35% to 38% during the period. Company posted a net profit of PKR 266 million in comparison of PKR 243 million during the same period last year. Diluted consolidated earnings per share for the half year ended December 31, 2016 were PKR 2.48 in comparison of PKR 1.61 in the corresponding period. Half year EBIDTA profit for the current period was PKR 7.85 compared to PKR 6.96 in the preceding period.

FUTURE OUTLOOK

We have a continued demand of both of our legacy system 'NETSOL Financial Suite" as well as the next generation product 'NFS Ascent". Few deals are currently in the pipeline which we expect to be matured within this fiscal year. APAC region again is showing signs of growth in terms of new business volume for the Company. In addition to APAC, the sales pipeline for the U.S market also looks quite strong. We are also looking to provide digital transformation solutions to our new and existing customers in several markets including Indonesia, China and Australia. NETSOL is also focusing its efforts on the wholesale finance segment as the company has identified huge growth potential in the segment in different markets globally. We will continue to maintain our presence in all major regions of the world through prominent and foremost industry events that NETSOL sponsors and attends on a regular basis.

ACKNOWLEDGEMENT

The Board of Directors places on record its appreciation for the continued support by its shareholders, valued customers, government agencies and financial institutions which enabled the company to achieve these tremendous results. The board would also like to express its appreciation for the services, loyalty and efforts being continuously rendered by the executives and all the staff members of the company and hope that they will continue with the same spirit in future.

On behalf of the Board

Shahab-ud-Din Ghauri
Chairman

Lahore: February 13, 2017

Business Review

Financial Statement

بسم اللہ الرحمن الرحیم

ڈائریکٹرز رپورٹ

مجھے خوشی ہے کہ نیٹ سول ٹیکنالوجیز لمیٹڈ کے بورڈ آف ڈائریکٹرز کی طرف سے کمپنی کے 31 دسمبر 2016 کو ختم ہونے والے (ششماہی) عرصہ کے لئے مالیاتی گوشوارے بشمول مجموعی مالیاتی گوشوارے کے نتائج پیش کر رہا ہوں۔

عمومی جائزہ (General Overview)

مالی سال 2017ء کی پہلی ششماہی کمپنی کے لیے ایک بہت مثبت نوٹ پر اختتام پذیر ہوئی۔ چین کی عالمی سطح کی مینوفیکچرنگ، صنعت کی ایک دیوہیکل کمپنی نے ویب پوائنٹ کے سیل سلوشن پر عمل درآمد کی لیے نیٹ سول کے ساتھ ایک نئے معاہدے پر دستخط کیے ہیں۔ یہ منصوبہ تکمیل کے آخری مراحل میں ہے اور جلد ہی نافذ ہو جائے گا۔ انڈونیشیا سے اِنتہائی زبردست اور حوصلہ افزا جواب کے بعد، ہم نے مُلک میں اپنی کوششیں تیز کر دی ہیں۔ زیادہ لیڈز (Leads) کے حصول اور اپنی موجودگی کو اُجاگر کرنے کے لیے کمپنی آنے والے سال میں اِنڈونیشیا میں کئی تقریبات کو اسپانسر کرے گی۔ چار مختلف کسٹمر سائٹس پر NFS Ascent™ کے مختلف ماڈیولز کے نفاذ کا عمل جاری ہے۔ ان چار نفاذ میں سے، نیوزی لینڈ میں Wholesale Finance System پہلے ہی نومبر 2016 میں براہ راست (Live) ہو چکا ہے۔ یہ اس کمپنی کے لیے ایک اہم کامیابی ہے اور آئندہ آنے والی مصنوعات پر ہمارے صارفین کے بھرپور اعتماد کا ثبوت ہے۔ ہم نے پرانے لوگو کی (Logo) ہیت کو برقرار رکھتے ہوئے زیادہ جدید خطوط اور موجودہ ڈیزائن کے تصوّرات کو مدِنظر رکھتے ہوئے اس سال کے آغاز میں کمپنی کا نیا لوگو (Logo) بھی متعارف کروایا ہے۔ نیا لوگو (Logo) کمپنی کے تخلیقی مزاج اور مستقبل کی مصنوعات جو کہ فنانس اور لیزنگ انڈسٹری میں اِنقلاب برپا کر رہی ہیں، کا آئینہ دار ہے۔ مزید برآں نیٹ سول کے Nspire کے منصوبے باخوبی جاری ہیں۔ 2016ء کے آخر میں Nspire اور مائیکروسافٹ انوویشن سنٹر، لاہور نے مشترکہ جدت طرازی، کاروباری حضرات کی حوصلہ افزائی اور مُلک میں نئی شاندار شروعات کے لیے بہترین رہنمائی کی فراہمی کے لیے مفاہمت کی ایک یادداشت پر دستخط کیے ہیں۔

مالیاتی کارکردگی (Financial Performance)

31 دسمبر 2016ء کو ختم ہونے والی دوسری سہ ماہی مع 2015ء کی اسی مُدّت کے ساتھ اور 31 دسمبر 2016ء کو ختم ہونے والی ششماہی، مع 31 دسمبر 2015ء کی اسی مُدّت کے ساتھ غیر آڈٹ شدہ مجموعی مالیاتی گوشوارے کے نتائج کا موازنہ درج ذیل ہے:

	2016ء اکتوبر تا دسمبر	2015ء اکتوبر تا دسمبر	**2016ء جولائی تا دسمبر**	2015ء جولائی تا دسمبر
	---------- روپوں میں '000' ----------			
آمدن (Revenue)	**1,331,546**	1,098,125	**2,455,768**	1,969,143
خام نفع (Gross Profit)	**521,190**	464,239	**943,142**	698 ,584
خالص منافع	**148,155**	228,979	**265,544**	242,616
آمدنی فی حصص، بنیادی (روپے میں)	**1.41**	1.93	**2.50**	1.62
آمدنی فی حصص، تحلیل شدہ (روپے میں)	**1.40**	1.92	**2.48**	1.61
EBITDA فی حصص تحلیل شدہ (روپے میں)	**4.69**	4.70	**7.85**	6.96

