



2017

Annual Report

Overview

We are Nanosonics (ASX: NAN). We have developed a unique automated disinfection technology, which is the first major innovation in high level disinfection (HLD) for ultrasound probes in more than 20 years. This proprietary technology is now being introduced around the world and has the opportunity to become the new standard of care as it safely and effectively addresses the issues with traditional ultrasound probe disinfection practices. Nanosonics is also investing in research and development to deliver a range of new innovations to address significant unmet needs in the area of infection prevention.

Our mission is to improve the safety of patients, clinics, their staff and the environment by transforming the way infection prevention practices are understood and conducted, and introducing innovative technologies that deliver improved standards of care.

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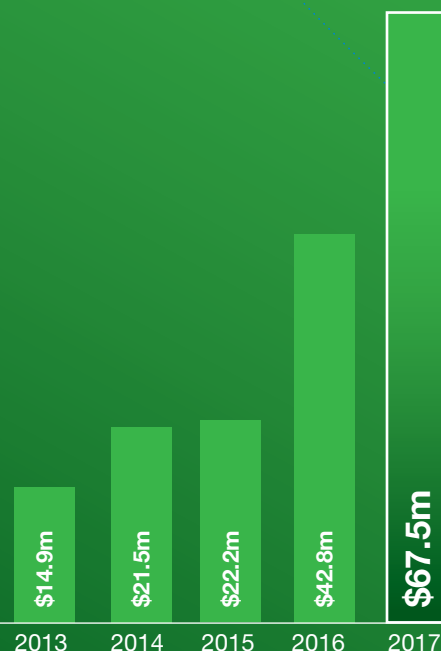
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Financials snapshot

+58%

Sales

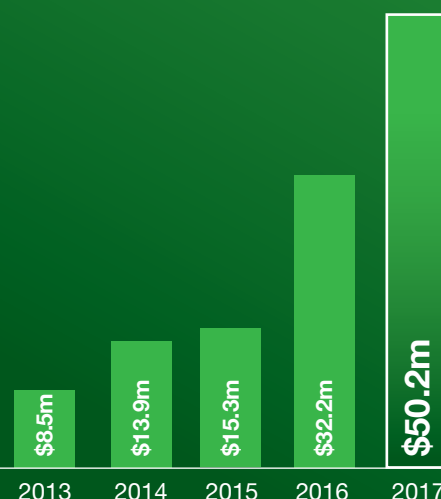
Total sales for the year were **\$67.5 million**, an increase of **58%**, driven mainly by continued strong adoption in North America and growing uptake in the UK.



+56%

Gross profit

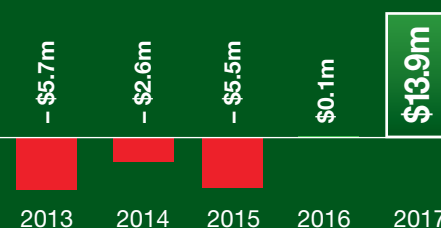
Gross profit increased **56%** in line with the increase in sales and reflecting changes in the sales mix between distribution channels and product categories.



\$13.9m

Profit/(loss) before tax

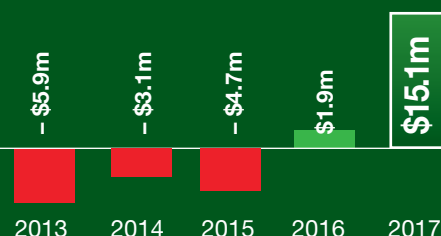
Profit before tax was **\$13.9 million** or **21%** of total sales, driven by strong sales growth.



\$15.1m

Free cash flow

The Company recorded its second full year of positive free cash flow with a significant increase to **\$15.1 million**.



2009–2017 Results

	2017 \$'000	2016 \$'000	2015 \$'000	2014 \$'000	2013 \$'000	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000
Revenue									
Operating revenue	67,507	42,796	22,214	21,492	14,899	12,301	2,247	763	309
Cost of sales	(17,352)	(10,630)	(6,901)	(7,571)	(6,428)	(4,799)	(981)	(284)	(121)
Gross profit	50,155	32,166	15,313	13,921	8,471	7,502	1,266	479	188
Other income									
Government grants received	–	120	119	1,666	1,498	150	–	161	150
Others	780	13	2,189	1,709	–	–	–	–	–
Expenses									
Operating expenses (excluding depreciation and amortisation)	(36,825)	(31,349)	(22,353)	(19,141)	(15,335)	(12,634)	(13,229)	(8,827)	(9,867)
EBITDA	14,110	950	(4,732)	(1,845)	(5,366)	(4,982)	(11,963)	(8,187)	(9,529)
Depreciation, amortisation and impairment	(1,244)	(1,309)	(1,063)	(975)	(1,044)	(914)	(1,010)	(771)	(419)
EBIT	12,866	(359)	(5,795)	(2,820)	(6,410)	(5,896)	(12,973)	(8,958)	(9,948)
Interest income	1,063	1,098	928	739	1,192	586	1,052	785	1,194
Interest expense	(77)	(603)	(598)	(555)	(517)	–	–	–	–
Operating income/(loss) before tax	13,852	136	(5,465)	(2,636)	(5,735)	(5,310)	(11,921)	(8,173)	(8,754)
Net income tax benefit/(expense)	12,306	(14)	5	31	(33)	631	707	–	–
Operating income/(loss) after tax	26,158	122	(5,460)	(2,605)	(5,768)	(4,679)	(11,214)	(8,173)	(8,754)
Cash Assets									
Cash and cash equivalents	62,989	48,841	45,724	21,233	24,064	29,310	12,356	21,144	13,881

Chairman's letter

On behalf of the Board of Directors,
I am pleased to present our
Nanosonics 2017 Annual Report.

The past year saw Nanosonics achieve a number of important milestones in terms of its core trophon growth, the development of its global market presence and, strategically, its new product pipeline. During the year, sales increased 58% to \$67.5 million, driven by a 41% increase in the global installed base of trophon units to over 14,100 and a rapidly growing annuity revenue stream from our consumables portfolio.

The continued strong adoption of trophon technology has resulted in the Company reporting a significant pre-tax profit of \$13.9 million, with free cash flow for the year of \$15.1 million and a balance of \$63.0 million of cash and cash equivalents. The expansion and performance of the business over the last year saw Nanosonics included in the S&P/ASX 200 from December 2016.

In North America, the Company's "go deep and wide" marketing strategy resulted in trophon now being adopted in multiple departments in more than 3,500 facilities. In addition, we now enjoy formal OEM partnerships with nearly all the major ultrasound probe manufacturers who are actively recommending and selling trophon devices to their customers. After the sale to an OEM, Nanosonics is responsible for the ongoing training, service and, importantly, consumables business. These initiatives have resulted in the installed base in North America increasing to approximately 12,400 units. This figure represents around 31% of the estimated 40,000 unit installed base potential in North America. Nanosonics is now putting in place sales programs leveraging our installed base of high profile adopters in the US market to drive further growth.



14,000+
INSTALLED
GLOBALLY
AND GROWING



+58%
SALES
INCREASE
THIS YEAR



165+
PEOPLE IN
OUR TEAM
WORLD WIDE

“The past year saw Nanosonics achieve a number of important milestones in terms of its core trophon growth, the development of its global market presence and, strategically, its new product pipeline.”

Global market expansion continued with the start of Canada's direct sales operation and the signing of a distribution agreement with Sakura Seiki, Japan's leading infection prevention company, for the introduction of trophon. Distribution strategies in a number of countries in the Middle East progressed and are expected to be finalised in early FY18.

Guidelines are a major key to driving accelerated momentum in the broad recognition of trophon as the standard of care internationally. This year the fundamentals for global adoption of trophon were further strengthened by new guidelines reinforcing the importance of high level disinfection being published by leading international bodies with more expected in 2018.

Our commitment is to continue to grow the trophon ecosystem as a core business and value driver. In parallel we have increased investment in Research & Development by over 30% to a total of \$9.5 million. We have focussed our resources largely on high value, regulated, infection and microbial control markets with the potential for significant recurrent consumables revenue. It is anticipated that there will be a number of new product introductions over the coming years targetting a minimum of two over the next two years.

Over the last year, the Nanosonics team has grown to over 165 people located in Australia, the United States, Canada and across Europe. On behalf of the Board, I would like to thank our outstanding CEO Michael Kavanagh, his world class leadership group and our remarkable team for their dedication and focussed efforts that are contributing daily to the ever increasing success of the Company.

I would like to recognise the outstanding efforts of my fellow Board members, each of whom brings a depth and breadth of skills and indeed commitment that has been fundamental



to Nanosonics growth as an international success. To this end, I am also delighted to welcome Marie McDonald to the Board as a Non-executive Director. Marie's strong contribution to the Board has been evident as a result of her extensive background in corporate and commercial law and her interest in science.

Nanosonics has now established itself as an emerging leader and innovative pioneer in delivering our products and services to a world market with even greater needs, based on our commitment to "infection prevention for life". The Company is now in a strong position to leverage its experience, global market footprint, cash resources and, most importantly, human capital and intellectual property to drive success and shareholder value now and into a bright future.

A handwritten signature in blue ink, appearing to read 'Maurie Stang', written over a blue line.

Mr Maurie Stang
Chairman
24 August 2017

CEO's report

The 2017 financial year has been one of significant achievement and progress across all aspects of Nanosonics' business.

Record sales and profit results were achieved, adoption of trophon grew within existing countries, and market fundamentals continued to strengthen with the introduction of a series of new guidelines. Our geographical expansion strategy progressed as we entered into the significant Japanese market with the leading Japanese infection prevention company, Sakura Seiki. In addition, negotiations with a number of distribution partners in the Middle East are progressing and close to finalisation. Operational capabilities and capacity expanded through growth of our talented workforce as well as implementation of important scalability initiatives such as Lean Manufacturing. Our R&D program made significant progress with a number of novel and innovative infection prevention solutions, allowing us to move into the next phase of development work and investment in FY18. These combined outcomes from the business not only delivered excellent financial results but importantly have also set the stage for the implementation of the next phase of our strategic agenda.

The Nanosonics corporate strategy is focussed on five core areas, namely:

- 1 CUSTOMER EXPERIENCE
- 2 PRODUCT INNOVATION
- 3 OPERATIONAL EXCELLENCE
- 4 PEOPLE ENGAGEMENT
- 5 VALUE CREATION

Significant outcomes were achieved throughout the FY17 financial year across each of these core areas.



“Record sales and profit results were achieved, adoption of trophon grew within existing countries, and market fundamentals continued to strengthen with the introduction of a series of new guidelines.”

Customer Experience

Our suite of Customer Experience objectives is focussed on establishing our offerings as new standards of care globally and providing customers with a convenient and consistent experience with our product and brand. Some of the key highlights for the year included:

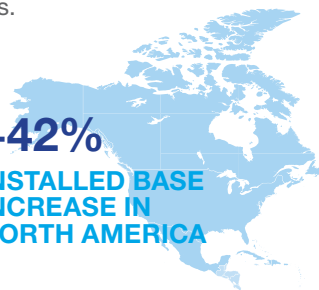
trophon becoming established as the new standard and benchmark

Ongoing educational, marketing and sales efforts throughout the year by Nanosonics and its distributor partners resulted in the installed base in North America growing by 42% to 12,400 units across more than 3,500 facilities. Globally the installed base grew to over 14,100 units. In North America alone, ultrasound probes are trophoned approximately 40,000 times a day and the figure is growing on a daily basis.



