



For the Quarter Ended

September
2014

Financial Statements
(Un-Audited)

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NETSOL
Quarterly Report 2014

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Company Profile

BOARD OF DIRECTORS

SHAHAB-UD-DIN GHAURI
Chairman

SALIM ULLAH GHAURI
Chief Executive Officer

VASEEM ANVAR
Independent Director

SHAHID JAVED BURKI
Independent Director

FIDA HUSSAIN
Independent Director

NAJEEB ULLAH GHAURI
Non-Executive Director

OMAR SHAHAB GHAURI
Executive Director

AUDIT COMMITTEE

VASEEM ANVAR
Chairman

FIDA 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
First National Bank Modaraba
First Habib Modaraba

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
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RAWALPINDI OFFICE

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KARACHI OFFICE

43/1/Q, Amna Villa # 1
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Fax: +92-21-3431-3464

WEB PRESENCE

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Directors' Review

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

On behalf of the Board of Directors of NetSol Technologies Limited, I feel pleasure to present the financial statements of your company together with its consolidated financial statements for the period ended September 30, 2014.

GENERAL OVERVIEW

Since the announcement of NFS Ascent™, revenues of the company are constantly under pressure. During the fiscal year ended June 30, 2014, the company also posted losses due to the transition from the legacy system to the next generation platform. Though the company had a huge sales pipeline potentially convertible into contract for its next generation product but since it didn't have any live project, the sales cycle took more longer than normal, as expected. In the first quarter, we however, announced the largest ever deal in our history. The company managed to sell NFS Ascent™ to one of the largest automotive companies in Indonesia. The overall deal size would be more than US\$ 16 million over a period of five years, out of which approximately US\$ 10 million would be realized within next couple of years. This is a great deal indeed for NetSol and a huge recognition of our next generation platform. The deal will also open doors for more prospects for NFS Ascent™. We strongly believe that for NFS Ascent™, the deal size would be altogether different than that of NetSol Financial Suite™ as it will have more element of services associated with it. The change in mix of license and services revenues has resulted in following a different approach for revenue recognition and we believe that, for NFS Ascent™ sales, we will not be able to book the license revenue upfront after signing of the contract (which was being followed for NetSol Financial Suite™). This will result in recognizing license revenue along-with services income by following percentage completion method. Following this approach of revenue recognition, will reduce the overall license revenues in the initial quarters which will be recognized in the subsequent quarters when the associated services are delivered to the customers. However this practice of revenue recognition will not hamper the cash flows of the company. There might also be cases where the customers may enter into license contracts without major customization, in those cases, license revenue may be recognized upfront as allowed by International Financial Reporting Standards.

In addition to the above NFS Ascent™ sale, we also signed a new contract with a captive finance company in China for the implementation of our legacy system, NetSol Financial Suite™. Again this shows confidence of our customers even in the older system as we are still receiving some queries for this product as well.

FINANCIAL PERFORMANCE

Comparison of un-audited consolidated results of the quarter ended September 30, 2014 with the corresponding period of 2013 are given below:

	The company		The Group	
	For the Quarter Jul-Sep 2014	For the Quarter Jul-Sep 2013	For the Quarter Jul-Sep 2014	For the Quarter Jul-Sep 2013
	----- Rupees in '000' -----			
Revenue	492,538	530,180	633,799	630,366
Gross Profit	10,436	215,760	82,006	258,895
Net (loss)/Profit	(190,235)	140,154	(122,025)	192,068
(LPS)/EPS – basic (in Rs.)	(2.14)	1.59	(1.75)	1.89
(LPS)/EPS – diluted (in Rs.)	(2.13)	1.56	(1.74)	1.86