31 دسمبر 2016ء کو ختم ہونے والی سہ ماہی کے دوران آمدنی میں گزشتہ مالی سال کی اسی سہ ماہی میں درج آمدنی کے مقابلے میں 21 فیصد بہتری آئی ہے۔ مطلق تعداد میں، کمپنی نے گزشتہ مالی سال کے اسی عرصے میں 1099 ملین روپے کے مقابلے میں 1332 ملین روپے کی خالص مجموعی آمدن حاصل کی۔ موجودہ مُدّت میں لائسنس کی آمدنی 49 ملین روپے سے بڑھ کر 359 ملین روپے ہوگئی۔ مالی سال 2017ء کی دوسری سہ ماہی میں خدمات کی آمدنی معمولی کمی کے بعد 869 ملین روپے سے کم ہو کر 746 ملین روپے ہوگئی۔ بحالی آمدن (Maintenance Revenue) بھی 175 ملین روپے سے بڑھ کر 224 ملین روپے ہوئی۔ خام نفع میں اسی مُدّت میں 464 ملین روپے سے بڑھ کر 521 ملین روپے ہوا۔ کمپنی نے گزشتہ سال کے 229 ملین روپے کے مقابلے میں 148 ملین روپے مجموعی خالص نفع درج کیا۔ گزشتہ مالی سال کی اسی مُدّت میں تحلیل شدہ فی حصص آمدنی 1.93 روپے کے مقابلے میں 1.41 روپے تھی۔ کمپنی کی اس مُدّت میں 4.70 روپے فی حصص کے EBITDA منافع کے مقابلے میں تحلیل شدہ فی حصص 4.69 روپے کا خالص EBITDA منافع درج کیا۔ ششماہی بنیاد پر، آمدنی میں اسی مُدّت میں 1969 ملین روپے کے مقابلے میں 2456 ملین روپے کا اضافہ ہوا۔ خام نفع گزشتہ سال کے 699 ملین روپے کے مقابلے میں بڑھ کر 943 ملین روپے تک ہوا۔ اس مدت کے دوران خام نفع 35 فیصد سے بڑھ کر 38 فیصد ہوگیا۔ کمپنی نے گزشتہ سال اسی مُدّت کے دوران 243 ملین روپے کے مقابلے میں 266 ملین روپے کا خالص منافع درج کیا۔ 31 دسمبر 2016ء کو ختم ہوئے نصف سال کے لیے فی حصص مجموعی تحلیل شدہ آمدنی، اسی مُدّت میں 1.61 روپے کے مقابلے میں 2.48 روپے تھی۔ موجودہ مُدّت کے لیے ششماہی EBIDTA منافع پچھلے عرصے کے 6.96 روپے کے مقابلے میں 7.85 روپے تھا۔

مستقبل کا نقطۂ نظر (Future Outlook)

ہمارے پاس اپنی سابقہ پراڈکٹ (NETSOL Financial Suit (Product کے ساتھ ساتھ اگلی نسل کی پراڈکٹ NFS Ascent™ کی مستقل ڈیمانڈ (Demand) موجود ہے۔ چند سودے (Deals) پائپ لائن میں ہیں اور ہم توقع کرتے ہیں کہ وہ اِس مالی سال میں میچور (Mature) ہو جائیں گے۔ APAC خطہ دوبارہ کمپنی کے لیے نئے کاروباری حجم کے لحاظ سے ترقی کی علامات ظاہر کر رہا ہے۔ APAC کے علاوہ، امریکہ کی مارکیٹ میں بھی سیل کے اِمکانات خاصے روشن ہیں۔ ہم انڈونیشیا، چین اور آسٹریلیا سمیت کئی مارکیٹوں میں ڈیجیٹل تبدیلی کا حل فراہم کرنے کے لیے نئے اور موجودہ صارفین کو تلاش کر رہے ہیں۔ NETSOL کی توجہ اور کوششوں کا مرکز wholsale finance segment ہے کیونکہ کمپنی نے عالمی سطح پر مختلف مارکیٹوں میں اس کی بھرپور ترقی کی صلاحیت کی نشاندہی کی ہے۔ ہم NETSOL کی جانب سے اسپانسر شدہ شاندار اور اہم ترین صنعتی تقریبات کے ذریعے دُنیا کے تمام اہم خطوں میں اپنی موجودگی کو برقرار رکھنے کے لیے اپنی جدوجہد جاری رکھیں گے۔

اعتراف (Acknowledgement)

بورڈ آف ڈائریکٹرز کمپنی کے تمام حصص یافتگان، قابل قدر صارفین، سرکاری اداروں اور مالیاتی اداروں کی طرف سے حمایت کے لئے ان کی تعریف کرتا ہے اور خراج تحسین پیش کرتا ہے۔ بورڈ کمپنی کے تمام ایگزیکٹوز اور اسٹاف ممبرز کا ان کی خدمات، وفاداری اور ان کی مسلسل کوششوں کی قدر کرتا ہے اور انہیں بھی خراج تحسین پیش کرتا ہے۔ اور امید کرتا ہے کہ مستقبل میں بھی ان کی مخلصانہ کوشش جاری وساری رہیں گی۔

ازطرف بورڈ آف ڈائریکٹرز:۔

شہاب الدین غوری

(چیئرمین)

لاہور

13 فروری 2017ء

KABANI & COMPANY

CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION.

Introduction

We have reviewed the accompanying condensed interim balance sheet of NetSol Technologies Limited (the company) as at December 31, 2016 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim statement of cash flows, condensed interim statement of changes in equity and the notes forming part thereof for the half year then ended (here-in-after referred to as the "condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.
The figures of the condensed interim profit and loss account and condensed interim statement of comprehensive income for the quarters ended December 31, 2016 and 2015 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2016.

Scope of Review

We conducted our review in accordance with International Standards on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended December 31, 2016, is not prepared in all material respects, in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting.

Kabani and Company
Chartered Accountants
Lahore: February 13, 2017

Engagement Partner: Younus Kamran

Lahore
Head Office
SKP House
321 Upper Mall
Lahore.
T: 00 92 42 111 77 2000
F: 00 92 42 35789182

Islamabad
Office # 9, 1st Floor
Zaki Center
I-8 Markaz, Islamabad.
T: 00 92 51 4861245-46
F: 00 92 51 4861247

USA
5757 Century Blvd
Suite # 303, Los Angeles
Ca 90045, USA
T: 310 568 1625-28
F: 310 410 0371

Email: info@kabanico.com.pk, www. kabanico.com.pk

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FINANCIAL STATEMENTS

For The Half Year Ended December 31, 2016

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Condensed Interim Balance Sheet - Unaudited

As at December 31, 2016

	NOTE	Dec-16 Unaudited	Jun-16 Audited
		Rupees in '000'	
ASSETS			
NON-CURRENT ASSETS			
Property, plant & equipment	5	**2,090,627**	2,203,006
Intangible assets	6	**1,948,161**	2,195,996
		4,038,788	4,399,002
Long term investments	7	**105,659**	32,455
Long term deposits		**1,600**	1,600
		4,146,047	4,433,057
CURRENT ASSETS			
Trade debts	8	**857,597**	1,198,056
Excess of revenue over billing		**1,475,767**	618,020
Loans and advances	9	**31,372**	24,732
Trade deposits & short term prepayments		**23,430**	23,672
Other receivables		**42,855**	148,427
Due from related parties		**29,749**	20,068
Taxation - net		**47,152**	31,688
Cash & bank balances		**172,344**	108,473
		2,680,266	2,173,136
TOTAL ASSETS		**6,826,313**	6,606,193
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Authorized share capital 150,000,000 ordinary shares of Rs.10/- each	10	**1,500,000**	1,500,000
Issued, subscribed and paid-up capital	10	**892,704**	891,544
Share deposit money		**13**	1,490
Reserves	11	**4,702,105**	4,443,382
		5,594,822	5,336,416
NON-CURRENT LIABILITIES			
Liabilities against assets subject to finance lease		**38,245**	37,064
Long term advances		**5,688**	2,430
		43,933	39,494
CURRENT LIABILITIES			
Trade and other payables	12	**507,031**	402,833
Unearned revenue		**133,348**	271,579
Short term borrowings		**513,768**	514,561
Current portion of long term liabilities		**33,411**	41,310
		1,187,558	1,230,283
CONTINGENCIES & COMMITMENTS	13	**-**	-
TOTAL EQUITY AND LIABILITIES		**6,826,313**	6,606,193