+42%

**INSTALLED BASE
INCREASE IN
NORTH AMERICA**



**ULTRASOUND PROBES
TROPHONED IN
NORTH AMERICA
40,000 TIMES
A DAY**

New international guidelines emerging which strengthen the fundamentals for global adoption of trophon

Throughout FY17, trophon was referenced in a number of new guidelines as meeting the required optimal benchmarks of automation as well as clinical efficacy, traceability and probe compatibility. New guidelines were published by international bodies including the World Federation for Ultrasound in Medicine and Biology (WFUMB), Australasian Society for Ultrasound in Medicine/Australasian College for Infection Prevention and Control, and the Health Service Executive in Ireland. In Germany, the first official statement by DGKH (German Hospital Hygiene Society) on ultrasound reprocessing was made. This statement reinforced the guidelines of the commission for hospital hygiene and infection prevention at the Robert-Koch-Institute (RKI) and the Federal Institute for Drugs and Medical Devices (BfArM). The DGKH stated that Ultrasound Probe OEMs must prove efficacy of their recommended decontamination process by expert report. It also stated that if multiple decontamination options are available then the safest one, usually automated, should be chosen. All these guidelines reiterate the importance of high level disinfection for all semi-critical probes. Further guidelines are expected in FY18, including guidelines from the European Society of Radiology (ESR). This follows the outcomes of research amongst ESR members, which clearly demonstrated the requirement to develop a set of European recommendations encompassing all ultrasound examinations, together with education as a priority. New guidelines are also expected in England, not only from the Hospital Infection Society but also from the British Society for Ultrasound in Medicine.

Nanosonics establishing itself as an infection prevention leader

Education and awareness activities continued throughout the year and included some key initiatives to position Nanosonics as an infection prevention leader and our products as standards of care.

To gain a better understanding of the level of awareness of ultrasound-related infection risk and reprocessing requirements, we commissioned research in the US amongst infection preventionists responsible for high level disinfection of medical devices within hospitals. The results found critical gaps in awareness and understanding of ultrasound probe reprocessing requirements and practices among many respondents. An expert roundtable of infection prevention experts was subsequently convened to discuss the survey implications and offer recommendations. This was followed by a joint statement in *Infection Control Today* (ICT), "Ultrasound Probe Infection Risk; A Call to Action", highlighting the need for immediate action to bridge gaps in awareness and enhance knowledge of reprocessing requirements and practices. The Call to Action also recommended prioritising national guidance and activities to improve education and awareness. Educational webinars amongst the infection prevention community, with presentations from members of the expert roundtable, have commenced as part of Nanosonics' Customer education program.

Geographical expansion – a core growth strategy

A core part of Nanosonics' growth strategy is geographical expansion and a key focus in FY17 was finalising the market commercialisation and distribution strategy for the important Japanese market. In June 2017, Nanosonics signed a distribution agreement with Japan's leading infection prevention company, Sakura Seiki, for the introduction of trophon. Local pre-marketing and clinical activities are due to commence in Japan in early FY18.

In the Middle East, registrations are now in place in Saudi Arabia, Kuwait, Qatar and the United Arab Emirates, and distribution arrangements in a number of these countries progressed positively with agreements expected to be signed in early FY18.

Product Innovation

Our Product Innovation objectives focus on identifying unmet customer needs and then developing and bringing to market a portfolio of innovative products that address those needs.

R&D investment identifies a number of exciting new opportunities

Product expansion through strategic investment in R&D is a core growth strategy for Nanosonics. In FY17, \$9.5 million was invested across R&D and Design & Development.

Throughout the year a series of market research activities as well as professional society engagements were undertaken to further confirm important areas of unmet need. The technology research feasibility phase of the product development process was completed on a number of innovations, which now provides confidence to move to the next stage of development in FY18. It is expected that a minimum of two new products will be launched over the next two years.

Strengthening IP position

Nanosonics' patent portfolio continued to make good progress in FY17 with nine applications successfully passing examination to proceed to allowance or grant. Patents were granted in the US, Europe, Canada, Australia and Korea.

Operational Excellence

Our Operational Excellence objectives are focussed on ensuring Nanosonics is agile and has scalable, compliant and performance focussed processes.

Expanding global operations

Nanosonics now has an international operational presence with direct facilities in Australia, North America, the UK and Germany. At the end of FY17, the Nanosonics North American services and logistics group moved to a larger facility to support ongoing growth. This new facility not only expands our direct service operation but also enables full in house direct order fulfilment capabilities, which will be phased in over FY18. A new warehouse and service facility was also established in the UK to service the important, growing UK market.

Lean Manufacturing

As part of our scalability objectives, a Lean Manufacturing program was introduced during the year. The goal of the program was to increase our manufacturing capacity to double the manufacturing output in half the space. This goal was achieved by the end of FY17 and improves our manufacturing capacity for trophon and new products moving forward.



People Engagement

Our People Engagement objectives are centred on building an organisation that attracts and retains the best people, ensuring they are engaged and empowered to deliver on our corporate objectives.

At Nanosonics we are fortunate to have a fantastic team of highly skilled and dedicated professionals working together to implement our business strategies. Nanosonics has an active human capital planning process in place to ensure we continually assess the skills requirements necessary to drive our ongoing success. During FY17 the Nanosonics team grew to over 165 people, bringing new skills and capabilities to the organisation to shape and support the next phase of our growth.

Value Creation

Our Value Creation objective is focussed on creating sustainable shareholder value and delivering high growth and returns.

In FY17, Nanosonics delivered an excellent set of financial results:

\$67.5m

TOTAL SALES

Up 58% compared with FY16 sales of \$42.8 million.

\$13.9m

OPERATING PROFIT BEFORE TAX

Compared with a profit before tax of \$136,000 in the prior year.

\$63.0m

STRONG CASH BALANCE

Established to support our ongoing growth initiatives.

+13.6%

MARKET CAPITALISATION

Market capitalisation of the organisation grew by 13.6% to 30 June 2017 with the organisation entering the ASX 200 during the year.



FY18 Outlook

Our three year plan, established in 2014 has delivered on the core growth objectives for the business defined at that time. Nanosonics is now entering the next phase of its long-term growth strategy which is focussed on:

- continuing to grow and establish trophon as standard of care within existing markets;
- geographical expansion into new markets; and
- product line expansion.

Our investment in R&D is planned to grow in FY18 with the aim of bringing a minimum of two new products to market over the next two years. As a result of this increasing investment, it is expected our total operating expenses for the full year will be approximately \$48 million including \$14 million in R&D.

In the US, the fundamentals for adoption of the trophon technology remain strong. A degree of ongoing uncertainty surrounding healthcare reform remains, which may impact the timing of capital equipment purchases. Some variability in the volume and phasing of GE's capital equipment purchases from Nanosonics is expected throughout the FY18 financial year as GE inventory levels are managed. The installed base in the US is expected to grow in the first half of FY18 by a similar number as H2 FY17 driving an increasing annuity revenue stream from our consumables business.

Our European and Asia Pacific business is expected to grow, in particular in the UK where momentum builds as a result the MES program. A number of new guidelines are also expected which could open up the opportunity for entry into new markets.

Nanosonics is well positioned to leverage its expanding IP Portfolio, growing global presence, existing customer base and reputation amongst the infection prevention community and is committed to its ongoing investment strategy for the long term success of the business.

I would like to thank the entire team at Nanosonics. Each and every person plays an important role in the success of the organisation. We are well positioned and committed to the ongoing growth of this great organisation and delivering long term sustainable value for our shareholders.

Mr Michael Kavanagh
CEO and President

24 August 2017

Regional highlights

North America

During 2017, our strategic growth plan to go wider and deeper into the market resulted in trophon installations increasing by 42% to approximately 12,400 units.



12,400
TROPHON
SYSTEMS NOW
INSTALLED

North America

Healthcare institutions across North America continue to adopt the trophon technology and strengthen their infection prevention protocols. Sales in North America for the year grew 60% to \$62.3 million. This result was driven by focussed efforts to increase awareness and demand with both new and existing customers. The trophon technology is now present in over 3,500 facilities in total, which is helping establish trophon as the standard of care for ultrasound probe disinfection. Across North America, as at 30 June 2017, ultrasound probes are now trophoned approximately 40,000 times a day and the figure is growing daily.

Investments in educational, sales and marketing activities continue to drive market awareness of the risks of cross contamination associated with all semi-critical ultrasound probes. Live and digital education activities emphasise the requirement for high level disinfection (HLD) across a much broader set of procedures where ultrasound probes are used.

A key focus moving forward will be expansion of adoption across all relevant departments in hospitals currently using trophon, in addition to ongoing expansion into new hospitals and the private market.

New market channels

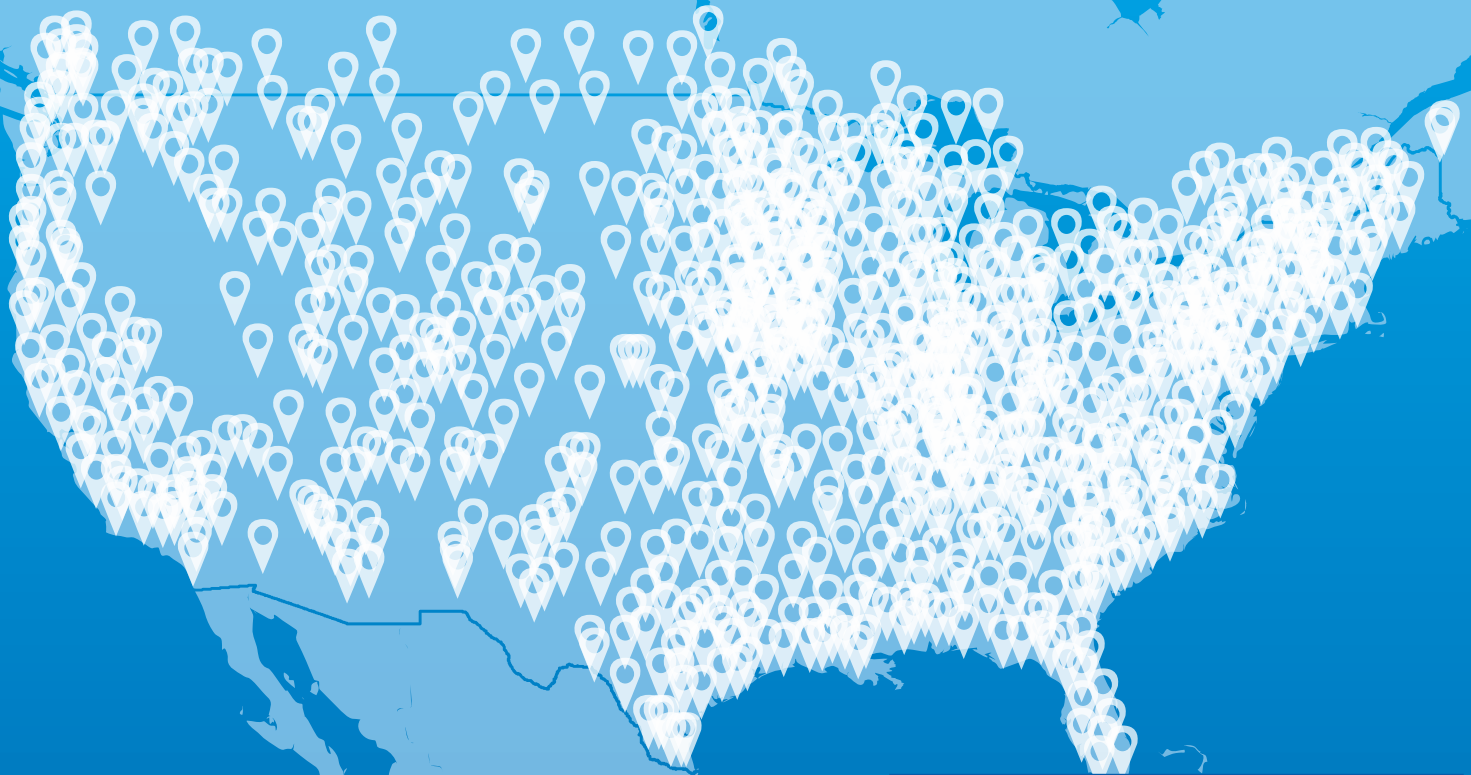
Throughout the year, capital reseller agreements were established with the majority of Ultrasound OEMs. These agreements provide the ultrasound OEMs the opportunity to sell the trophon capital equipment to their customers and Nanosonics is then responsible for the customers' ongoing requirements for training, supply of consumables, and service. The majority of the major Ultrasound OEMs took up this opportunity throughout the year and many of them exhibited trophon on their booths at major medical conferences. This OEM partnership program will continue to be a key component of our trophon business strategy.