Company posted revenue of Rs. 493 million in the current quarter compared with Rs. 530 million in the corresponding quarter last year. The decline in revenues is mainly due to delay in getting new deals signed for the next generation platform, NFS Ascent™ as well as change in the accounting treatment of recognition of revenue from NFS Ascent™ contracts. Though we had announced a new deal of NFS Ascent™ which was signed during the quarter under review but due to the requirements of International Financial Reporting Standards, no revenue has been recognized from that deal so far. We anticipate booking revenue following percentage completion method in the coming quarters. Cost of sales increased to Rs. 482 million from Rs. 314 million in the corresponding quarter due to increase in salaries, hiring of new technical resources as well as increase in the non-cash expenses like depreciation and amortization. Aggregated depreciation and amortization expense of cost of sales increased to Rs. 175 million for the current quarter whereas the same expense was Rs. 81 million a year ago. The increase is due to start of amortization of NFS Ascent™. As a result company posted gross profit of Rs. 10 million in comparison of Rs. 216 million in the same quarter of last fiscal year. Company posted a net loss of Rs. 190 million versus a net profit of Rs. 140 million last year. Included in last year's net income is exchange gain on foreign currency translation worth Rs. 105 million compared with just Rs. 312,000 in current quarter. Company posted a diluted loss per share of Rs. 2.13 compared with diluted earnings per share of Rs. 1.56 in the corresponding quarter last year.

FUTURE OUTLOOK

Building on NetSol's strong position in China, the company is currently in the process of implementing its NetSol Financial Suite™ at two different sites in China. In addition to strengthening NetSol's foothold there, we believe that, in future, these implementations will also result in incremental revenues from these customers.

As already discussed, we have signed a major multimillion dollar contract for the implementation of our next generation product at a client side in Indonesia. After announcement of NFS Ascent™, this is a major breakthrough for the company. In addition to it, wholesale finance version of NFS Ascent™ is currently under implementation at a major auto captive finance company in Thailand. We believe that both these implementations are strategically very important for us to go live very smoothly so that the product has been rigorously tested and these become reference sites for the prospective customers. We further continue to penetrate in the Australian market with NFS Ascent™ with extensive marketing activities and ongoing talks with a leading auto finance company of the country. In addition to it, our outsourcing business with our UK partner is also growing at a reasonable pace.

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

Condensed Interim
Financial Statements
For the Quarter Ended September 30, 2014

Condensed Interim Balance Sheet - Unaudited

As at September 30, 2014

	NOTE	Sep-14	Jun-14
		Rupees in '000'	
ASSETS			
NON-CURRENT ASSETS			
Property & equipment	5	2,629,402	2,672,924
Intangible assets	6	2,779,250	2,868,568
		5,408,652	5,541,492
Long term investments		15,188	15,188
		5,423,840	5,556,680
CURRENT ASSETS			
Trade debts		870,129	317,226
Excess of revenue over billing		120,281	138,261
Loans and advances		42,940	38,096
Trade deposits & short term prepayments		23,195	24,921
Other receivables		30,570	23,824
Due from related parties		79,029	89,729
Taxation - net		46,475	45,803
Cash & bank balances		299,238	339,858
		1,511,857	1,017,718
TOTAL ASSETS		6,935,697	6,574,398
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Authorized share capital			
150,000,000 ordinary shares of Rs.10/- each	7	1,500,000	1,500,000
Issued, subscribed and paid-up capital	7	889,699	889,699
Share deposit money		13	13
Reserves	8	4,386,786	4,577,021
		5,276,498	5,466,733
NON-CURRENT LIABILITIES			
Long term financing		222,056	212,862
Liabilities against assets subject to finance lease		43,979	43,689
Deferred Income		22	29
		266,057	256,580
CURRENT LIABILITIES			
Trade and other payables		710,689	523,694
Excess of billing over revenue		412,876	60,064
Short term borrowings		200,000	200,000
Current portion of long term liabilities		69,577	67,327
		1,393,142	851,085
CONTINGENCIES & COMMITMENTS	9	-	-
TOTAL EQUITY AND LIABILITIES		6,935,697	6,574,398

The annexed notes from 1 to 15 form an integral part of these condensed interim financial statements.