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

CHIEF EXECUTIVE OFFICER **DIRECTOR**

Condensed Interim Profit & Loss Account - Unaudited

For The Half Year Ended December 31, 2016

	NOTE	**Oct-Dec 2016**	Oct-Dec 2015	**Jul-Dec 2016**	Jul-Dec 2015
		Rupees in '000'		**Rupees in '000'**	
Revenue - net	14	**1,183,267**	873,607	**2,146,062**	1,547,409
Cost of revenue		**(718,824)**	(533,662)	**(1,322,053)**	(1,068,430)
Gross profit		**464,443**	339,945	**824,009**	478,979
Selling and promotion expenses		**(120,883)**	(63,081)	**(211,833)**	(107,019)
Administrative expenses		**(162,318)**	(146,124)	**(326,641)**	(298,466)
Other operating expenses		**(62,295)**	(11,518)	**(88,450)**	(20,017)
Other income		**93,717**	7,036	**99,249**	15,400
Operating Profit		**212,664**	126,258	**296,334**	68,877
Finance cost		**(5,516)**	(5,470)	**(10,850)**	(11,221)
Profit before taxation		**207,148**	120,788	**285,484**	57,656
Taxation	15				
Current period		**(16,290)**	(6,848)	**(17,525)**	(14,225)
Prior period		**-**	-	**(566)**	-
		(16,290)	(6,848)	**(18,091)**	(14,225)
Profit after taxation for the period		**190,858**	113,940	**267,393**	43,431
Earning per share					
Basic - In Rupees	17	**2.14**	1.28	**3.00**	0.49
Diluted - In Rupees	17	**2.12**	1.27	**2.97**	0.48

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

CHIEF EXECUTIVE OFFICER **DIRECTOR**

Business Review

Financial Statement

Condensed Interim Statement of Comprehensive Income - Unaudited

For The Half Year Ended December 31, 2016

	Oct-Dec 2016	Oct-Dec 2015	**Jul-Dec 2016**	Jul-Dec 2015
	Rupees in '000'		**Rupees in '000'**	
Profit after taxation for the period	**190,858**	113,940	**267,393**	43,431
Other comprehensive income	**-**	-	**-**	-
Total comprehensive profit for the period	**190,858**	113,940	**267,393**	43,431

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

CHIEF EXECUTIVE OFFICER **DIRECTOR**

Condensed Interim Statement of Cash Flows - Unaudited

For The Half Year Ended December 31, 2016

	Jul-Dec 2016	Jul-Dec 2015
	Rupees in '000'	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation for the period	**285,484**	57,656
Adjustments for non cash charges and other items:		
Depreciation - own assets	**146,828**	186,701
Amortization of leased assets	**14,527**	10,541
Amortization of intangible assets	**247,835**	157,650
Loss on disposal of fixed assets	**3,258**	1,476
Amortization of deferred revenue	**-**	(7)
Exchange loss on debtors	**85,336**	18,541
Interest expense	**10,136**	10,700
Interest income	**(2,358)**	(6,147)
Dividend Income	**(88,485)**	-
Deferred employee compensation expense	**35,207**	-
	452,284	379,455
Cash generated from operations before working capital changes	**737,768**	437,111
Working Capital Changes		
Trade debts	**(740,855)**	(404,412)
Loans and advances	**(6,640)**	(32,174)
Trade deposits & short term prepayments	**242**	798
Other receivables	**105,570**	(13,649)
Due from related parties	**(9,681)**	212
Trade and other payables	**102,495**	72,978
Cash used in operations	**(548,869)**	(376,247)
Interest paid	**(11,705)**	(11,772)
Income taxes paid	**(21,925)**	(17,935)
Dividend paid	**(39,250)**	(11)
Net cash generated from operations	**116,019**	31,146
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipments purchased	**(47,598)**	(68,908)
Sales proceeds of fixed asset	**318**	16,321
Capital work in progress	**(7,621)**	(20,805)
Long Term Investment	**(73,204)**	-
Interest received	**2,358**	6,147
Net cash (used in) investing activities	**(125,747)**	(67,245)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of share capital	**1,160**	-
Share deposit money	**(1,477)**	-
Share premium	**745**	-
Paid against obligation under finance lease	**(23,290)**	(25,577)
Received against obligation under finance lease	**18,505**	22,230
Short term borrowing	**(793)**	2,719
Dividend received	**77,424**	-
Long term advances	**1,325**	131
Net cash (used in) / generated from financing activities	***73,599***	***(497)***
Net Increase / (decrease) in cash and cash equivalents	***63,871***	***(36,596)***
Cash and cash equivalents at the beginning of the period	***108,473***	***447,595***
Cash and cash equivalents at the end of the period	***172,344***	***410,999***

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

CHIEF EXECUTIVE OFFICER **DIRECTOR**

Condensed Interim Statement of Changes in Equity - Unaudited

For The Half Year Ended December 31, 2016

	Issued, subscribed and paid-up capital	Share deposit money	Employee share option compensation reserve	Capital Reserve	Revenue Reserve	Total
				Share premium	Unappropriated profit	
	Rupees In '000'					
Balance as at June 30, 2015	890,464	13	1,767	297,924	4,090,796	5,280,964
Total comprehensive income for the period						
Net profit for the half year ended December 31, 2015	-	-	-	-	43,431	43,431
Other comprehensive income	-	-	-	-	-	-
	-	-	-	-	43,431	43,431
Balance as at December 31, 2015	890,464	13	1,767	297,924	4,134,227	5,324,395
Balance as at June 30, 2016	891,544	1,490	1,607	298,777	4,142,998	**5,336,416**
Total comprehensive income for the period						
Net profit for the half year ended December 31, 2016	-	-	-	-	267,393	**267,393**
Other comprehensive income	-	-	-	-	-	**-**
Shares issued against options exercised (116,000 shares at Rs. 10 each)	1,160	(1,905)	(171)	916	-	**-**
Amount received against option excersied	-	428	-	-	-	**428**
Dividend paid	-	-	-	-	(44,622)	**(44,622)**
Contribution of parent on account of employee share options	-	-	35,207	-	-	**35,207**
	1,160	(1,477)	35,036	916	222,771	**258,406**
Balance as at December 31, 2016	**892,704**	**13**	**36,643**	**299,693**	**4,365,769**	**5,594,822**

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

CHIEF EXECUTIVE OFFICER **DIRECTOR**

Notes to the Condensed Interim Financial Statements - Unaudited
For The Half Year Ended December 31, 2016

1. LEGAL STATUS AND NATURE OF BUSINESS

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 formerly listed on Karachi Stock Exchange on August 26, 2005 and subsequently also got listed on Lahore and Islamabad Stock Exchanges. 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 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 Cantt. Pakistan.