Geographic expansion

Nanosonics' direct sales operation for Canada was established this year and a direct sales team is now fully operational. Health Canada approved the necessary Drug Establishment License in February 2017, enabling the importation and sale of trophon consumables. In addition, a distributor arrangement was adopted to service customers in Puerto Rico, resulting in new business commencing in the Caribbean.

Positioning for scalable growth

At the end of FY17, the Nanosonics North American services and logistics group moved to a larger facility to support ongoing growth.



This new facility not only expands our direct service operation but also enables full in house direct order fulfilment capabilities which will be phased in over FY18. The new facility in Indianapolis occupies an area over five times the size of the original location and will be the central US service and support location.

Positioning Nanosonics as an infection prevention leader

Strategic partnerships are key to growing the market for trophon. During the year Nanosonics continued to work as a strategic partner with the Association for Professionals in Infection Control and Epidemiology (APIC). The relationship is creating high industry visibility and we are actively engaged with the APIC Board and leadership. Multiple surveys were conducted throughout the year with leading APIC-affiliated Key Opinion Leaders to assess new applications and products. The strategy is proving highly effective in positioning Nanosonics as an infection prevention leader in North America and establishing credibility across other industry associations.

“Staff members love the ease of use of the trophon. We’re now trying to ‘trophon’ every transducer after use, not just endocavitary.”

Robert De Jong Jr., RDMS, RDCS, RVT, Radiology
Technical Manager, Ultrasound, The Johns Hopkins Hospital

“The community expected the latest and greatest technology ... in the case of high level disinfection, [that] means trophon.”

Feisal Keshavjee, Chief Executive,
Radiology Consultants Associated (RCA),
Calgary, Canada

“The trophon is ground-breaking, and gives an ultrasound department its first technology-driven disinfection process.”

Candace Goldstein, Scripps Clinic,
San Diego

“I actually went to administration to purchase two... they said, well this is great why don’t we just put them in every single room.”

Christopher Iyooob, Manager Radiology
Ultrasound Section, University of Pennsylvania
Health System (Penn Medicine)

“I can’t tell you how many calls I received saying ‘can we get trophon, we really want trophon, what’s the hold up?’ They were thrilled to get it.”

Sue Hohenthanner, Director of Infection
Prevention, Sanford Enterprise, South Dakota

Regional highlights

Europe

European sales grew by 58% to \$1.7 million in FY17.



United Kingdom and Ireland

Momentum of trophon adoption builds in response to guideline changes and Managed Equipment Service business model.

In the UK, by the end of FY17, the number of NHS trusts adopting trophon grew to 36.

Guidelines requiring HLD of semi-critical ultrasound probes are an important key to establishing trophon as the standard of care. Welsh guidelines published two years ago have resulted in all seven Welsh Health Boards adopting the system. Following a series of educational and awareness activities after the release of the Scottish guidelines, eight of the 14 Scottish National Health System (NHS) trusts have commenced their adoption of trophon.

During the year, a Managed Equipment Service (MES) business model was introduced in the UK. This model helps hospitals overcome capital budget constraints and provides an immediate benefit to the customer through earlier access to trophon. Under the MES model, trophon capital equipment, which is owned by Nanosonics, is placed in hospitals, for a contracted period and the facility pays an all-inclusive price for consumables in return for the use and maintenance of the capital equipment. Pleasingly, this model gained momentum with approximately 130 trophon units being placed during the year, the majority in the second half. The benefits of the MES model to Nanosonics are attractive and it is expected that the majority of hospitals in the UK will utilise this model.

Ahead of the publication of the expected new English guidelines, a number of the largest NHS trusts in England have commenced adoption of trophon and the pipeline continues to build across English NHS trusts as well as the private hospital market.

To support the UK growth strategy, the UK sales team was expanded and new warehouse and service operations were also established. Further expansion for sales and marketing

in the UK is planned for FY18. Irish guidance released in February 2017 was also highly positive for trophon. HLD is now recommended for semi-invasive (transvaginal and transrectal) probes as well as for non-invasive probes used on broken skin, which broadens the applications for trophon.

In France and Germany the focus continues to be on market development to strengthen the fundamentals for adoption of trophon technology. The main focus centred on awareness and education initiatives plus consultation with key infection prevention societies and authorities.

France

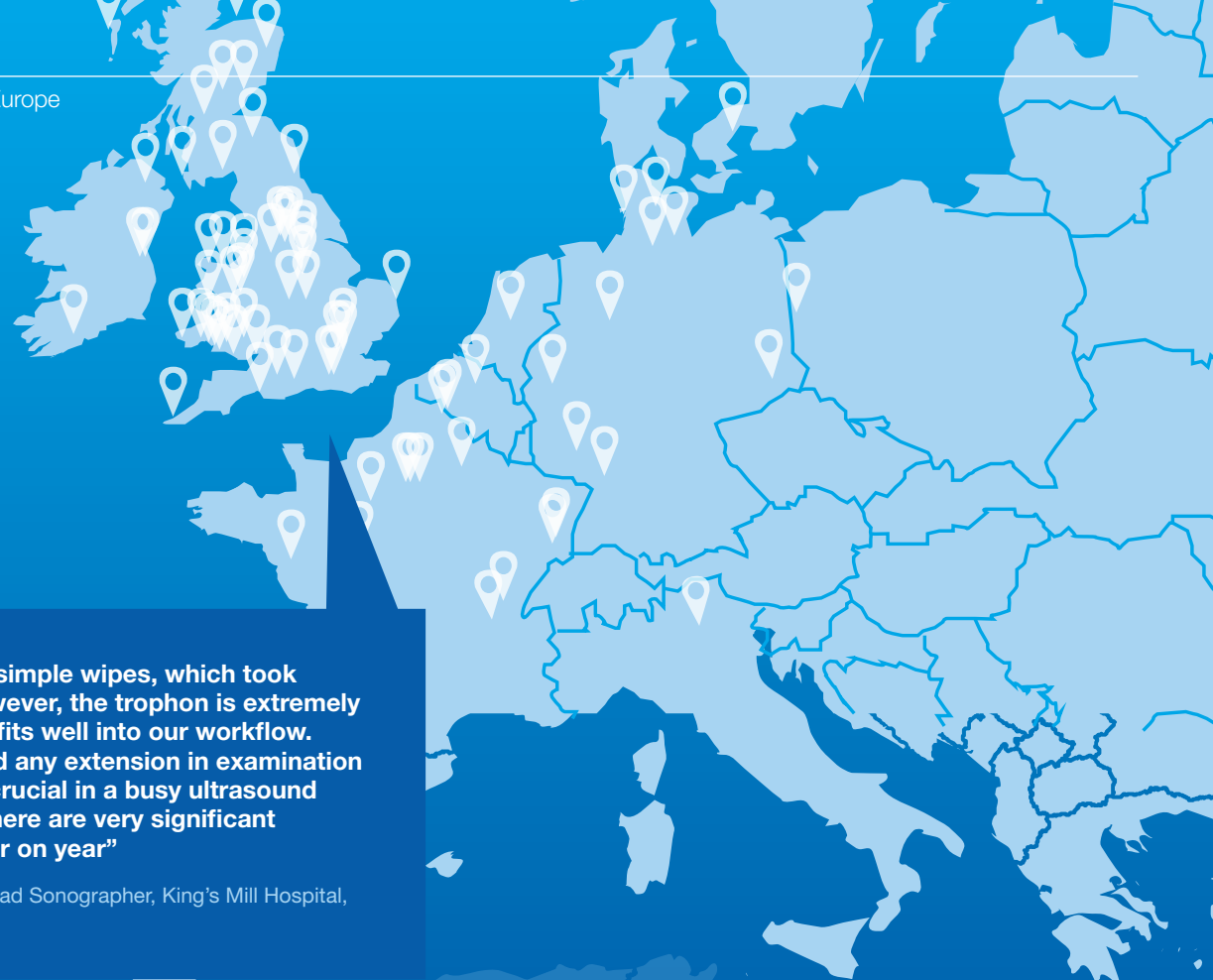
The landscape for ultrasound probe reprocessing is starting to shift.

In the first half of FY17, the Ministry of Health (MOH) issued a new statement that Low Level Disinfection (LLD) for reprocessing intracavity probes remains acceptable but strict compliance with inspection and hygiene processes is required and will be regularly audited.

The MOH also recognised that LLD and Intermediate Level Disinfection (ILD) do not work on HPV. The MOH has called for additional studies on the risks associated with HPV and ultrasound probes and commissioned an audit of current intracavity ultrasound probe reprocessing practices in the medical community.

The French Infection Control Society published a recommendation last year stating that HPV is a concern and that point of care and automated systems should be favoured.

Further good news came in the form of a report from the High Council of Public Health stating that an HLD solution should be permanently available in every facility performing intracavity ultrasound examinations and that such solution should be effective against native ("real") HPV.

A map of Europe with numerous white location pins placed across various countries, indicating a wide geographical distribution of trophon users.

“We used to use simple wipes, which took 30 seconds. However, the trophon is extremely easy to use and fits well into our workflow. It has not caused any extension in examination times, which is crucial in a busy ultrasound department ... there are very significant cost savings year on year”

Ann Allen, Clinical Lead Sonographer, King's Mill Hospital, Nottingham, UK

Germany

Guidelines strengthening in support of HLD for ultrasound probes.

A revised agreement was put in place between the health insurance funds and the National Association of Statutory Health Insurance Physicians whereby its members must decontaminate ultrasound probes in accordance with the guidance provided by the ultrasound probe OEMs. The guidance by the Ultrasound OEMs must in turn be supported by expert report on the virucidal, bactericidal and fungicidal efficacy of the decontamination process.

In December 2016, the first official statement by DGKH (German Hospital Hygiene Society) on ultrasound reprocessing was made. The DGKH stated that Ultrasound Probe OEMs must prove efficacy of their recommended decontamination process by expert report. It also stated that if multiple decontamination options are available then the safest one, usually automated, should be chosen.

Market development work will continue across both France and Germany in FY18. Further guidelines in Europe are also expected throughout the year, including guidelines from the European Society of Radiology, in addition to guidelines in England from the Hospital Infection Society, and also from the British Society for Ultrasound in Medicine. As part of our market expansion strategy across Europe, a senior management position is also planned for FY18 to drive our geographical expansion strategies in the region.

Middle East

Registrations are now in place for Saudi Arabia, Kuwait, Qatar and United Arab Emirates. The trophon technology was presented at Arab Health and demonstrated in hospitals across a number of the Middle East countries.

Distribution strategies in a number of countries progressed and are expected to be finalised in early FY18.

“...trophon's visibility to patients gives them confidence in the cleanliness of the examination procedure.”

Jane MacDonald, Acting Radiology Manager, NHS Western Isles, Scotland

“Our staff like the fact the probes are properly cleaned with trophon and that the machine is easy to use.”

Professor Grant P Cumming, Consultant Obstetrician and Gynaecologist, Dr Gray's Hospital, Scotland

“We wanted trophon to help with workflow and make the department even more efficient, and ensure we deliver a consistent decontamination process.”