Condensed Interim Profit & Loss Account - Unaudited

For The Quarter Ended September 30, 2014

	NOTE	Jul-Sep 2014	Jul-Sep 2013
Rupees in '000'			
Revenue - net	10	492,538	530,180
Cost of revenue		(482,102)	(314,420)
Gross profit		10,436	215,760
Selling and promotion expenses		(51,059)	(42,373)
Administrative expenses		(150,879)	(137,829)
Other operating expenses		-	(4,306)
Other income		8,955	111,878
Operating (loss) / profit		(182,547)	143,130
Finance cost		(3,986)	(2,087)
(Loss) / profit before taxation		(186,533)	141,043
Taxation			
Current period		(3,702)	(889)
(Loss) / profit after taxation for the period		(190,235)	140,154
(Loss) / earning per share			
Basic - In Rupees	12	(2.14)	1.59
Diluted - In Rupees	12	(2.13)	1.56

The annexed notes from 1 to 15 form an integral part of these condensed interim financial statements.

Condensed Interim Statement of Comprehensive Income - Unaudited

For The Quarter Ended September 30, 2014

	Jul-Sep 2014	Jul-Sep 2013
	Rupees in '000'	
(Loss) / profit after taxation for the period	(190,235)	140,154
Other comprehensive income	-	-
Total comprehensive (loss) / income for the period	(190,235)	140,154

The annexed notes from 1 to 15 form an integral part of these condensed interim financial statements.

Condensed Interim Statement of Cash Flows - Unaudited

For The Quarter Ended September 30, 2014

	Jul-Sep 2014	Jul-Sep 2013
	Rupees in '000'	
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) / profit before taxation for the period	(186,533)	141,043
Adjustments for non cash charges and other items:		
Depreciation - own assets	106,558	68,539
Amortization of leased assets	7,169	4,795
Amortization of intangible assets	89,318	26,359
Loss on disposal of fixed assets	796	1,428
Amortization of deferred revenue	(7)	(7)
Exchange (gain) on debtors	(312)	(104,861)
Interest expense	3,801	1,693
Interest income	(3,457)	(2,516)
Deferred employee compensation expense	-	54
Provision for doubtful debts	-	26,060
	203,866	21,544
Cash generated from operations before working capital changes	17,333	162,587
Decrease / (increase) in current assets & liabilities		
Trade debts	(181,799)	36,030
Loans and advances	(4,844)	(60,430)
Trade deposits & short term prepayments	1,726	(1,915)
Other receivables	(6,746)	(5,652)
Due from related parties	10,700	(47,164)
Trade and other payables	185,330	135,806
Cash generated from operations	4,367	56,675
Interest paid	(7,713)	(7,772)
Income taxes paid	(4,374)	(3,298)
Net cash generated from operations	9,613	208,192
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipments purchased	(52,642)	(164,436)
Sales proceeds of fixed asset	408	3,874
Intangible assets	-	(141,035)
Capital work in progress	(13,190)	(91,271)
Interest received	3,457	2,482
Net cash (used in) investing activities	(61,967)	(390,386)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of share capital	-	11,740
Share premium	-	7,537
Paid against obligation under finance lease	(14,868)	(10,450)
Received against obligation under finance lease	17,408	16,874
Long term payable	9,194	(4,771)
Net cash generated from financing activities	11,734	20,930
Net (decrease) / increase in cash and cash equivalents	(40,620)	(161,264)
Cash and cash equivalents at the beginning of the period	339,858	305,571
Cash and cash equivalents at the end of the period	299,238	144,307

The annexed notes from 1 to 15 form an integral part of these condensed interim financial statements.

Condensed Interim Statement of Changes in Equity - Unaudited

For The Quarter Ended September 30, 2014

	Issued, subscribed and paid-up capital	Share deposit money	Employee share option compensation reserve	Capital Reserve Share premium	Revenue Reserve Unappropri- ated profit	Total
	Rupees in '000'					
Balance as at June 30, 2013	785,717	13	5,449	278,240	5,055,983	6,125,402
Total comprehensive income for the period						
Net profit for the quarter ended September 30, 2013	-	-	-	-	140,154	140,154
Other comprehensive income	-	-	-	-	-	-
	-	-	-	-	140,154	140,154
Shares issued against options exercised (1,174,000 shares at Rs. 10 each)	11,740	-	-	-	-	11,740
Amount transferred to share premium on issuance of shares against options exercised (1,174,000 shares at Rs. 1.48 each)	-	-	(1,734)	-	-	(1,734)
Share premium on shares issued against options exercised	-	-	-	9,271	-	9,271
Balance as at September 30, 2013	797,457	13	3,715	287,511	5,196,137	6,284,833
Balance as at June 30, 2014	889,699	13	1,880	297,320	4,277,821	5,466,733
Total comprehensive income for the period						
Net loss for the quarter ended September 30, 2014	-	-	-	-	(190,235)	(190,235)
Other comprehensive income	-	-	-	-	-	-
	-	-	-	-	(190,235)	(190,235)
Balance as at September 30, 2014	889,699	13	1,880	297,320	4,087,586	5,276,498