The Company is a subsidiary of NETSOL Technologies Inc., USA.

2. BASIS OF PREPARATION

2.1 Separate financial statements

These condensed interim financial statements are separate condensed interim financial statements of the Company. Condensed consolidated interim financial statements of the company are prepared separately.

2.2 Statement of compliance

These condensed 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. The figures for the half year ended December 31, 2016, have, however been subjected to limited scope review by the auditors as required by the Code of Corporate Governance.

2.3 Basis of measurement

These condensed interim financial statements have been prepared under the historical cost convention, except for revaluation of certain financial instruments at fair value. These accounts have been prepared under accrual basis of accounting.

2.4 Functional and presentation currency

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

3. ACCOUNTING POLICIES

3.1 The accounting policies adopted for the preparation of these condensed interim financial statements are consistent with those applied in the preparation of the preceding annual published financial statements of the Company for the year ended June 30, 2016.

3.2 Standards, amendments and interpretations to approved accounting standards that are effective in the current period

Certain standards, amendments and interpretations to approved accounting standards are effective for accounting periods beginning on July 01, 2016, but are considered not to be relevant or to have any significant effect on the Company's operations (although they may affect the accounting for future transactions and events) and are, therefore, not detailed in this condensed interim financial information.

4. USE OF ESTIMATES AND JUDGMENT

The preparation of condensed 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 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.

			Dec-16 Unaudited	Jun-16 Audited
			Rupees in '000'	
5.	**PROPERTY, PLANT & EQUIPMENT**			
	Opening Balance - net book value		**2,203,006**	2,412,894
	Additions	5.1	**61,697**	272,963
			2,264,703	2,685,857
	Less:			
	Disposals - net book value	5.2	**(12,724)**	(78,626)
	Depreciation & amortization		**(161,352)**	(404,225)
			2,090,627	2,203,006
5.1	**Following is the detail of addition / (transfer) :**			
	Building on freehold land		**-**	45,898
	Furniture & fixture		**3,348**	10,148
	Vehicles		**24,435**	159,462
	Office equipment		**2,024**	8,838
	Computers		**21,908**	42,127
	Air conditioners		**2,361**	3,332
	Generator		**-**	7,372
	Leasehold improvements		**-**	19,381
	Computer software		**-**	56
	Advance against capital expenditure		**7,621**	-
	Capital work-in-progress		**-**	(23,651)
	Total		**61,697**	272,963

5.2 Following is the detail of deletions	**Dec-16 Unaudited Cost**	**Accumulated Depreciation**	**Written down Value**	Jun-16 Audited Cost	Acc. Depreci-ation	Written down Value
			Rupees in '000'			
Furniture & fixture	1,409	865	**543**	60	19	41
Vehicles	13,954	6,044	**7,910**	97,827	20,986	76,841
Office equipment	145	86	**60**	8	4	4
Computers	22,801	18,590	**4,211**	6,318	4,659	1,659
Air conditioners	-	-	**-**	163	82	81
Total	**38,309**	**25,585**	**12,724**	104,376	25,750	78,626

			Dec-16 Unaudited	Jun-16 Audited
			Rupees in '000'	
6.	**INTANGIBLE ASSETS**			
	Opening Balance - net book value		**2,195,996**	2,511,297
	Additions		**-**	-
			2,195,996	2,511,297
	Less:			
	Amortization	6.1	**(247,835)**	(315,301)
			1,948,161	2,195,996

6.1 In house developed softwares namely SMART, HMIS & Business Intelligence have been fully amortized in current quarter by charging accelerated amortization of Rs. 90.184 Million.

			Dec-16	Jun-16
			Unaudited	Audited
			Rupees in '000'	
7	**LONG TERM INVESTMENTS - at cost**			
	EEGEO Inc. (Unquoted company)	7.1	**90,471**	17,267
	NETSOL Innovation (Pvt) Limited (Unquoted subsidiary company)	7.2	**15,188**	15,188
			105,659	32,455

7.1 During the fiscal year 2016, the Company entered into an agreement with eeGeo, Inc. a UK based gaming and 3D mapping Company (a Delware Corporation) to purchase 12.2% investment for $2,777,778 which will be earned over future periods partly by providing IT and enterprise software solutions and partly in cash. Per agreement, the Company will provide a minimum of $200,000 of services in each three-month period and the entire balance is required to be provided within three years of the date of the agreement. As of December 31, 2016, the Company has provided cash and services valued at $864,416 (PKR 90,471,000) which is recorded as investment.

7.2 The subsidiary is incorporated in Pakistan. The Company holds 1,518,785 (2016 : 1,518,785) fully paid ordinary shares of Rs. 10/- each i.e. 50.52% of Equity held (2016 : 50.52%) Mr. Salim Ullah Ghauri is the Chief Executive Officer of the subsidiary company.

8.	**TRADE DEBTS**			
	Considered good - unsecured	8.1	**857,597**	1,198,056
	Considered doubtful - unsecured	8.2	**48,748**	48,748
			906,345	1,246,804
	Less: Provision against doubtful recovery		**(48,748)**	(48,748)
			857,597	1,198,056

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

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

8.3 Amount receivable from related parties included in trade debts are as under:

NETSOL Technologies (Thailand) Limited	**149,067**	183,968
NETSOL Technologies (Beijing) Company Limited	**252,641**	163,364
NETSOL Australia Pty. Limited	**27,828**	28,759
NETSOL Technologies North America	**24,659**	-
	454,195	376,091

9.	**LOANS AND ADVANCES - Unsecured**			
	Considered good			
	Loan to employees-Executives		**5,876**	6,984
	Advances			
	- to executives		**18**	150
	- against expenses	9.1	**25,478**	17,598
			31,372	24,732

9.1 The advances to employees are given to meet business expenses and are settled as and when the expenses are incurred.

10. SHARE CAPITAL

10.1 Authorised share capital

Dec-16	Jun-16		Dec-16	Jun-16
Unaudited	Audited		**Unaudited**	Audited
Number of shares			**Rupees in '000'**	
150,000,000	150,000,000	Ordinary Shares of Rs. 10 each.	**1,500,000**	1,500,000

10.2 Issued, subscribed & paid-up capital

42,119,691	42,003,691	Ordinary Shares of Rs. 10 each fully paid in cash	**421,197**	420,037
47,150,732	47,150,732	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares	**471,507**	471,507
89,270,423	89,154,423		**892,704**	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.