Gill Rooney, Superintendent Sonographer, NHS Fife

“Comparing trophon to the three wipe manual system that we used previously, our team is confident that trophon provides a better option to deliver probe disinfection.”

Dr Bettina Kleine, Clinical Lead, Diagnostic Ultrasound Coventry, England

Regional highlights

Asia Pacific

Australia is a perfect example of trophon becoming the standard of care when relevant guidelines and strong fundamentals for adoption are in place.

Australia and New Zealand

Sales in ANZ grew 22% to \$3.1 million with adoption of trophon continuing in a highly penetrated market. While existing Australian guidance has already had a positive impact, a new joint guideline between the Australian Society of Ultrasound in Medicine (ASUM) and the Australasian College for Infection Prevention and Control (ACIPC), was published in the second half of the year. The new guideline emphasised the importance of HLD of all semi-critical ultrasound devices. Educational activities will continue across ANZ throughout FY18 to ensure these requirements are fully understood by all sites using semi-critical ultrasound probes. This includes surface probes used in procedures on broken skin or exposed to blood due to needle-guided biopsies, or in emergency care and surgery.



Japan

Nanosonics continued geographic expansion during 2017 with the market commercialisation and distribution strategy implemented for Japan.

During the year the trophon technology was demonstrated at the annual meeting of the Japanese Society of Infection Prevention and Control (JSIPC) in Kobe in February and at the Japanese Society of Obstetrics and Gynaecology (JSOG) in April 2017. In June 2017, Nanosonics entered into a distribution agreement with Japan's leading infection prevention company, Sakura Seiki, for the introduction of trophon. Local pre-marketing and clinical activities are due to commence in Japan in early FY18.

"With the trophon EPR I can be assured that I'm giving patients the best service all round including, most importantly, the best disinfection procedure for probes."

Dr Andrew Ngu, Principal of East Melbourne Ultrasound, Australia.

"Each practice has been using the trophon for five years and it has proven to be a reliable and efficient method of disinfecting transvaginal transducers."

Dr Brendan Mien, Senior Sonographer, OMNI Ultrasound, Sydney, Australia

Environmental, social and governance (ESG)

Nanosonics' commitment to environmental, social and governance (ESG) factors is embedded in the Company's culture and approach to business.

Our focus on these important factors enables the Company to continue delivering quality products and services, creating a foundation for long-term performance.

End to end environmental practice

From the beginning, our trophon product was designed to improve environmental safety by eliminating the toxic waste management required in traditional ultrasound probe reprocessing.

- Hydrogen peroxide disinfectant is broken down into harmless, environmentally friendly by-products: water and oxygen.
- More than 70% of trophon components are recyclable.
- The disinfectant (Sonex-HL®/ Nanonebulant®) bottles are recyclable.
- The device enters sleep mode when not in use.

In addition to the environmental benefits of its product, Nanosonics follows the General Guidelines for Environmental Management in an organisation (ESOP004) and has identified Environmental risks and put appropriate mitigations in place to control these risks.

A range of environmental initiatives is in place throughout the Company, including:

- Manufacturing and Service recycling program
- Paper recycling
- Battery recycling program
- E-waste program

The Nanosonics Green Team initiative

The Nanosonics Green Team was set up to encourage and implement environmental initiatives throughout the Company. The team publishes newsletters and runs a biannual Green Award program to reward individual employees for their green initiatives.

Social

Increasing global awareness of infection prevention practices for ultrasound probe reprocessing

Nanosonics is committed to transforming the way infection prevention practices are understood and conducted, and has a program of digital and face-to-face clinical education that is helping to drive growing awareness in this area.

Supporting education and research

This year Nanosonics partnered with the Armstrong Institute for Patient Safety and Quality, which aims to improve health care delivery at Johns Hopkins Medicine, Baltimore and around the world. The initiative is focusing on further research into infection control in clinical settings.

The Company also provides intern placements for students from Sydney University, New South Wales University and the University of Technology Sydney. Placements are available across a range of departments including Technology Development and Commercialisation, Design Development, Service and Finance.

Giving back to the community

Nanosonics supports employees to undertake charity events and fundraising initiatives throughout the year by providing entry fees, raffle prizes, and often matching amounts raised. Nanosonics also supports workplace giving via a Corporate Citizen Program, which enables employees to select a charity and have donations automatically deducted from their pay.

Governance

The Board of Directors of Nanosonics is committed to high standards of corporate governance. The Board regularly reviews the policies and practices applied by the Group to ensure they meet the interests of shareholders and other key stakeholders, both for the present and as the Group grows in operational complexity.

Nanosonics believes it complies with the ASX Listing Rules and the ASX Corporate Governance Principles and Recommendations (3rd Edition). Each year Nanosonics describes its corporate governance framework and its adherence to the Recommendations in its Corporate Governance Statement, which is available in the Corporate Governance Investor Centre on Nanosonics' website. Additionally, the Board and management are committed to continuing to review the Company's corporate governance practices in response to changes in market conditions or recognised best practices.

'trophon' today for a safer tomorrow

With the ever-increasing challenges in the fight against the spread of Healthcare Acquired Infections (HAIs), trophon's powerful disinfection technology is setting a new benchmark in protecting patients from the risk of cross contamination from ultrasound procedures.

'trophoning' ultrasound probes reduces cross infection risks

To reduce the risk of cross infection, multiple guidelines now recommend high level disinfection (HLD) of ultrasound probes used in semi-critical procedures. This includes both intracavity (internal examination) procedures and surface ultrasound procedures (external examination) involving non-intact skin.

Studies have demonstrated that traditional methods of disinfection, such as soaking in chemicals, spraying or wiping, are inefficient, environmentally unsound and ineffective.

Nanosonics' trophon is clinically proven to inactivate all the mandated bacteria, fungi and viruses as well as an extended range of clinically infectious pathogens that other HLD products do not. This includes sexually transmitted infections (STIs), *Clostridium difficile* spores, drug resistant bacteria¹ and high-risk HPV.²

Why trophon is so effective: sonicated hydrogen peroxide

The trophon system uses a proprietary hydrogen peroxide disinfectant that is sonically activated to create an

ultrafine mist and free radicals. These potent free radicals have superoxidative properties enabling the disinfectant to act quickly to destroy pathogens.

Safe, versatile and simple to use

Many guidelines now recommend automated reprocessing over manual methods.³ While manual methods are prone to human error, trophon is fully automated, making it simple to use and assuring consistency with every disinfection cycle.

Unlike other decontamination methods, with trophon there is no exposure to harmful chemistries. The system is fully enclosed, allowing it to be placed at the point of care (POC) where examinations are carried out, maximising patient throughput and cost effectiveness.

POC ultrasound has become a cornerstone in the diagnosis and treatment of patients in the emergency department, Intensive Care and Obstetrics and gynaecology in the private markets. Together with its range of consumables and accessories, trophon is ideally positioned to meet HLD requirements at the POC.

This significantly broadens the scope for trophon usage, and is a major benefit that we are leveraging as part of our 'go deep and wide' sales strategy.

Helps facilities meet audit and accreditation requirements

Traceability, which involves monitoring and documenting equipment reprocessing, is highly important in infection control. trophon provides the ability to link the probe and disinfection procedure to the patient, helping facilities to meet audit and accreditation requirements.

The probe compatible solution

Having an HLD system that is validated for use on their ultrasound probes is an important consideration for healthcare providers. Nanosonics continually works with probe manufacturers to carry out extensive probe compatibility testing. More than 1,000 surface and intracavity ultrasound probes from all major and many smaller probe manufacturers are validated for use with trophon.



trophon® product suite

Each sale of a trophon system results in a robust annuity revenue stream of consumables, accessories, and service and maintenance contracts.



Consumables



Sonex-HL®/Nanonebulant®

Proprietary disinfectant liquid with hydrogen peroxide chemistry to achieve effective HLD.



Chemical indicators

Chemical indicators provide additional validation of each disinfection cycle by providing a qualitative colour change.



trophon® Clean Ultrasound Probe Covers

Custom designed covers to protect high level disinfected intracavity and surface ultrasound probes from recontamination before they are used on the next patient.



trophon® printer roll

Refill paper cartridges for the trophon Printer.

Accessories



trophon® Connect

Traceability software to help clinics meet documentation and audit requirements.



trophon® Printer

Provides a fast, easy to use traceability solution by helping to link the probe and disinfection procedure to the patient.



trophon® Logbook

Allows easy recording of disinfection steps to meet best practice standards.



trophon® Wall Mount and trophon® Cart

Enables the trophon to be mounted on a wall where there are space constraints or makes the device fully mobile for convenient POC use.



trophon® Printer Wall Mount

Custom designed for secure, horizontal mounting of the trophon Printer to a wall.



trophon® Printer Cart Mount

Designed to securely attach the trophon Printer to the trophon Cart in an easily accessible, convenient location.

1. Nanosonics test data.

2. Ryndock E, Robison R, Meyers C. Susceptibility of HPV16 and 18 to high level disinfectants indicated for semi-critical ultrasound probes. J Med Virol. 2016 Jun;88(6):1076-80.

3. Rutala W., et. al, Guideline for Disinfection and Sterilization in Healthcare Facilities, 2008, Centers of Disease Control, 1-158, 2008.

The Board

Maurie Stang

NON-EXECUTIVE CHAIRMAN

Mr Stang has been Non-executive Director and Chairman since March 2007 and a member of the Board since November 2000. Mr Stang has more than two decades of experience building and managing companies in the healthcare and biotechnology industry in Australia and internationally. His strong business development and marketing skills have resulted in the successful commercialisation of intellectual property across global markets. He is a Non-executive Director of Vectus Biosystems and has been Non-executive Chairman of Aeris Environmental Ltd (ASX:AEI) since 2002.

Michael Kavanagh

– BSc, MBA (Advanced)

CEO, PRESIDENT AND MANAGING DIRECTOR

Mr Kavanagh joined Nanosonics as CEO and President effective October 2013. He was a Non-executive Director of the Board from July 2012 to October 2013. Mr Kavanagh has more than 25 years of international commercial experience in the healthcare market having held local, regional and global roles in medical device and pharmaceutical industries. Before joining Nanosonics, he was Senior Vice President of Global Marketing for the major medical device company Cochlear Ltd, a position he held for more than 10 years. Mr Kavanagh has no other current and former directorships in the last three years.

Richard England – FCA, MAICD

NON-EXECUTIVE DIRECTOR

Mr England joined the Board in February 2010. He is a chartered accountant and professional Non-executive Director. Mr England has been a Director of Macquarie Atlas Roads Limited (ASX:MQA) since June 2010 and a Director of Japara Healthcare Limited (ASX:JHC) since April 2014. In August 2016 Mr England was appointed Director and Chairman of QANTM Intellectual Property Ltd (ASX:QIP). Mr England was appointed a Non-executive Director of Bingo Industry Limited in March 2017. He was a Director and Chairman of Chandler Macleod Group Limited (ASX:CMG) from February 2008 to April 2015 and a Director and Chairman of Ruralco Holdings Limited (ASX:RHL) from 2002 to September 2016.

David Fisher – BRurSc (Hons), MAppFin, PhD, FFin, GAICD

NON-EXECUTIVE DIRECTOR

Dr Fisher has been a member of the Board since July 2001. Dr Fisher is a founding partner of Brandon Capital Partners, a leading Australian venture capital provider. He has more than 25 years' extensive operating experience in the biotechnology and healthcare industry in Australia and overseas. He held senior positions with Pharmacia AB (now part of Pfizer, Inc) and was CEO of Peptech Limited (now part of Cephalon Inc. (Nasdaq:CEPH)). He was a Director of Aeris Environmental Ltd (ASX:AEI) from May 2011 to July 2014.