The annexed notes from 1 to 15 form an integral part of these condensed interim financial statements.

Notes to the Condensed Interim Financial Statements - Unaudited

For The Quarter Ended September 30, 2014

1. LEGAL STATUS AND NATURE OF BUSINESS

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 and Islamabad Stock Exchanges. 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, (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, 2014.

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 as disclosed in respective accounting notes.

2.4 Functional and presentation currency

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

3. ACCOUNTING POLICIES

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, 2014.

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, 2014.

		Sep-14 Unaudited	Jun-14 Audited
		Rupees in '000'	
5. PROPERTY & EQUIPMENT			
Opening Balance - net book value		2,672,924	1,894,191
Additions:	5.1	71,409	1,242,876
		2,744,333	3,137,067
Less:			
Disposals - net book value		(1,204)	(51,574)
Depreciation & amortization		(113,727)	(412,569)
		2,629,402	2,672,924

		Sep-14 Unaudited	Jun-14 Audited
		Rupees in '000'	
5.1	Following is the detail of addition / (transfer):		
	Land - freehold	-	82,915
	Building on freehold land	-	377,173
	Computers	34,053	578,795
	Air conditioners	621	23,128
	Furniture & fixture	1,217	21,659
	Office equipment	2,542	9,076
	Vehicles	149	64,674
	Generator	8,500	17,535
	Computer software	5,560	310,256
	Capital work-in-progress	18,767	(242,335)
	Total	71,409	1,242,876
6.	INTANGIBLE ASSETS		
	Opening Balance - net book value	2,868,568	2,873,958
	Additions: 6.1	-	341,921
		2,868,568	3,215,879
	Less:		
	Amortization	(89,318)	(347,311)
		2,779,250	2,868,568
6.1	Following is the detail of addition:		
	Fleet Management System (FMS)	-	205,778
	Blue Star	-	120,687
	LSS	-	4,288
	HMS	-	2,385
	Loan Origination System	-	3,475
	Business Intelligence Scoring Model & Risk Management	-	5,308
		-	341,921
7.	SHARE CAPITAL		
7.1	Authorised share capital		
	Sep-14	Jun-14	
	Number of shares		
	150,000,000	150,000,000	Ordinary Shares of Rs. 10 each
			1,500,000
7.2	Issued, subscribed & paid-up capital		
	Sep-14	Jun-14	
	Number of shares		
	41,819,191	41,819,191	Ordinary Shares of Rs. 10 each fully paid in cash
	47,150,732	47,150,732	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares
	88,969,923	88,969,923	889,699

NetSol Technologies Inc., 24025 Park Sorrento, Suite 410, Calabasas CA 91302, USA, is the parent company holding majority of issued capital of the Company. No shares are held by any other related party.

	Sep-14 Unaudited	Jun-14 Audited
	Rupees in '000'	
8. RESERVES		
Capital reserve		
Premium on issue of ordinary shares	297,320	297,320
Revenue reserve		
Un - appropriated profit	4,087,586	4,277,821
Employee share option compensation reserve	1,880	1,880
	4,386,786	4,577,021

9. CONTINGENCIES & COMMITMENTS**9.1 Contingencies**

There are no contingencies as at September 30, 2014 (June 2014 : nil) to which the Company is a party.

9.2 Commitments

9.2.1 The Company has issued worth Rs. 15.863 million (June 2014 : Rs. 15.843 million) bank guarantees and bid bonds to various customers against sale of software and allied services.