			Dec-16 Unaudited	Jun-16 Audited
			Rupees in '000'	
11.	**RESERVES**			
	Capital reserve			
	Premium on issue of ordinary shares		**299,693**	298,777
	Revenue reserve			
	Un - appropriated profit		**4,365,769**	4,142,998
	Employee share option compensation reserve		**36,643**	1,607
			4,702,105	4,443,382

12. Trade and other payables also include payable to related parties, detail of which is given below:

12.1	**DUE TO RELATED PARTIES**			
	Parent			
	NetSol Technologies Inc.	12.1.1	**162,183**	111,474
	Associated			
	NETSOL Technologies Europe Limited		**7,070**	-
	NETSOL Technologies North America		**5,096**	-
	NETSOL Technologies (Thailand) Limited		**5,420**	-
			179,769	111,474

12.1.1 This relates to normal course of business of the Company and is interest free.

13. CONTINGENCIES & COMMITMENTS

13.1 Contingencies

13.1.1 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.

13.1.2 While disposing off a show cause notice issued by FBR under section 161 of the Income Tax Ordinance, 2001 for the tax year 2015, the assessing authority, in its judgement dated 26-07-2016 contended and considered the commission paid to a non-resident as fee for technical services and imposed a tax of Rs. 1,516,535 u/s 152 of the Income Tax Ordinance, 2001. The company filed an appeal u/s 127 of the said Ordinance before the Commissioner Inland Revenue (Appeals), Lahore on the grounds that amount paid to non resident is in respect of commission and cannot be considered fee for technical services, hence exempt from tax. The decision is currently 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.

13.2 Commitments

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.

		Oct-Dec 2016	Oct-Dec 2015	Jul-Dec 2016	Jul-Dec 2015
		Rupees in '000'		Rupees in '000'	
14.	**REVENUE - NET**				
	Export Revenue				
	License	**359,003**	48,931	**777,110**	145,173
	Services	**597,664**	643,888	**960,296**	1,060,545
	Maintenance	**224,328**	175,127	**401,480**	330,626
		1,180,995	867,946	**2,138,886**	1,536,344
	Local Revenue				
	Services	**-**	3,303	**3,417**	7,866
	Maintenance	**2,329**	3,098	**4,544**	6,196
		2,329	6,401	**7,961**	14,062
	Sales tax	**(57)**	(740)	**(785)**	(2,997)
		1,183,267	873,607	**2,146,062**	1,547,409

15. TAXATION

Income of the Company from export of computer software and its related services developed in Pakistan is exempt from tax up to 2019 provided that eighty per cent of the export proceeds is brought into Pakistan in foreign exchange remitted from outside Pakistan through normal banking channels 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.

16. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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.

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.

17. EARNINGS PER SHARE	**Oct-Dec 2016**	Oct-Dec 2015	**Jul-Dec 2016**	Jul-Dec 2015
	Rupees in '000'		**Rupees in '000'**	
Basic				
Profit after taxation for the period	**190,858**	113,940	**267,393**	43,431
Average number of ordinary shares in issue during the period	**89,248**	89,046	**89,240**	89,046
Basic - In Rupees	**2.14**	1.28	**3.00**	0.49
Diluted				
Profit after taxation for the period	**190,858**	113,940	**267,393**	43,431
Average number of ordinary shares in issue during the period	**89,962**	89,555	**89,954**	89,563
Diluted - In Rupee	**2.12**	1.27	**2.97**	0.48

18. 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.

			Jul-Dec 2016	Jul-Dec 2015
			Rupees in '000'	
	Relationship with the Company	**Nature of transactions**		
(i)	Subsidiary	Rental income	**7,956**	8,646
		Provision of services	**2,546**	3,074
		Mark-up income	**-**	38
		Mark-up expense	**29**	4
(ii)	Associated undertaking	Rental income	**450**	600
		Provision of services	**188,182**	319,342
		Purchase of services	**9,654**	8,033
(iii)	Key management personnels	Remuneration of CEO and Directors	**9,490**	8,659
		Commission paid to Key Management Personnel	**30,609**	2,721
(iv)	Post employment benefit	Contribution to defined contribution plan	**40,917**	32,817

(v) There are no transactions with any key management personnel other than under the terms of employment.

19. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 13, 2017 by the Board of Directors.

20. GENERAL

The figures of condensed interim profit and loss account and condensed interim statement of comprehensive income for the quarters ended 31 December 2016 and 31 December 2015 were not subject to limited scope review by the auditors as scope of review covered only the cumulative figures.

Figures have been rounded off to the nearest thousand rupee unless otherwise stated.

CHIEF EXECUTIVE OFFICER **DIRECTOR**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Half Year Ended December 31, 2016

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Condensed Consolidated Interim Balance Sheet - Unaudited

As at December 31, 2016

	NOTE	Dec-16 Unaudited	Jun-16 Audited
		Rupees in '000'	
ASSETS			
NON-CURRENT ASSETS			
Property, plant & equipment	5	**2,156,076**	2,261,721
Intangible assets	6	**1,948,161**	2,195,996
		4,104,237	4,457,717
Long term Investment	7	**90,471**	17,267
Long term deposits		**1,600**	1,600
		4,196,308	4,476,584
CURRENT ASSETS			
Trade debts	8	**1,299,734**	1,692,592
Excess of revenue over billing		**1,475,767**	618,020
Loans and advances	9	**31,434**	25,625
Trade deposits & short term prepayments		**26,890**	24,032
Other receivables		**43,764**	44,301
Due from related parties		**29,749**	20,068
Taxation - net		**48,383**	32,837
Cash & bank balances		**255,184**	326,902
		3,210,905	2,784,377
TOTAL ASSETS		**7,407,213**	7,260,961
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Authorized share capital 150,000,000 ordinary shares of Rs.10/- each	10	**1,500,000**	1,500,000
Issued, subscribed and paid-up capital	10	**892,704**	891,544
Share deposit money		**13**	1,490
Reserves	11	**4,933,828**	4,718,507
		5,826,545	5,611,541
Non - controlling Interest		**240,675**	284,470
		6,067,220	5,896,011
NON-CURRENT LIABILITIES			
Liabilities against assets subject to finance lease		**45,857**	40,744
Long term advances		**7,403**	8,937
		53,260	49,681
CURRENT LIABILITIES			
Trade and other payables	12	**589,598**	482,488
Unearned revenue		**133,348**	271,579
Short term borrowings		**513,768**	514,561
Current portion of long term liabilities		**50,019**	46,641
		1,286,733	1,315,269
CONTINGENCIES & COMMITMENTS	13	**-**	-
TOTAL EQUITY AND LIABILITIES		**7,407,213**	7,260,961

The annexed notes from 1 to 21 form an integral part of these condensed consolidated interim financial statements.