Marie McDonald

– BSc (Hons), LLB (Hons)

NON-EXECUTIVE DIRECTOR

Ms McDonald joined the Nanosonics Board in October 2016, bringing with her a strong background in corporate and commercial law, having practised for many years as a partner at Ashurst. Ms McDonald was Chair of the Corporations Committee of the Business Law Section of the Law Council of Australia (2012 to 2013) and was a member of the Australian Takeovers Panel from 2001 to 2010. Ms McDonald is currently a Non-executive Director of CSL Limited, Nufarm Limited and the Walter and Eliza Hall Institute of Medical Research.

Steven Sargent – BBus, FAICD

NON-EXECUTIVE DIRECTOR

Mr Sargent joined the Nanosonics Board in July 2016. He had a 22-year career with General Electric and has extensive global experience across a range of industries including financial services and healthcare. He was Vice President and Officer of GE, a member of GE's Corporate Executive Council and CEO of GE Australia NZ. Mr Sargent is currently a director of Origin Energy, Chairman of OFX Group, a Director of the Great Barrier Reef Foundation and Chairman of The Origin Foundation. Previously, Mr Sargent was a Director of Veda Group, a Director of Bond University and a Director of the Business Council of Australia.

Company Secretaries

McGregor Grant – BEc, CA, GAICD

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Mr Grant joined Nanosonics in April 2011 and is responsible for the overall financial management of the Company, the IT function and, together with Michael Kavanagh, has joint responsibility for investor relations. He has more than 21 years' business experience in a number of senior roles in the medical device and healthcare industries located in Australia and the United States and previously worked for Coopers & Lybrand (now PwC) in Australia and Europe.

Robert Waring

– BEc, CA, FCIS, FFin, FAICD

COMPANY SECRETARY

Mr Waring was re-appointed Company Secretary in October 2010 and earlier held this position at the time of the Company's IPO in May 2007. He is a director of corporate advisory firm, Oakhill Hamilton Pty Ltd, and has had more than 25 years' experience in Company Secretarial roles for ASX listed companies.



The Board and Company Secretaries

Left to right: Marie McDonald (1), Robert Waring (2), Michael Kavanagh (3), Steven Sargent (4), McGregor Grant (5), Maurie Stang (6), David Fisher (7), Richard England (8).

Executive team

Michael Kavanagh – BSc, MBA (Advanced)

CEO, PRESIDENT AND MANAGING DIRECTOR

Michael joined Nanosonics as CEO and President effective October 2013. He was a Non-executive Director of the Board from July 2012 to October 2013. Mr Kavanagh has more than 25 years of international commercial experience in the healthcare market having held local, regional and global roles in medical device and pharmaceutical industries. Before joining Nanosonics, he was Senior Vice President of Global Marketing for the major medical device company Cochlear Ltd, a position he held for more than 10 years. Mr Kavanagh has no other current and former directorships in the last three years.

McGregor Grant – BEc, CA, GAICD CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

McGregor joined Nanosonics in April 2011 and is responsible for the overall financial management of the Company, the IT function and, together with Mr Kavanagh, has joint responsibility for investor relations. He has more than 21 years' business experience in a number of senior roles in the medical device and healthcare industries located in Australia and the United States and previously worked for Coopers & Lybrand (now PwC) in Australia and Europe.

Ron Weinberger – BSc (Hons), PhD PRESIDENT TECHNOLOGY DEVELOPMENT/ COMMERCIALISATION

Ron joined the Company in August 2004 and was appointed as Executive Director in July 2008. From July 2011 to October 2013 he was Managing Director and CEO and, since October 2013, he has been

President Technology Development/ Commercialisation, responsible for the direction of the Company's technology and the identification of new product and commercial opportunities. Dr Weinberger has more than 20 years' experience in medical research and biotechnology and is co-inventor of several of Nanosonics' key technology patents.

Gerard Putt – BSc GAICD CHIEF OPERATIONS OFFICER

Gerard joined Nanosonics full time in 2011 after 18 months on the Nanosonics advisory board and has extensive experience in the medical device industry as a leader of development, engineering, production and operations teams. He has particular experience in the implementation of new products into manufacturing and rapid scaling of production to international market needs. Mr Putt is responsible for the Product Supply, Service and Quality functions at Nanosonics.

Steven Farrugia – BE PhD SENIOR VICE PRESIDENT, DESIGN AND DEVELOPMENT

Steven joined Nanosonics as Senior Vice President, Design and Development, in September 2016. He has over 20 years' experience leading the development of medical devices. Prior to Nanosonics, Dr Farrugia held a range of senior executive roles with ResMed, including VP of Technology and VP of Product Development. He is an inventor of almost 300 granted and pending patents and is an Adjunct Professor of Engineering at The University of Sydney. In addition to Design and Development, Dr Farrugia is responsible for the Regulatory Affairs function of the Company.

Anthony Harrington – BSc, MBA, GAICD SENIOR VICE PRESIDENT, GLOBAL MARKETING

Anthony joined Nanosonics in April 2017. He has more than 25 years' experience in senior marketing and business development roles in the healthcare sector. This includes seven years at Zimmer in senior regional product marketing management roles. Mr Harrington has also held executive and non-executive directorship roles, including Managing Director of Biomet ANZ (orthopaedics) and Vice Chairman of the Medical Technology Association of Australia (MTAA).

Leanne Baxendale HEAD OF PEOPLE AND CULTURE

Leanne joined Nanosonics in March 2017. She has extensive experience in the People and Culture field gained from her work as an executive level strategic business partner in a wide range of national and international workplaces. Her key areas of experience include people and culture strategies, alignment and engagement strategies, high performance culture development, capability building and change management.



Left to right: Leanne Baxendale (1), Anthony Harrington (2), Michael Kavanagh (3), Gerard Putt (4), Steven Farrugia (5), Ron Weinberger (6), McGregor Grant (7).

Directors' report

Your directors submit their report together with the Consolidated Financial Report of Nanosonics Limited and its subsidiaries (the Group or Nanosonics), for the year ended 30 June 2017, and the Auditor's Report thereon.

Principal activities

During the year the principal activities of the Group consisted of:

- Manufacturing and distribution of the trophon® EPR ultrasound probe disinfectant and its associated consumables and accessories.
- Research, development and commercialisation of infection control and decontamination products and related technologies.

There have been no significant changes in the nature of these activities during the year.

Review of operations and financial results

Revenue from sales for the year amounted to \$67,507,000 (2016: \$42,796,000), an increase of \$24,711,000 or 58%, driven by the continued strong adoption of trophon in North America. Sales in North America increased by \$23,276,000 to \$62,305,000. Sales in Europe increased by 58% to \$1,673,000 compared with the previous year. Sales in Asia Pacific amounted to \$3,529,000, an increase of 30% compared with the previous year.

Gross profit increased by 56% to \$50,155,000 compared with \$32,166,000 in the prior period. Gross margin as a percentage of sales was 74% compared with 75% in previous year, reflecting changes in the sales mix between distribution channels and product categories.

Other income amounting to \$780,000 (2016: \$133,000) primarily consisted of net foreign exchange gains on foreign currency forward contracts and options of \$771,000 (2016: \$11,000). There were no government grants received during the year (2016: Export Market Development Grant \$120,000). The Group also incurred net foreign exchange losses of \$1,032,000 (2016: \$541,000), which are included in administration expenses.

Finance income amounting to \$1,063,000 (2016: \$1,098,000) relates to interest earned on cash investments.

Selling, general and administration expenses (SG&A) were \$28,581,000 (2016: \$25,361,000). The increase in SG&A of \$3,220,000 was mainly to support the increased sales in North America and market expansion activities in Europe and other markets as well as expanding internal operational capacity and capabilities to support a growing global organisation.

Research and development expenses (R&D) for the year were \$9,488,000, an increase of 30% compared with 2016. This increase is consistent with the Company's commitment to strategic investment in R&D targeted at design and development activities associated with future generations of the trophon technology, as well as investment in research into novel solutions aimed at addressing considerable unmet needs in the infection prevention field.

Finance expense for the year of \$77,000 related to interest on leases (2016: \$71,000). 2016 finance expenses also included borrowing costs on convertible notes of \$532,000. The convertible notes were converted into shares in April 2016.

Following an assessment of the operations of the Group during the year, it has been determined that it is probable that taxable profits will be generated against which carried forward losses and tax credits will be utilised. As a result, previously unrecognised deferred tax assets in relation to the Australian entities were recognised as a non-current asset. As at 30 June 2017, net deferred tax assets recognised amounted to \$14,134,000 (2016: Nil). Accordingly, the Company recorded a net income tax benefit for the period of \$12,306,000 (2016: net income tax expense of \$14,000), as further detailed in note 3.

The consolidated profit after tax amounted to \$26,158,000 (2016: \$122,000).

The Group ended the year with \$62,989,000 (2016: \$48,841,000) in cash and cash equivalents, an increase of \$14,148,000. The cash and cash equivalents balance provides a strong balance sheet for the Company to continue executing on its growth strategies.

Further information on the operations of the Group and its business strategies and prospects are included in the CEO's report and the Regional highlights on pages 6 to 14 of this Annual Report.

Material business risks

Nanosonics has a risk management framework to identify, assess and appropriately manage risks. Details of the risk management framework are set out in the 2017 Corporate Governance Statement, which is available on the Company's website.

Nanosonics' material business risks and how they are addressed are outlined below. These are risks that may materially adversely affect the Group's business strategy, financial position or future performance. It is not possible to identify every risk that could affect the Group's business, and the actions taken to mitigate these risks cannot provide absolute assurance that risk will not materialise.

- **Significant distribution customer** – The Group's key distribution customer accounts for approximately 66% of the Group's revenue (see note 2.1 of the financial statements), the majority of which is in United States, Nanosonics' largest market. The Group made a strategic decision to establish its own direct operations in North America and has significant direct sales operations in place which continue to grow and can be scaled further. The Group also has its own operations in its other key markets.
- **Research & development and commercialisation** – Nanosonics has one core technology, trophon, and recognises the need to diversify its product portfolio by creating new products. Development and subsequent commercialisation of any new product requires a significant amount of investment and is necessarily uncertain. They are also likely to require a range of regulatory approvals. Nanosonics engages with a range of experts in relevant fields to determine the focus of its R&D efforts. To manage these risks, the Company has a clearly defined framework to support the processes covering product ideation, development and subsequent commercialisation.
- **Competition** – The potential for increased competition exposes Nanosonics to the risk of losing market share. Nanosonics is also exposed to the risk of medical and technological advancement by competitors where alternative products or methods are developed and commercialised that will render trophon obsolete. To address this risk, the Company continues to invest in R&D for the second generation of trophon as well as product diversification.
- **Intellectual Property** – The Company relies heavily on its portfolio of intellectual property (IP). This IP portfolio is essential for safeguarding Nanosonics' existing revenue streams, as well as protecting its business when it develops new products and enters new markets. Nanosonics recognises the potential risk of third party infringement claims on its IP portfolio, the expiry of its IP, and the risk of being unable to register the underlying subject matter or processes in any new products. Nanosonics works closely with specialists and advisors to continually manage its IP opportunities and risks.
- **Supply chain** – The Group is highly aware of managing risks in the supply chain particularly its dependence on critical suppliers for the supply of key materials which carries the risk of delay and disruption. Certain materials are available from sole suppliers and regulatory requirements make substitution costly and time-consuming. The Group regularly monitors its suppliers and their performance. Inventories are managed in sufficient quantities for continued product supply in the short term.
- **Regulation** – The Group operates in a highly regulated industry. Medical devices are subject to strict regulations of various regulatory bodies where the products are sold. Regulatory bodies perform regular audits of Nanosonics' manufacturing sites as well as its 3rd party suppliers and failure to satisfy regulatory requirements could impact the Company's ability to sell the products or may result in a recall that could cause reputational harm. The Group has a highly developed Quality Management System to manage this risk.
- **Financial risks** – The Group is exposed to foreign currency risk and credit risk which are managed through its internal financial risk management policy. Further information is available in note 7 to the financial statements.
- **Product liability** – This is the risk that the product or the use of the product would cause damages to a third party. The Group has product liability insurance and operates a strict Quality Assurance system across all aspects of the design, manufacture and release of products to market.
- **Talent management** – Nanosonics operate in a competitive environment in relation to attracting scientific and engineering talent. The Company has programs in place both for the attraction and retention of talent for the business.