9.2.2 The Company has commitment under a capital purchase agreement of Rs. 40 million (June 2014 : Rs. 40 million)

	Jul-Sep 2014	Jul-Sep 2013
	Rupees in '000'	
10. REVENUE - NET		
Export Revenue		
License	147,465	205,122
Services	218,872	200,751
Maintenance	123,745	119,770
	490,082	525,643
Local Revenue		
Services	2,849	3,014
Maintenance	-	1,926
	2,849	4,940
Sales tax	(393)	(403)
	492,538	530,180

11. TAXATION

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

	Jul-Sep 2014	Jul-Sep 2013
	Rupees in '000'	
12. EARNINGS PER SHARE		Restated
Basic		
(Loss) / profit after taxation for the period	(190,235)	140,154
Average number of ordinary shares in issue during the period	88,970	87,945
Basic - In Rupees	(2.14)	1.59
Diluted		
(Loss) / profit after taxation for the period	(190,235)	140,154
Average number of ordinary shares in issue during the period	89,306	89,582
Diluted - In Rupee	(2.13)	1.56

The earning per share for September 2013 has been restated to account for the impact of bonus share issued.

13. TRANSACTION WITH RELATED PARTIES

Related parties comprise of holding company, associated undertakings, directors of the Company, key employees and staff retirement fund. The Company in the 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-Sep 2014	Jul-Sep 2013
			Rupees in '000'	
	Relationship with the Company	Nature of transactions		
(i)	Parent	Management fee	15,291	15,720
(ii)	Subsidiary	Rental income	4,563	4,430
		Provision of services	1,623	1,575
		Mark-up income	-	34
		Mark-up expense	147	91
(iii)	Associated undertaking	Provision of services	17,062	129,561
(vi)	Key management personnels	Remuneration of CEO and Directors	2,578	2,483
(v)	Post employment benefit	Contribution to defined contribution plan	11,778	8,094

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

14. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on October 30, 2014 by the Board of Directors.

15. FIGURES

Figures have been rounded off to the nearest thousand rupee.

Condensed Consolidated Interim
Financial Statements
For the Quarter Ended September 30, 2014

Condensed Consolidated Interim Balance Sheet - Unaudited

As at September 30, 2014

	NOTE	Sep-14 Unaudited	Jun-14 Audited
Rupees in '000'			
ASSETS			
NON-CURRENT ASSETS			
Property & equipment	5	2,687,228	2,718,378
Intangible assets	6	2,779,250	2,868,568
		5,466,478	5,586,946
CURRENT ASSETS			
Trade debts		1,140,858	537,831
Excess of revenue over billing		120,281	138,261
Loans and advances		44,446	45,630
Trade deposits & short term prepayments		24,667	25,829
Other receivables		30,512	23,986
Due from related parties		91,484	101,414
Taxation - Net		46,757	46,011
Cash & bank balances		362,803	389,987
		1,861,808	1,308,949
TOTAL ASSETS		7,328,286	6,895,895
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Authorized share capital			
150,000,000 ordinary shares of Rs.10/- each	7	1,500,000	1,500,000
Issued, subscribed and paid-up capital			
Share deposit money	7	889,699	889,699
Reserves	8	13	13
		4,560,496	4,716,272
		5,450,208	5,605,984
Non - controlling Interest			
		185,242	151,491
		5,635,450	5,757,475
NON-CURRENT LIABILITIES			
Long term financing		222,056	212,862
Liabilities against assets subject to finance lease		43,979	43,689
Deferred income		22	29
		266,057	256,580
CURRENT LIABILITIES			
Trade and other payables		744,326	554,449
Excess of billing over revenue		412,876	60,064
Short term borrowings		200,000	200,000
Current portion of long term liabilities		69,577	67,327
		1,426,779	881,840
CONTINGENCIES & COMMITMENTS			
	9	-	-
TOTAL EQUITY AND LIABILITIES		7,328,286	6,895,895

The annexed notes from 1 to 16 form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Profit & Loss Account - Unaudited