CHIEF EXECUTIVE OFFICER **DIRECTOR**

Condensed Consolidated Interim Profit & Loss Account - Unaudited

For The Half Year Ended December 31, 2016

	NOTE	**Oct-Dec 2016**	Oct-Dec 2015	**Jul-Dec 2016**	Jul-Dec 2015
		Rupees in '000'		**Rupees in '000'**	
Revenue - net	14	**1,331,546**	1,098,625	**2,455,768**	1,969,143
Cost of revenue		**(810,356)**	(634,386)	**(1,512,626)**	(1,270,559)
Gross profit		**521,190**	464,239	**943,142**	698,584
Selling and promotion expenses		**(120,883)**	(63,081)	**(211,833)**	(107,019)
Administrative expenses		**(164,034)**	(147,937)	**(330,262)**	(301,978)
Other operating expenses		**(67,864)**	(14,773)	**(110,143)**	(28,517)
Other income		**2,215**	3,198	**4,869**	7,723
Operating profit		**170,624**	241,646	**295,773**	268,793
Finance cost		**(5,901)**	(5,737)	**(11,478)**	(11,780)
Profit before taxation		**164,723**	235,909	**284,295**	257,013
Taxation	15				
Current period		**(16,470)**	(6,930)	**(17,919)**	(14,397)
Prior period		**(98)**	-	**(832)**	-
		(16,568)	(6,930)	**(18,751)**	(14,397)
Profit after taxation for the period		**148,155**	228,979	**265,544**	242,616
Attributable to:					
Equity holders of NETSOL Technologies Limited		**125,501**	172,057	**222,675**	144,057
Non - controlling interest		**22,654**	56,922	**42,869**	98,559
		148,155	228,979	**265,544**	242,616
Earnings per share					
Basic - In Rupees	17	**1.41**	1.93	**2.50**	1.62
Diluted - In Rupees	17	**1.40**	1.92	**2.48**	1.61

The annexed notes from 1 to 21 form an integral part of these condensed consolidated interim financial statements.

CHIEF EXECUTIVE OFFICER **DIRECTOR**

Condensed Consolidated Interim Statement of Comprehensive Income - Unaudited

For The Half Year Ended December 31, 2016

	Oct-Dec 2016	Oct-Dec 2015	**Jul-Dec 2016**	Jul-Dec 2015
	Rupees in '000'		**Rupees in '000'**	
Profit after taxation for the period	**148,155**	228,979	**265,544**	242,616
Other comprehensive income	**-**	-	**-**	-
Total comprehensive Income for the period	**148,155**	228,979	**265,544**	242,616
Attributable to:				
Owners of NETSOL Technologies Limited	**125,501**	172,057	**222,675**	144,057
Non - controlling interest	**22,654**	56,922	**42,869**	98,559
	148,155	228,979	**265,544**	242,616

The annexed notes from 1 to 21 form an integral part of these condensed consolidated interim financial statements.

CHIEF EXECUTIVE OFFICER **DIRECTOR**

Condensed Consolidated Interim Statement of Cash Flows - Unaudited
For The Half Year Ended December 31, 2016

	Jul-Dec 2016	Jul-Dec 2015
	Rupees in '000'	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation for the period	284,295	257,013
Adjustments for non cash charges and other items:		
Depreciation - own assets	151,914	192,606
Amortization of leased assets	15,969	11,970
Amortization of intangible assets	247,835	157,650
Loss on disposal of fixed assets	3,340	1,488
Amortization of deferred revenue	-	(7)
Exchange loss on debtors	106,947	27,029
Interest expense	10,721	11,207
Interest income	(2,939)	(6,239)
Deferred employee compensation expense	36,523	-
(Gain) on short term investment	(1,424)	(869)
	568,886	394,835
Cash generated from operations before working capital changes	853,181	651,848
Working Capital Changes		
Trade debts	(710,067)	(647,957)
Loans and advances	(5,809)	(31,983)
Trade deposits & short term prepayments	(2,858)	270
Other receivables	538	(14,204)
Due from related parties	(9,681)	4,016
Trade and other payables	105,403	91,009
Cash used in operations	(622,474)	(598,849)
Interest paid	(12,290)	(12,279)
Income taxes paid	(33,728)	(18,477)
Dividend paid	(125,914)	(11)
Net cash generated from operations	58,775	22,232
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipments purchased	(62,902)	(74,384)
Sales proceeds of fixed asset	443	16,331
Capital work in progress	(5,785)	(20,805)
Long Term Investment	(73,204)	-
Gain on investments	1,424	869
Interest received	2,939	6,239
Net cash used in investing activities	(137,085)	(71,750)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of share capital	1,160	-
Share deposit money	(1,477)	-
Share premium	745	-
Paid against obligation under finance lease	(29,923)	(27,794)
Received against obligation under finance lease	32,742	22,230
Short term borrowing	(793)	2,719
Long term advances	4,138	2,709
Net cash (used in) / generated from financing activities	6,592	(136)
Net decrease in cash and cash equivalents	(71,718)	(49,654)
Cash and cash equivalents at the beginning of the period	326,902	514,011
Cash and cash equivalents at the end of the period	255,184	464,357

The annexed notes from 1 to 21 form an integral part of these condensed consolidated interim financial statements.

CHIEF EXECUTIVE OFFICER **DIRECTOR**

Condensed Consolidated Interim Statement of Changes in Equity - Unaudited

For The Half Year Ended December 31, 2016

	Attributable to Owners of the Parent						Non Controlling Interest	Total Equity
				Capital reserve	Revenue reserve			
	Issued, subscribed and paid-up capital	Share deposit money	Employee share option com-pensation reserve	Share premium	Unappro-priated profit	Total		
	Rupees In '000'							
Balance as at June 30, 2015	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 profit for the half year ended December 31, 2015	-	-	-	-	144,057	144,057	98,559	242,616
	-	-	-	-	144,057	144,057	98,559	242,616
Balance as at December 31, 2015	890,464	13	1,767	297,924	4,432,402	5,622,570	307,133	5,929,703
Balance as at June 30, 2016	891,544	1,490	1,607	298,777	4,418,123	5,611,541	284,470	**5,896,011**
Total comprehensive income for the period								
Net profit for the half year ended December 31, 2016	-	-	-	-	222,675	222,675	42,869	**265,544**
Other comprehensive income	-	-	-	-	-	-	-	**-**
Shares issued against options exercised (116,000 shares at Rs. 10 each)	1,160	(1,905)	(171)	916	-	-	-	**-**
Distributions to owners								
- by holding company								
Final cash dividend Rs. 0.5 per share (5% per share)	-	-	-	-	(44,622)	(44,622)	-	**(44,622)**
- By subsidiary to non-controlling interest								
cash dividend	-	-	-	-	-	-	(86,664)	**(86,664)**
Contribution of parent on account of employee share options	-	-	36,523	-	-	36,523	-	**36,523**
Amount received against option exercised	-	428	-	-	-	428	-	**428**
	1,160	(1,477)	36,352	916	178,053	215,004	(43,795)	**171,209**
Balance as at December 31, 2016	**892,704**	**13**	**37.959**	**299,693**	**4,596,176**	**5,826,545**	**240,675**	**6,067,220**

The annexed notes from 1 to 21 form an integral part of these condensed consolidated interim financial statements.

CHIEF EXECUTIVE OFFICER **DIRECTOR**

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 formerly 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. The figures for the half year ended December 31, 2016, have, however been subjected to limited scope review by the auditors as required by the Code of Corporate Governance.

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

3.1 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.