Significant changes in the state of affairs

In the opinion of the Directors, other than the matters described above and in the review of operations included in the CEO's report and Regional highlights on pages 6 to 14 of this report, there were no significant changes in the state of affairs of the Group during the financial year under review and to the date of this report.

Dividends – Nanosonics Limited

The directors do not recommend the payment of a dividend for the financial year ended 30 June 2017. No dividends were proposed, declared or paid during the financial year (2016: Nil).

The Company's dividend policy in the future, the extent of future dividends and any franking of dividends will depend upon the profitability and the financial position of the Group at the relevant time.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

- The Group's operations in future financial years.
- The results of those operations in future financial years.
- The Group's state of affairs in future financial years.

Likely developments and expected results of operations

Comments on expected results of the operations of the Group are in the review of operations included in the CEO's report and Regional highlights on pages 6 to 14 of this report.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group is subject to statutory environmental regulations. The Board believes that the Group has adequate processes in place to manage its environmental regulatory obligations and is not aware of any breach of those environmental regulations as they apply to the Group.

Directors and company secretaries

During the year, the Board of Nanosonics Limited comprised of Maurie Stang, David Fisher, Richard England, Michael Kavanagh, Steven Sargent (appointed 6 July 2016) and Marie McDonald (appointed 24 October 2016). Ron Weinberger ceased being a director on 4 November 2016.

As at the date of this report, Nanosonics Limited has the following committees of the Board: Audit and Risk, Remuneration, Nomination, and R&D and Innovation. Details of members of the committees of the Board during the year are included below and on page 27.

During the year, McGregor Grant and Rob Waring were in office as company secretaries.

Information on the directors, company secretaries and the executive team is a part of the Directors' report and can be found on pages 18 to 21 of the Annual Report.

Meetings of directors

The number of directors' meetings, including meetings of the committees, held during the year ended 30 June 2017, and numbers of meetings attended by each of the directors were as follows:

	Meetings of committees									
	Full meetings of directors		Audit and Risk		Nomination		Remuneration		R&D and Innovation	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Maurie Stang	10	10	2	2	2	2	6	6	4	4
Richard England	10	10	6	6	2	2	6	5		
David Fisher	10	9	6	5	2	2	3	2	4	4
Steven Sargent	10	10			1	1	5	5	4	4
Marie McDonald ¹	7	7	5	5			3	3		
Michael Kavanagh	10	10							4	4
Ron Weinberger ²	5	4							1	1

1. Ms McDonald was appointed on 24 October 2016. The number of full meetings of directors attended by Ms McDonald includes a meeting by invitation before becoming a director.

2. Dr Weinberger ceased being a director on 4 November 2016.

Share-based payments

Shares issued under the DESP and performance rights and options granted under ESOP and GSOP and the new Nanosonics Omnibus Equity Plan during the year are detailed below.

Shares issued

During the year ended 30 June 2017 and to the date of this report, the Company issued a total of 1,798,419 (2016: 13,023,646) new ordinary shares in Nanosonics Limited as detailed below. No amount was unpaid on any of the shares issued.

Shares issued	Number of shares issued
Share options exercised under Share Option Plans	1,798,419
Total new shares issued during the year and to the date of this report	1,798,419

As at 30 June 2017, there were 297,732,955 (2016: 295,934,536) ordinary shares in Nanosonics Limited on issue. At the date of this report, there were 297,732,955 shares on issue. Further information on issued shares is provided in the Contributed equity and the Share-based payments note to the financial statements.

Share options granted

During the financial year and to the date of this report, the Company granted under the terms and conditions of the Nanosonics Omnibus Equity Plan for no consideration, 583,258 unquoted performance rights (2016: 1,446,710 under Employee Share Option Plan) and 495,783 unquoted share options (2016: Nil) over unissued ordinary shares in Nanosonics Limited. Further information on the grants is in Section 5 of the Remuneration report on pages 42 to 47 and in the Share-based payments note to the financial statements.

Shares under option

At the date of this report, there were 3,521,209 unissued ordinary shares of Nanosonics Limited under option as detailed below. As at 30 June 2017, there were 3,522,522 (2016: 4,283,250) unissued ordinary shares of Nanosonics Limited under option. Further information on the options is provided in the Share-based payments note to the financial statements.

Share-based compensation plan	Number of shares under option
Omnibus Equity Plan	1,070,230
Employee Share Option Plan	2,452,292
Total shares under option at 30 June 2017	3,522,522
Performance rights lapsed	
Omnibus Equity Plan	(1,313)
Total shares under option to the date of this report	3,521,209

The options entitle the holder to participate in a share issue of the Company provided the options are exercised on or after their vesting date and prior to their expiry date. No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Remuneration report – audited

Table of contents

Section	Title	Description
1	Introduction	Describes the scope of the Remuneration report and the individuals whose remuneration details are disclosed.
2	Remuneration governance	Describes the role of the Board and the Remuneration Committee and the use of remuneration governance consultants when making remuneration decisions.
3	Non-executive Director remuneration	Provides detail regarding the fees paid to Non-executive Directors including all required disclosures.
4	Executive remuneration	Outlines the Company's remuneration strategy and principles applied to executive remuneration decisions and the framework used to deliver it, including the performance and remuneration linkages, and all required executive remuneration disclosures.
5	Employee share scheme information	Provides detail regarding the Company's employee equity plans including that information required by the Corporation Act and applicable accounting standards.
6	Employment agreements	Provides details regarding the contractual arrangements between the Company and the executives whose remuneration details are disclosed.
7	Key Management Personnel transactions	Provides details of loans and other transactions with Key Management Personnel and their related parties.

1.0 Introduction

Nanosonics is a rapidly growing medical technology company with operations in six countries. The Board has a strong growth focus and the executive remuneration policies are designed to direct behaviours towards achieving sustainable growth in shareholder value over the medium to long term. However, it should be understood that to attract, motivate and retain high performing executives and in the face of strong competition for talent, some flexibility in the Company's approach is required.

The Board's executive remuneration strategy is to provide 'fair and appropriate' remuneration balanced on a risk and reward framework that supports its business strategy in the short and long term. Board and executive remuneration are reviewed independently on a regular basis.

The Board believes that Nanosonics' approach to Executive Key Management Personnel (KMP) remuneration is appropriately balanced to fairly reward and motivate an experienced executive team to deliver profitable business growth which meets the expectations of our shareholders.

1.1 Scope

This Remuneration report sets out, in accordance with the relevant *Corporations Act 2001* (Cth) (Corporations Act) and accounting standard requirements, the remuneration arrangements in place for KMP of Nanosonics during the financial year ended 30 June 2017 (2017 Financial Year).

1.2 Key Management Personnel

Key Management Personnel have authority and responsibility for planning, directing and controlling the activities of Nanosonics and comprise the Non-executive Directors, Executive Director and Executive KMP. Details of the KMP during the year are set out in the table below.

Name	Position (at year end) ¹	Change in 2017 Financial Year
Non-executive Directors		
Maurie Stang ²	Chairman Chairman, Nomination Committee Member, Remuneration Committee Member, R&D and Innovation Committee	Appointed as Chairman on 20 July 2016
Richard England ³	Director Chairman, Audit and Risk Committee Member, Remuneration Committee Member, Nomination Committee	
David Fisher ⁴	Director Chairman, R&D and Innovation Committee Member, Audit and Risk Committee Member, Nomination Committee	
Steven Sargent	Director Chairman, Remuneration Committee Member, R&D and Innovation Committee Member, Nomination Committee	Appointed on 6 July 2016 Appointed on 20 July 2016 Appointed on 27 September 2016 Appointed on 20 July 2016
Marie McDonald	Director Member, Audit and Risk Committee Member, Remuneration Committee Member, Nomination Committee	Appointed on 24 October 2016 Appointed on 24 October 2016 Appointed on 24 October 2016 Appointed on 24 October 2016
Executive Director		
Michael Kavanagh	Chief Executive Officer & President (CEO&P) and Managing Director Member, R&D and Innovation Committee	
Executive KMP		
Ron Weinberger	President, Technology Development/Commercialisation	Ceased being an Executive Director on 4 November 2016
McGregor Grant	Chief Financial Officer (CFO) and Company Secretary	
Gerard Putt	Chief Operations Officer	
Steven Farrugia	SVP – Design and Development	Appointed on 5 September 2016

1. Position held for full year, unless otherwise stated.

2. Mr Stang ceased being a member of the Audit and Risk Committee on 14 December 2016.

3. Mr England ceased being Chairman of the Remuneration Committee on 20 July 2016.

4. Dr Fisher ceased being a member of the Remuneration Committee on 20 July 2016.

2.0 Remuneration governance

This section of the Remuneration Report describes the role of the Board, the Remuneration Committee, and the use of remuneration consultants when making remuneration decisions.

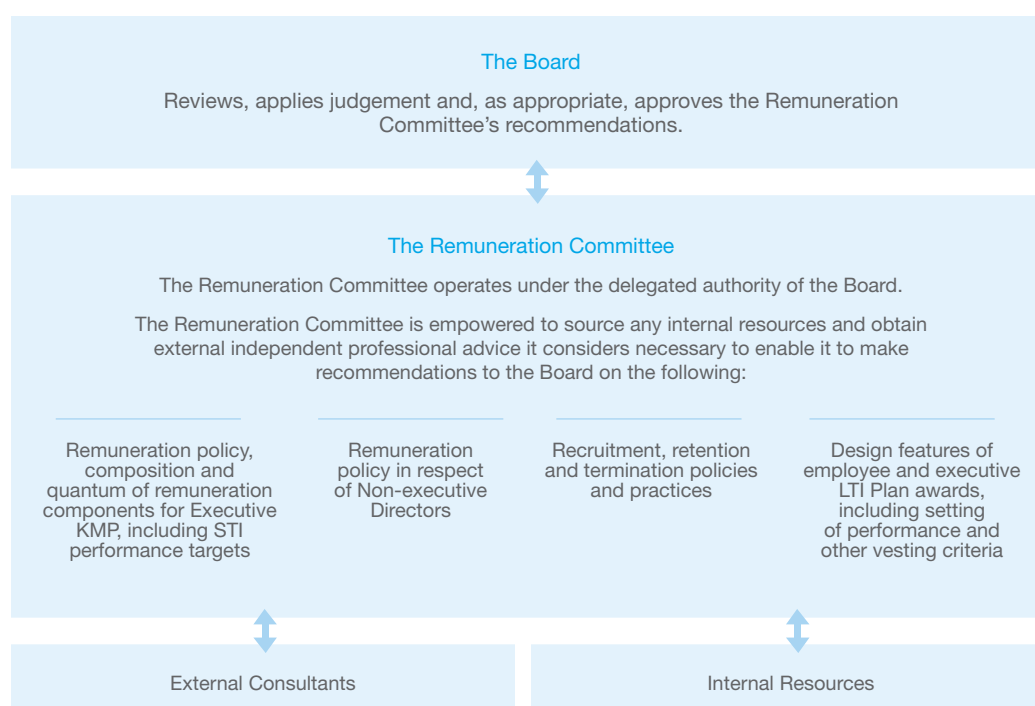
2.1 Role of the Board and the Remuneration Committee

The Board is responsible for Nanosonics' remuneration strategy and policy. Consistent with this responsibility, the Board has established a Remuneration Committee which comprises a majority of independent Non-executive Directors. The members of the Remuneration Committee during the 2017 Financial Year are shown in Section 1.2.