For The Quarter Ended September 30, 2014

	NOTE	Jul-Sep 2014	Jul-Sep 2013
Rupees in '000'			
Revenue - net	10	633,799	630,366
Cost of revenue		(551,793)	(371,471)
Gross profit		82,006	258,895
Selling and promotion expenses		(51,059)	(42,373)
Administrative expenses		(152,651)	(139,525)
Other operating expenses		(3,037)	(5,366)
Other income		10,555	123,387
Operating (loss) / profit		(114,186)	195,018
Finance cost		(4,040)	(2,017)
(Loss) / profit before taxation		(118,226)	193,001
Taxation			
Current period		(3,799)	(933)
(Loss) / profit after taxation for the period		(122,025)	192,068
Attributable to:			
Equity holders of NetSol Technologies Limited		(155,776)	166,381
Non - controlling interest		33,751	25,687
		(122,025)	192,068
(Loss) / earning per share			
Basic - In Rupees	12	(1.75)	1.89
Diluted - In Rupees	12	(1.74)	1.86

The annexed notes from 1 to 16 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, 2014

	Jul-Sep 2014	Jul-Sep 2013
	Rupees in '000'	
(Loss) / profit after taxation for the period	(122,025)	192,068
Other comprehensive income	-	-
Total comprehensive (loss) / income for the period	(122,025)	192,068
Attributable to:		
Equity holders of NetSol Technologies Limited	(155,776)	166,381
Non - controlling interest	33,751	25,687
	(122,025)	192,068

The annexed notes from 1 to 16 form an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Cash Flows-Unaudited

For The Quarter Ended September 30, 2014

	Jul-Sep 2014	Jul-Sep 2013
	Rupees in '000'	
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) / profit before taxation for the period	(118,226)	193,001
Adjustments for non cash charges and other items:		
Depreciation - own assets	109,727	70,128
Amortization of leased assets	7,169	4,795
Amortization of intangible assets	89,318	26,359
Loss on disposal of fixed assets	1,553	1,428
Amortization of deferred revenue	(7)	(7)
Exchange (gain) on debtors	(5,517)	(120,591)
Interest expense	3,812	1,602
Interest income	(3,609)	(2,557)
Deferred employee compensation expense	-	54
Gain on short term investment	(654)	(168)
Provision for doubtful debts	-	26,060
	201,792	7,103
Cash generated from operations before working capital changes	83,566	200,104
Decrease / (increase) in current assets and liabilities		
Trade debts	(226,718)	12,636
Loans and advances	1,184	(61,160)
Trade deposits & short term prepayments	1,162	(2,019)
Other receivables	(6,526)	(5,685)
Due from related parties	9,930	(54,191)
Trade and other payables	188,212	127,576
Cash (used in) / generated from operations	(32,756)	17,157
Interest paid	(7,723)	(7,772)
Income taxes paid	(4,545)	(3,337)
Net cash generated from operations	38,542	206,152
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipments purchased	(70,462)	(164,968)
Sales proceeds of fixed asset	1,929	3,874
Intangible assets	-	(141,035)
Capital work in progress	(13,190)	(91,271)
Gain on investments	654	168
Interest received	3,609	2,557
Net cash (used in) investing activities	(77,460)	(390,675)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of share capital	-	11,740
Share premium	-	7,537
Paid against obligation under finance lease	(14,868)	(10,450)
Received against obligation under finance lease	17,408	16,874
Long term payable	9,194	(4,771)
Net cash generated from financing activities	11,734	20,930
Net (decrease) in cash and cash equivalents	(27,184)	(163,593)
Cash and cash equivalents at the beginning of the period	389,987	330,827
Cash and cash equivalents at the end of the period	362,803	167,234

The annexed notes from 1 to 16 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, 2014