3.2 Standards, amendments and interpretations to approved accounting standards that are effective in the current period

Certain standards, amendments and interpretations to approved accounting standards are effective for accounting periods beginning on July 01, 2016, but are considered not to be relevant or to have any significant effect on the Company's operations (although they may affect the accounting for future transactions and events) and are, therefore, not detailed in this condensed interim financial information.

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 judgements, 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.

			Dec-16 Unaudited	Jun-16 Audited
			Rupees in '000'	
5.	**PROPERTY, PLANT & EQUIPMENT**			
	Opening Balance - net book value		**2,261,721**	2,477,636
	Additions	5.1	**75,166**	282,267
			2,336,887	2,759,903
	Less:			
	Disposals - net book value	5.2	**(12,931)**	(78,687)
	Depreciation & amortization		**(167,880)**	(419,495)
			2,156,076	2,261,721
5.1	**Following is the detail of additions :**			
	Building on freehold land		**-**	45,898
	Furniture & fixture		**3,348**	10,407
	Vehicles		**38,673**	159,549
	Computers		**22,975**	48,686
	Air conditioners		**2,361**	3,385
	Office equipment		**2,024**	9,348
	Generator		**-**	7,372
	Leasehold improvements		**-**	19,381
	Computer software		**-**	56
	Advance against capital expenditure		**5,785**	-
	Capital work-in-progress		**-**	(21,815)
	Total		**75,166**	282,267

		Dec-16 Unaudited Cost	Dec-16 Unaudited Acc. Depreciation	Dec-16 Unaudited Written down Value	Jun-16 Audited Cost	Jun-16 Audited Acc. Depreciation	Jun-16 Audited Written down Value
				Rupees in '000'			
5.2	**Following is the detail of deletions**						
	Furniture & fixture	1,409	865	**544**	60	19	41
	Vehicles	14,055	6,070	**7,985**	97,871	20,991	76,880
	Computers	23,471	19,128	**4,343**	6,449	4,767	1,682
	Air conditioners	-	-	**-**	163	82	81
	Office equipment	145	86	**59**	8	5	3
	Total	**39,080**	**26,149**	**12,931**	104,551	25,864	78,687

			Dec-16 Unaudited	Jun-16 Audited
			Rupees in '000'	
6.	**INTANGIBLE ASSETS**			
	Opening Balance - net book value		**2,195,996**	2,511,297
	Additions		**-**	-
			2,195,996	2,511,297
	Less:			
	Amortization	6.1	**(247,835)**	(315,301)
			1,948,161	2,195,996

6.1 In house developed softwares namely SMART, HMIS & Business Intelligence have been fully amortized in current quarter by charging accelerated amortization of Rs. 90.184 Million.

			Dec-16 Unaudited	Jun-16 Audited
			Rupees in '000'	
7	**LONG TERM INVESTMENTS - at cost**			
	EEGEO Inc. (Unquoted company)	7.1	**90,471**	17,267
			90,471	17,267

7.1 During the fiscal year 2016, the Company entered into an agreement with eeGeo, Inc. a UK based gaming and 3D mapping Company (a Delware Corporation) to purchase 12.2% investment for $2,777,778 which will be earned over future periods partly by providing IT and enterprise software solutions and partly in cash. Per agreement, the Company will provide a minimum of $200,000 of services in each three-month period and the entire balance is required to be provided within three years of the date of the agreement. As of December 31, 2016, the Company has provided cash and services valued at $864,416 (PKR 90,471,000) which is recorded as investment.

			Dec-16 Unaudited	Jun-16 Audited
8.	**TRADE DEBTS**			
	Considered good - unsecured	8.1	1,299,734	1,692,592
	Considered doubtful - unsecured	8.2	48,748	48,748
			1,348,482	1,741,340
	Less: provision for doubtful debts		(48,748)	(48,748)
			1,299,734	1,692,592

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

8.2 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.

8.3 Amount receivable from related parties included in trade debts are as under:

	Dec-16 Unaudited	Jun-16 Audited
The Innovation Group (EMEA) Limited - UK	17,701	14,834
1Insurer Inc. USA (Formerly The Innovation Group - US)	184,080	223,647
1Insurer Limited, UK	240,356	256,055
NETSOL Technologies (Thailand) Limited	149,067	183,968
NETSOL Technologies (Beijing) Company Limited	252,641	163,364
NETSOL Australia Pty. Limited	27,828	28,759
NETSOL Technologies North America	24,659	-
	896,332	870,627

			Dec-16 Unaudited	Jun-16 Audited
9.	**LOANS AND ADVANCES - Unsecured**			
	Considered good			
	Loan to employees-Executives		5,876	6,984
	Advances		-	-
	- to executives		18	159
	- against expenses	9.1.	25,540	18,482
			31,434	25,625

9.1 The advances to employees are given to meet business expenses and are settled as and when the expenses are incurred.

10. SHARE CAPITAL

10.1 Authorised share capital

Dec-16 Unaudited	Jun-16 Audited		Dec-16 Unaudited	Jun-16 Audited
Number of shares			Rupees in '000'	
150,000,000	150,000,000	Ordinary Shares of Rs. 10 each.	1,500,000	1,500,000

10.2 Issued, subscribed & paid-up capital

Dec-16 Unaudited	Jun-16 Audited		Dec-16 Unaudited	Jun-16 Audited
42,119,691	42,003,691	Ordinary Shares of Rs. 10 each fully paid in cash	**421,197**	420,037
47,150,732	47,150,732	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares	**471,507**	471,507
89,270,423	89,154,423		**892,704**	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.

		Dec-16	Jun-16
11.	**RESERVES**	**Unaudited**	Audited
	Capital reserve	**Rupees in '000'**	
	Premium on issue of ordinary shares	**299,693**	298,777
	Revenue reserve		
	Un - appropriated profit	**4,596,176**	4,418,123
	Employee share option compensation reserve	**37,959**	1,607
		4,933,828	4,718,507

12. Trade and other payables also include payable to related parties, detail of which is given below:

12.1 Due to related party

	Note	Dec-16	Jun-16
Parent			
NETSOL Technologies Inc.	12.2	**181,740**	134,936
Associated			
NETSOL Technologies Europe Ltd		**8,410**	3,486
NETSOL Technologies North America		**5,096**	-
NETSOL Technologies (Thailand) Ltd.		**5,420**	-
		200,666	138,422

12.2 This relates to normal course of business of the Group and is interest free.

13. CONTINGENCIES & COMMITMENTS

13.1 Contingencies

13.1.1 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.

13.1.2 While disposing off a show cause notice issued by FBR under section 161 of the Income Tax Ordinance, 2001 for the tax year 2015, the assessing authority, in its judgement dated 26-07-2016 contended and considered the commission paid to a non-resident as fee for technical services and imposed a tax of Rs. 1,516,535 u/s 152 of the Income Tax Ordinance, 2001. The company filed an appeal u/s 127 of the said Ordinance before the Commissioner Inland Revenue (Appeals), Lahore on the grounds that amount paid to non resident is in respect of commission and cannot be considered fee for technical services, hence exempt from tax. The decision is currently pending with the competent authority. The company is confident that final outcome will be in its favour and accordingly no provision has made in these financial statements in this respect.