The role and responsibilities of the Remuneration Committee are set out in its Charter, which was last revised and approved by the Board in July 2014. In summary the Remuneration Committee's role is to:

- Review and approve Nanosonics' remuneration strategy and policy and ensure that appropriate processes and procedures are in place to assess the remuneration levels of the Board and executive KMP, and all other employees across the Group.
- Consider and propose to the Board the remuneration of the CEO&P and consider and approve the remuneration of all designated senior executives.
- Review and approve Nanosonics' incentive schemes, including amounts, terms and offer processes and procedures.
- Determine and approve equity awards in accordance with policy and shareholder approvals, including testing of vesting and termination provisions.

The Remuneration Committee's role and its interaction with the Board, internal and external advisors, is illustrated below:



Further information on the Remuneration Committee's role, responsibilities and membership is contained in the Corporate Governance Statement. The Remuneration Committee Charter and the Corporate Governance Statement can be viewed in the Corporate Governance section of Nanosonics' website at www.nanosonics.com.au.

2.2 Use of remuneration consultants

During the year ended 30 June 2017, no remuneration recommendations were made in relation to any Key Management Personnel.

John Egan, Remuneration Consultant, Egan Associates Pty Limited was engaged during the 2017 Financial Year to provide other services including salary benchmarking data. Fees paid for these services amounted to \$57,540.

3.0 Non-executive Director remuneration

3.1 Non-executive Director remuneration philosophy

Principle	Comment
Fees are set by reference to key considerations	Fees for Non-executive Directors are based on the nature of the Directors' work and their responsibilities, taking into account the nature and complexity of the Company. In determining the level of fees, survey data on comparable companies are considered. Non-executive Directors' fees are recommended by the Remuneration Committee and determined by the Board. Shareholders approve the aggregate amount available for the remuneration of Non-executive Directors.
Remuneration is structured to preserve independence	To preserve independence and impartiality, Non-executive Directors are not entitled to any form of incentive payments and the level of their fees is not set with references to measures of Company performance.
Maximum aggregate Board fees are approved by shareholders	The total amount of fees paid to Non-executive Directors in the year ended 30 June 2017 is within the aggregate maximum amount approved at a general meeting of the Company on 4 November 2016 of \$1,000,000 a year.
Flexibility in how fees are received	Non-executive Directors can elect how they wish to receive their total fees, i.e. as a contribution of cash, superannuation contributions or charitable donations.

3.2 Non-executive Director fees and other benefits

Elements	Details
Board fees	Board Chairman fee \$170,000
	Board Non-executive Director fee \$85,000
	Board Committee Chairman fee \$15,000
Post-employment benefits	
Superannuation	Superannuation contributions are included in the Board fees and are made at a rate of 9.5% of base fee up to the Australian Government's prescribed maximum contributions limit.
Other benefits	
Equity instruments	Non-executive Directors do not receive any performance related remuneration, options or performance shares.
Other fees/benefits	Non-executive Directors are reimbursed for out-of-pocket expenses that are directly related to Nanosonics' business.

3.3 Non-executive Director total remuneration

	Year	Fees (\$)	Superannuation (\$)	Total (\$)
Maurie Stang	2017	155,251	14,749	170,000
	2016	132,420	12,580	145,000
Richard England	2017	91,324	8,676	100,000
	2016	73,059	6,941	80,000
David Fisher	2017	91,324	8,676	100,000
	2016	73,059	6,941	80,000
Steven Sargent ¹	2017	90,236	8,572	98,808
	2016	–	–	–
Marie McDonald ²	2017	53,598	5,092	58,690
	2016	–	–	–
Total	2017	481,733	45,765	527,498
	2016	278,538	26,462	305,000

1. Mr Sargent was appointed as a Non-executive Director on 6 July 2016. No remuneration was paid to Mr Sargent in respect of the 2016 Financial Year.

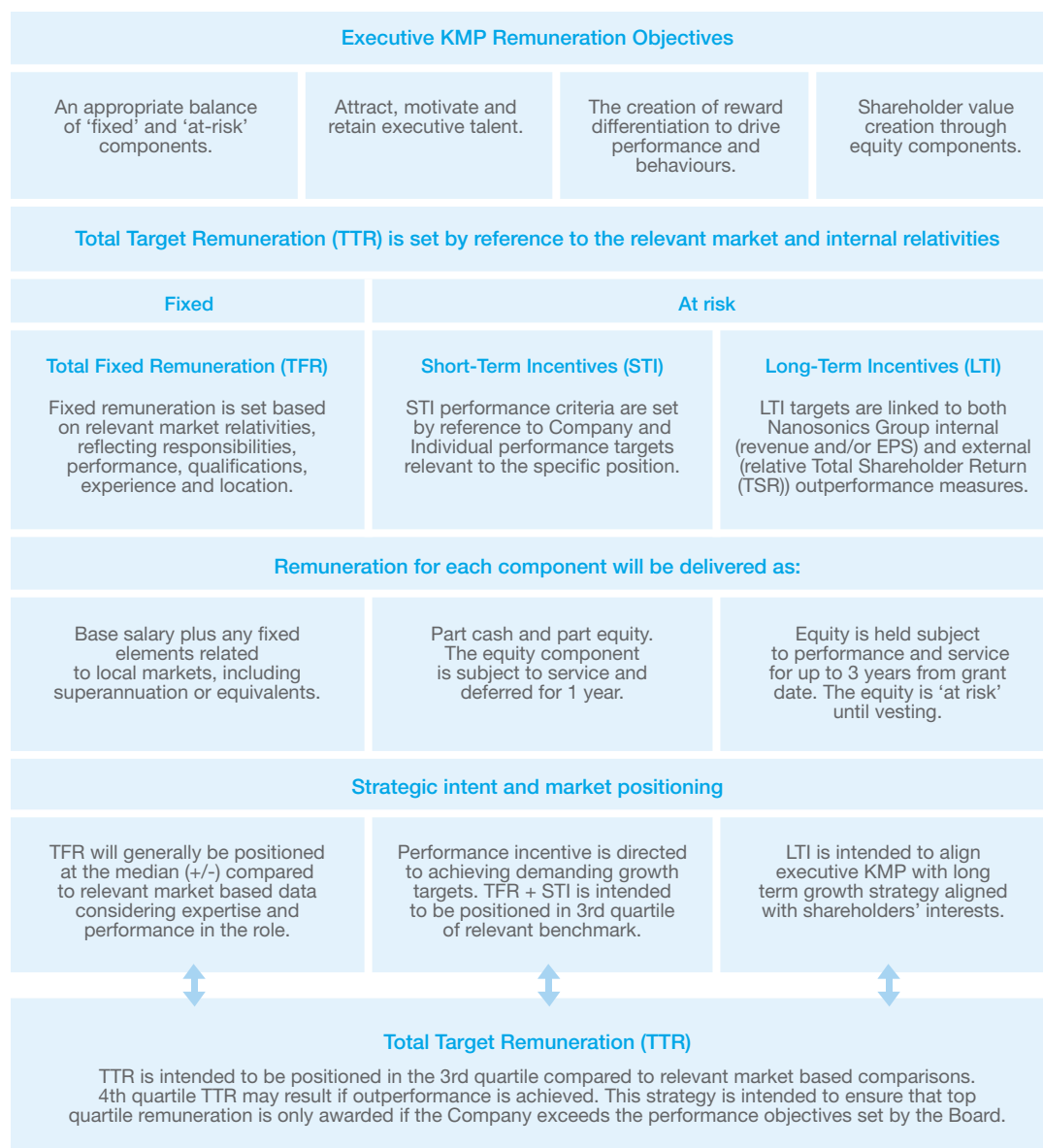
2. Ms McDonald was appointed as a Non-executive Director on 24 October 2016. No remuneration was paid to Ms McDonald in respect of the 2016 Financial Year.

4.0 Executive remuneration

4.1 Executive KMP remuneration

Nanosonics' executive remuneration policies are designed to attract, retain and motivate its executives.

Executive KMP remuneration objectives are delivered through three categories of remuneration, as illustrated below:



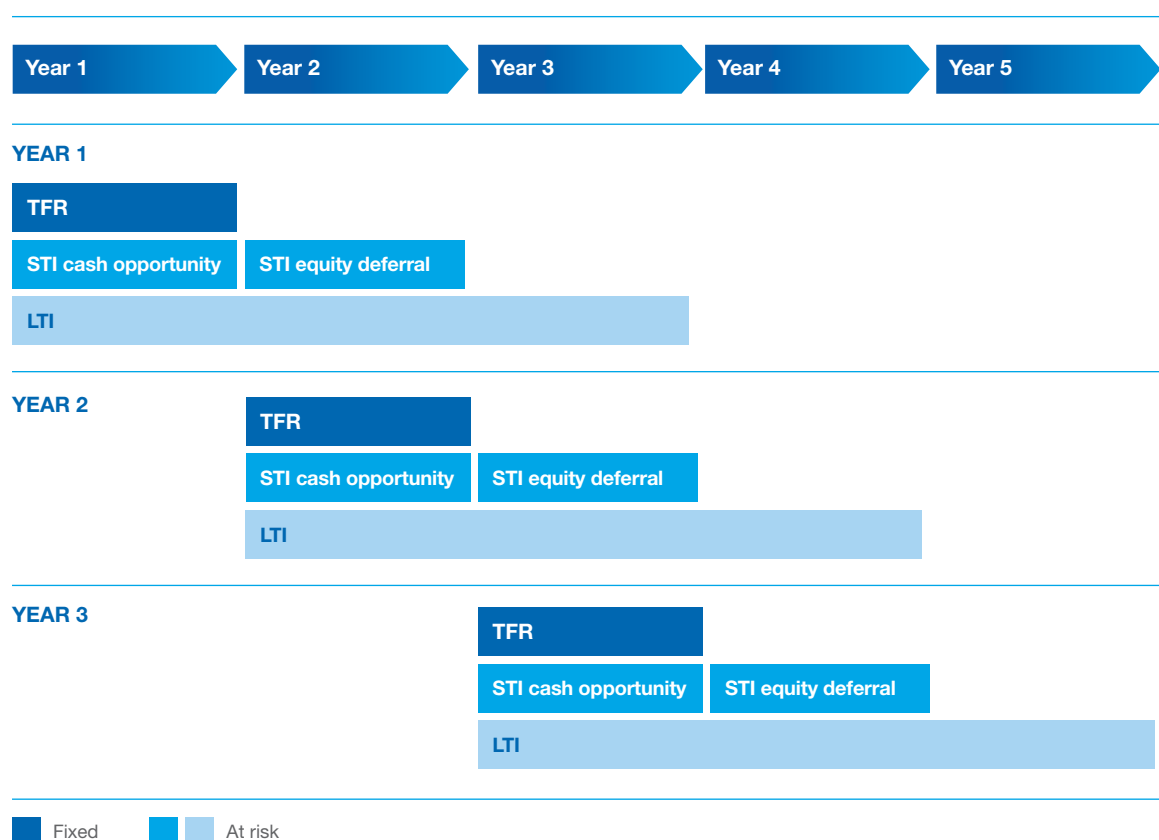
4.2 Remuneration mix and timing of receipt

4.2.1 Remuneration mix

Position	TFR (Cash)	STI (Cash and Equity)	LTI (Equity)
CEO & President	100%	50% of Base Salary	60% of Base Salary
Other Executive KMP	100%	30% of Base Salary	30% of Base Salary

4.2.2 Remuneration – timing of receipt of the benefit

The three complementary components of executive KMP remuneration are 'earned' over multiple time ranges. This is illustrated in the following chart.