	Attributable to equity holders 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	Revenue Reserve			
				Share premium	Unappropriated profit			
Rupees In '000'								
Balance as at June 30, 2013	785,717	13	5,449	278,240	5,159,791	6,229,210	116,777	6,345,987
Total comprehensive income for the period								
Net profit for the quarter ended September 30, 2013	-	-	-	-	166,381	166,381	25,687	192,068
Other comprehensive income	-	-	-	-	-	-	-	-
	-	-	-	-	166,381	166,381	25,687	192,068
Shares issued against options exercised (1,174,000 shares at Rs. 10 each)	11,740	-	-	-	-	11,740	-	11,740
Amount transferred to share premium on issuance of shares against options exercised (1,174,000 shares at Rs. 1.48 each)	-	-	(1,734)	-	-	(1,734)	-	(1,734)
Shares premium on shares issued against options exercised	-	-	-	9,271	-	9,271	-	9,271
Balance as at September 30, 2013	797,457	13	3,715	287,511	5,326,172	6,414,868	142,464	6,557,332
Balance as at June 30, 2014	889,699	13	1,880	297,320	4,417,072	5,605,984	151,491	5,757,475
Total comprehensive income for the period								
Net (loss) for the quarter ended September 30, 2014	-	-	-	-	(155,776)	(155,776)	33,751	(122,025)
Other comprehensive income	-	-	-	-	-	-	-	-
	-	-	-	-	(155,776)	(155,776)	33,751	(122,025)
Balance as at September 30, 2014	889,699	13	1,880	297,320	4,261,296	5,450,208	185,242	5,635,450

The annexed notes from 1 to 16 form an integral part of these condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

For The Quarter Ended September 30, 2014

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. 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, (Software Technology Park) 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, (Software Technology Park) NetSol Avenue, Main Ghazi Road, 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, 2014.

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, 2014.

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, 2014.

		Sep-14 Unaudited	Jun-14 Audited
Rupees in '000'			
5. PROPERTY & EQUIPMENT			
Opening Balance - net book value		2,718,378	1,918,099
Additions	5.1	89,228	1,272,805
		2,807,606	3,190,904
Less:			
Disposals - net book value		(3,482)	(51,604)
Depreciation & amortization		(116,896)	(420,922)
		2,687,228	2,718,378

		Sep-14 Unaudited	Jun-14 Audited
		Rupees in '000'	
5.1	Following is the detail of additions :		
	Land - freehold	-	82,915
	Building on freehold land	-	377,173
	Computers	36,011	587,087
	Air conditioners	621	25,894
	Furniture & fixture	5,222	24,697
	Office equipment	2,734	9,343
	Vehicles	1,802	69,015
	Generator	8,500	17,535
	Leasehold improvements	10,011	11,225
	Computer software	5,560	310,256
	Capital work-in-progress	18,767	(242,335)
	Total	89,228	1,272,805
6.	INTANGIBLE ASSETS		
	Opening Balance - net book value	2,868,568	2,873,958
	Additions: 6.1	-	341,921
		2,868,568	3,215,879
	Less:		
	Amortization	(89,318)	(347,311)
		2,779,250	2,868,568
6.1	Following is the detail of addition:		
	Fleet Management System (FMS)	-	205,778
	Blue Star	-	120,687
	LSS	-	4,288
	HMIS	-	2,385
	Loan Origination System	-	3,475
	Business Intelligence Scoring Model & Risk Management	-	5,308
		-	341,921
7.	SHARE CAPITAL		
7.1	Authorised share capital		
		Sep-14 Unaudited	Jun-14 Audited
	Number of shares		
	150,000,000	150,000,000	Ordinary Shares of Rs. 10 each.
		1,500,000	1,500,000
7.2	Issued, subscribed & paid-up capital		
		Sep-14 Unaudited	Jun-14 Audited
	Number of shares		
	41,819,191	41,819,191	Ordinary Shares of Rs. 10 each fully paid in cash
	47,150,732	47,150,732	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares
	88,969,923	88,969,923	889,699

NetSol Technologies Inc., 24025 Park Sorrento, Suite 410, Calabasas CA 91302, USA, is the parent company holding majority of issued capital of the Company. No shares are held by any other related party.

	Sep-14 Unaudited	Jun-14 Audited
	Rupees in '000'	
8. RESERVES		
Capital reserve		
Premium on issue of ordinary shares	297,320	297,320
Revenue reserve		
Un - appropriated profit	4,261,296	4,417,072
Employee share option compensation reserve	1,880	1,880
	4,560,496	4,716,272

9. CONTINGENCIES & COMMITMENTS**9.1 Contingencies**

There are no contingencies as at September 30, 2014 (June 2014 : nil) to which the Company is a party.