13.2 Commitments

13.2.1 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.

13.2.2 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	Oct-Dec	Jul-Dec	Jul-Dec
		2016	2015	**2016**	2015
		Rupees in '000'		**Rupees in '000'**	
14.	**REVENUE - NET**				
	Export Revenue				
	License	**359,003**	48,931	**777,110**	145,173
	Services	**745,943**	868,906	**1,270,002**	1,482,279
	Maintenance	**224,328**	175,127	**401,480**	330,626
		1,329,274	1,092,964	**2,448,592**	1,958,078
	Local Revenue				
	Services	**-**	3,303	**3,417**	7,866
	Maintenance	**2,329**	3,098	**4,544**	6,196
		2,329	6,401	**7,961**	14,062
	Sales tax	**(57)**	(740)	**(785)**	(2,997)
		1,331,546	1,098,625	**2,455,768**	1,969,143

15. TAXATION

Income of the Company from export of computer software and its related services developed in Pakistan is exempt from tax up to 2019 provided that eighty per cent of the export proceeds is brought into Pakistan in foreign exchange remitted from outside Pakistan through normal banking channels 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.

16. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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.

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.

17. EARNING PER SHARE	**Oct-Dec 2016**	Oct-Dec 2015	**Jul-Dec 2016**	Jul-Dec 2015
Basic	**Rupees in '000'**		**Rupees in '000'**	
Profit after taxation for the period	**125,501**	172,057	**222,675**	144,057
Average number of ordinary shares in issue during the period	**89,248**	89,046	**89,240**	89,046
Basic - In Rupees	**1.41**	1.93	**2.50**	1.62
Diluted				
Profit after taxation for the period	**125,501**	172,057	**222,675**	144,057
Average number of ordinary shares in issue during the period	**89,962**	89,555	**89,954**	89,563
Diluted - In Rupee	**1.40**	1.92	**2.48**	1.61

18. 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.

			Jul-Dec 2016	Jul-Dec 2015
			Rupees in '000'	
	Relationship with the Company	**Nature of transactions**		
(i)	Associated undertaking	Rental Income	**450**	600
		Provision of services	**497,888**	741,076
		Purchase of services	**9,654**	8,033
(ii)	Key management personnels	Remuneration of CEO and Directors	**9,490**	8,659
		Commission paid to Key Management Personnel	**30,609**	2,721
(iii)	Post employment benefit	Contribution to defined contribution plan	**47,364**	38,208

(vi) There are no transactions with any key management personnel other than under the terms of employment.

19. SEGMENT REVENUES AND RESULTS

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

	Dec-16			
	NFS	**IS**	**BPO**	**Total**
	Rupees in '000'			
Revenue - net				
External sales				
License	777,109	-	-	**777,109**
Services	841,220	2,632	428,782	**1,272,634**
Maintenance	401,481	4,544	-	**406,025**
Inter-segment sales				**-**
Total revenue	2,019,810	7,176	428,782	**2,455,768**
Cost of revenue	(1,101,294)	(167,247)	(244,085)	**(1,512,626)**
Segment results	918,516	(160,071)	184,697	**943,142**
Unallocated corporate expenses:				
Selling and promotion expenses				**(211,833)**
Administrative expenses				**(330,262)**
Other operating expenses				**(110,143)**
Other income				**4,869**
Finance cost				**(11,478)**
Taxation				**(18,751)**
Profit after taxation				**265,544**

	Dec-15			
	NFS	IS	BPO	Total
	Rupees in '000'			
Revenue - net				
External sales				
License	145,173	-	-	145,173
Services	1,015,510	4,869	466,769	1,487,148
Maintenance	330,626	6,196	-	336,822
Inter-segment sales				
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)
Profit after taxation				242,616

*Key

NFS = NETSOL Financial Solutions

IS = Information Security and other services

BPO = Business Process Outsourcing

20. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 13, 2017 by the Board of Directors.

21. FIGURES

The figures of condensed interim profit and loss account and condensed interim statement of comprehensive income for the quarters ended 31 December 2016 and 31 December 2015 were not subject to limited scope review by the auditors as scope of review covered only the cumulative figures.

Figures have been rounded off to the nearest thousand rupee unless otherwise stated.

CHIEF EXECUTIVE OFFICER **DIRECTOR**

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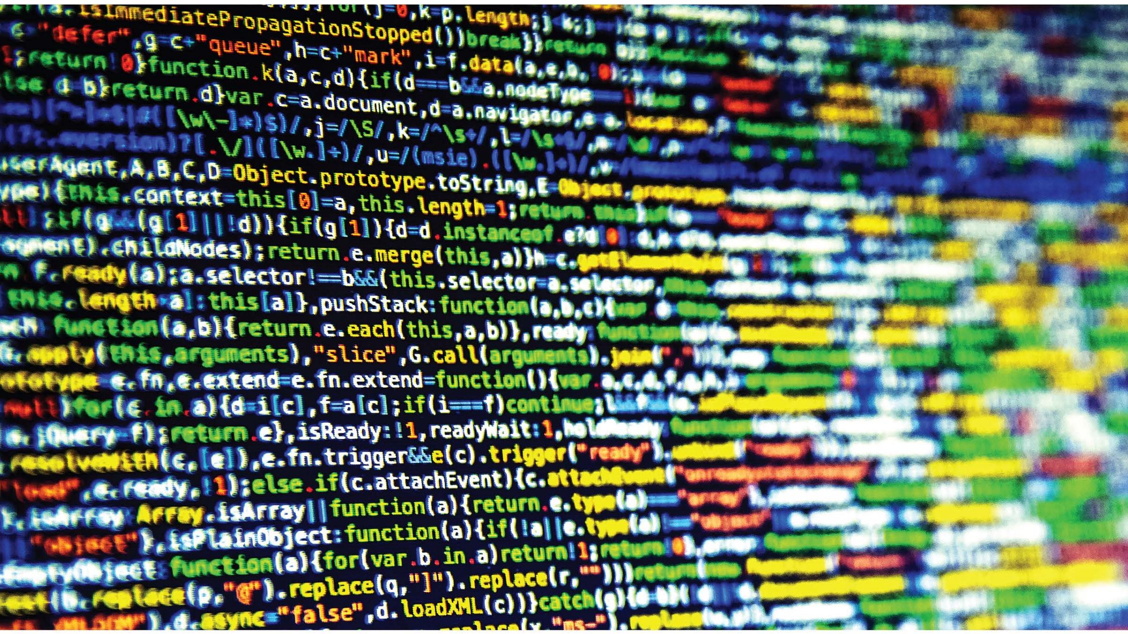

NETSOL Technologies Limited

NETSOL IT Village (Software Technology Park)
Lahore Ring Road, Ghazi Road Interchange
Lahore Cantt. 54792, Pakistan

www.netsolpk.com
Email: info@netsolpk.com

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