9.2 Commitments

9.2.1 The Company has issued worth Rs. 15.863 million (June 2014 : Rs. 15.843 million) bank guarantees and bid bonds to various customers against sale of software and allied services.

9.2.2 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.

9.2.3 The Company has commitment under a capital purchase agreement of Rs. 40 million (June 2014 : Rs. 40 million)

	Jul-Sep 2014	Jul-Sep 2013
	Rupees in '000'	
10. REVENUE - NET		
Export Revenue		
License	147,465	205,122
Services	360,133	300,937
Maintenance	123,745	119,770
	631,343	625,829
Local Revenue		
Services	2,849	3,014
Maintenance	-	1,926
	2,849	4,940
Sales tax	(393)	(403)
	633,799	630,366

11. TAXATION

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

	Jul-Sep 2014	Jul-Sep 2013
	Rupees in '000'	
12. (LOSS) / EARNINGS PER SHARE		
Basic		
Loss / profit after taxation for the period	(155,776)	166,381
Average number of ordinary shares in issue during the period	88,970	87,945
Basic - In Rupees	(1.75)	1.89
Diluted		
Loss / profit after taxation for the period	(155,776)	166,381
Average number of ordinary shares in issue during the period	89,306	89,582
Diluted - In Rupee	(1.74)	1.86

13. TRANSACTION WITH RELATED PARTIES

Related parties comprise of holding company, associated undertakings, directors of the Company, key employees and staff retirement fund. The Group in the 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-Sep 2014	Jul-Sep 2013
		Rupees in '000'	
Relationship with the Company	Nature of transactions		
(i) Parent	Management fee	15,291	15,720
(ii) Associated undertaking	Rental Income	150	-
	Provision of services	158,323	229,747
(iii) Key management personnels	Remuneration of CEO and Directors	2,578	2,483
(vi) Post employment benefit	Contribution to defined contribution plan	13,996	9,593

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

14. SEGMENT REVENUES AND RESULTS

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

	Sep-14				Total
	NFS	IS	SSS	BPO	
	Rupees in '000				
Revenue - net					
External sales					
Licence	147,465	-	-	-	147,465
Services	202,048	2,456	93	157,992	362,589
Maintenance	123,745	-	-	-	123,745
Inter-segment sales					
Total revenue	473,258	2,456	93	157,992	633,799
Cost of revenue	(440,073)	(6,335)	(25,951)	(79,434)	(551,793)
Segment results	33,185	(3,879)	(25,858)	78,558	82,006
Unallocated corporate expenses:					
Selling and promotion expenses					(51,059)
Administrative expenses					(152,651)
Other operating expenses					(3,037)
Other income					10,555
Finance cost					(4,040)
Taxation					(3,799)
(Loss) after taxation					(122,025)

	Sep-13				Total
	NFS	IS	SSS	BPO	
	Rupees in '000				
Revenue - net					
External sales					
Licence	205,122	-	-	-	205,122
Services	176,226	2,611	233	124,478	303,548
Maintenance	119,770	-	1,926	-	121,696
Inter-segment sales					
Total revenue	501,118	2,611	2,159	124,478	630,366
Cost of revenue	(274,765)	(9,462)	(14,801)	(72,443)	(371,471)
Segment results	226,353	(6,851)	(12,642)	52,035	258,895
Unallocated corporate expenses:					
Selling and promotion expenses					(42,373)
Administrative expenses					(139,525)
Other operating expenses					(5,366)
Other income					123,387
Finance cost					(2,017)
Taxation					(933)
Profit after taxation					192,068

*Key

NFS = NetSol Financial Solutions

IS = Information Security

SSS = Software Services and Solutions

BPO = Business Process Outsourcing

15. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on October 30, 2014 by the Board of Directors.

16. FIGURES

Figures have been rounded off to the nearest thousand rupee.



NetSol Technologies Limited

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