Each year, fixed remuneration and benefits are paid (monthly) and short term incentives are awarded based on achievement of annual performance targets set. A portion of any STI earned is 'invested' in performance rights and deferred for a minimum of 12 months. Each year, a long term equity incentive may be provided to eligible and invited executives. The LTI vests after three years if the specified conditions are satisfied. In this way executives are rewarded for short, medium and long term performance aligned to shareholder interests and expectations.

4.3 Total Fixed Remuneration explained

Total Fixed Remuneration (TFR) includes all remuneration and benefits paid to an executive KMP calculated on a total employment cost basis. In addition to base salary, executives may receive benefits in line with local practice, such as superannuation and health insurance.

Executive KMP TFR is tested regularly for market competitiveness by reference to appropriate independent and externally sourced comparable benchmark information. Usually, TFR adjustments are only made in response to individual performance (as measured), an increase in job role, changing market circumstances or promotion. Any adjustment to executive KMP remuneration is approved by the Board, based on recommendations by the Remuneration Committee and CEO&P.

4.4 Variable (at risk) remuneration explained

As set out in Section 4.2, variable remuneration forms a significant portion of the executive KMP remuneration opportunity. Apart from being market competitive, the purpose of variable remuneration is to direct executives' behaviours towards maximising Nanosonics' short, medium and long term performance, as measured. The key aspects are summarised below.

4.4.1 Short Term Incentives (STI)

Purpose	The STI arrangements at Nanosonics are designed to reward executives for the achievements against annual performance targets set by the Board at the beginning of the performance period. The STI program is reviewed annually by the Remuneration Committee and approved by the Board. All STI awards to the CEO&P and other executive KMP are approved by the Remuneration Committee and the Board.
Performance targets	The key performance objectives of Nanosonics are currently directed to achieving financial targets (sales and Profit Before Tax (PBT)) complemented by the achievement of individual performance goals. The weighting between the financial targets and individual performance goals varies across the leadership team. In the case of the CEO&P the weighting is 60% financial targets and 40% individual performance goals and in the case of other executive KMP the weighting is 50% financial targets and 50% individual performance goals. All targets are set having regard to prior year performance, market conditions and the Board approved budgets. The specific targets are not provided in detail due to their commercial sensitivity. Achievement of financial targets above a threshold level is generally required before STI awards are approved, subject to Board discretion. In the 2017 Financial Year, the Board exercised its discretion in this regard. The actual STI awards for executive KMP in respect of the 2017 Financial Year are as set out in the table in Section 4.6.2.
Payment of STI	To ensure there is an appropriate retention element of STI and to reinforce alignment with shareholders there is a mandatory deferral of a portion of STI. The STI is delivered as follows: • 50% of STI paid in cash • 50% of STI delivered as Nanosonics performance rights deferred for one year The equity component will be determined based on the 5 day Volume Weighted Average Market Price of Nanosonics shares as at 31 August each year. As the STI amount awarded as equity has already been earned, there are no further performance measures attached to the performance rights. However, they are subject to service conditions until the vesting date.

4.4.2 Long Term Incentives (LTI)

The LTI provides an annual opportunity for selected executives to receive an equity award deferred for three years that is intended to align a significant portion of an executives overall remuneration to shareholder value over the longer term.

All LTI awards remain at risk until vesting and must meet or exceed the defined performance hurdles over the vesting period.

Purpose	To align the executive KMP remuneration opportunity with shareholder value and provide retention stimulus.
Type of equity awarded	The Nanosonics Omnibus Equity Plan (NOEP) was adopted in November 2016. See Section 5.1 for further details. Under the Nanosonics Long Term Incentive Scheme (LTIS) selected senior executives are offered performance rights (being options to acquire ordinary shares of Nanosonics Limited for a nil exercise price) or options (being an option at a pre-set exercise price to acquire a fully paid ordinary share on Nanosonics Limited) under the terms of the NOEP. For the 2016 LTIS, executive KMP can elect to receive a combination of performance rights and options, provided a minimum of 20% of the value of the award is received as performance rights and 20% of the value of the award is received as options. Performance rights and options do not carry any dividend or voting rights prior to exercise.
Timing	Grants are made each year after shareholder approval to issue securities to Directors has been obtained at the relevant AGM.
LTI allocation	The size of individual LTI grants for the executive KMP is determined in accordance with the Board approved remuneration strategy mix. See Section 4.2. The target LTI \$ value for each executive, once determined, is then converted into a number of performance rights and options based on a valuation / methodology determined by an independent consultant, as follows. Performance rights allocated = LTI \$ value / Binominal Approximation Option Pricing value. Options allocated = LTI \$ value / Black Scholes value.
Performance hurdles	Equity grants to the executive KMP are subject to Performance Conditions including internal (revenue and/or EPS) and external (relative Total Shareholder Return (TSR)).
Time restrictions	Equity grants are tested against the performance hurdles set at the end of three financial years. If the performance hurdles are not met at the vesting date the performance rights and options lapse.
Service conditions	In addition to the Performance Conditions, performance rights and options will only vest if the executive KMP remains in continuous employment with Nanosonics in their current or equivalent position from the date of grant to the respective vesting date of each grant.

A summary of the components of the Performance Conditions associated with the performance rights and options granted to the executive KMP in respect of the 2016, 2015 and 2014 Long Term Incentive Schemes is set out below.

LTIS year	TSR-1	TSR-2	EPS	Revenue	Total
2016	25%	25%	50%	–	100%
2015	50%	50%	–	–	100%
2014	50%	–	–	50%	100%

Details of the each of the components of the Performance Conditions associated with the 2016, 2015 and 2014 Long Term Incentive Schemes are summarised below.

Relative Total Shareholder Return hurdle (TSR-1 and TSR-2)

The performance rights and options granted that are subject to a TSR hurdle will vest subject to Nanosonics' relative TSR performance against the companies within the relevant TSR Comparator Groups over the defined Measurement Period. In 2016 and 2015 two TSR Comparator Groups were used, TRS-1 and TSR-2. In 2014 only one TSR Comparator Group was used. Details of the TSR Comparator Groups are set out in Section 4.6.3.

Vesting of performance rights and options, subject to Relative TSR Performance, are in the proportions summarised below.

TSR vs Comparator Groups 1 and 2	Proportion of performance rights and options to Vest
Below the 50th percentile	0%
50th to 75th percentile	30% to 100% (pro-rata)
At the 75th Percentile	100%
Straight line interpolation applies to the incremental results.	

The TSR Measurement periods for the 2016, 2015 and 2014 Long Term Incentive Schemes are summarised below.

LTIS year	Measurement period
2016	17 August 2016 to the date of the release of Nanosonics' FY19 financial statements
2015	20 August 2015 to the date of the release of Nanosonics' FY18 financial statements
2014	In the case of the LTIS awarded to the CEO&P, 8 November 2013 to the date of the release of Nanosonics' FY17 financial statements and in the case of other Executive KMP, 11 March 2015 to the date of release of Nanosonics' FY17 financial statements.

Earnings Per Share hurdle

The performance rights and options granted that are subject to an EPS hurdle will vest if Nanosonics achieves a target pre-tax Earnings Per Share (EPS), as pre-determined by the Board. For the 2016 LTIS, the relevant year for determining achievement of the EPS hurdle is the financial year ending on 30 June 2019.

Vesting of the performance rights and options, subject to achieving the pre-tax EPS hurdle, is in the proportions summarised below.

Achievement of pre-tax EPS target	Proportion of performance rights and options to Vest
Below 75% of target pre-tax EPS	0%
75% to 100% of target pre-tax EPS	75% to 100% (pro-rata)
Above 100% of target pre-tax EPS	100%
Straight line interpolation applies to the incremental results.	

Revenue hurdle

In respect of the 2014 LTIS, the performance rights granted that are subject to a revenue hurdle will vest subject to Nanosonics achieving a target revenue.

Vesting of the performance rights, subject to achieving the Revenue hurdle, is in the proportions summarised below.

Revenue in Financial Year 2017	Proportion of Performance Rights to Vest
<\$30.9 million	0%
\$30.9 million	25%
\$36.4 million	50%
\$42.6million	75%
\$49.5 million	100%

4.5 Relationship between Nanosonics' performance and executive KMP remuneration

As explained in Section 4.1, Nanosonics' remuneration framework aims to reward executive KMP to achieve sustainable growth of the business and the creation of shareholder value in the short, medium and long term.

4.5.1 Nanosonics' financial performance

	2017	2016	2015	2014	2013
Sales revenue (\$'000)	67,507	42,796	22,214	21,492	14,899
Profit/(loss) before tax (\$'000)	13,852	136	(5,465)	(2,636)	(5,735)
Net profit/(loss) after tax (\$'000)	26,158	122	(5,460)	(2,605)	(5,768)
Pre-tax basic earnings per share (Pre-tax EPS) (cents)	4.66	0.05	nm ¹	nm ¹	nm ¹
Basic earnings per share (EPS) (cents)	8.79	0.04	(2.03)	(0.99)	(2.21)
Share price as at 30 June (\$)	2.54	2.19	1.70	0.79	0.60
TSR percentile ranking ²		91 st	nm ¹	nm ¹	nm ¹

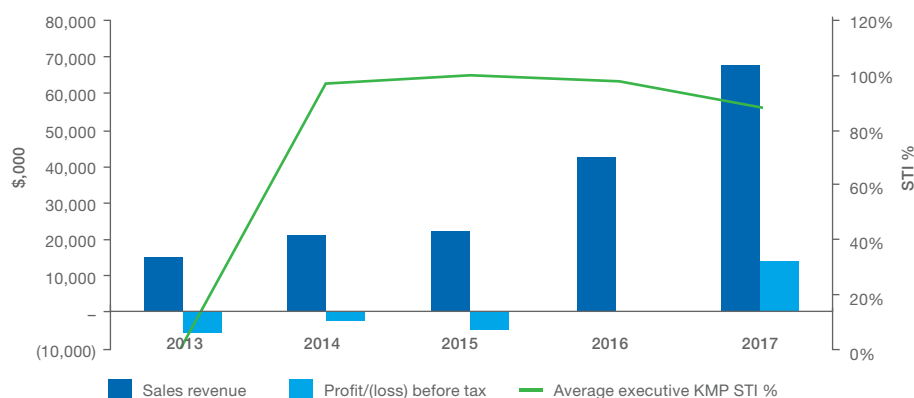
1. Not measured.

2. TSR percentile ranking is measured over the 3 Financial Years from the date of release of the Company's result at the beginning of the performance cycle through to the period when the Company's results for Year 3 of the performance cycle are known to the market.

Further explanation of details on Nanosonics' performance for the 2017 Financial Year is provided in the CEO's report and the Regional highlights on pages 6 to 14 of this Annual Report.

4.5.2 Short Term Incentives

Nanosonics' STI is dependent upon sales, PBT and individual performance goals. The relationship between Nanosonics' financial performance and the average STI payouts to executive KMP for each of the last five years is shown in the chart below.



The average STI payout to executive KMP for the 2017 Financial Year was 87.60% and details of the award to each executive KMP are set out in the table below.

Executive KMP	Position	Maximum STI % of 2017 Base Salary ¹	STI awarded as a % of potential ²	Cash STI award in 2017 (\$)³	Deferred equity STI award (\$)³	% Forfeited
Michael Kavanagh	CEO/President, Managing Director	50%	89.50%	111,961	111,961	10.50%
Ron Weinberger	President, Technology Development/ Commercialisation	30%	86.25%	41,309	41,309	13.75%
McGregor Grant	CFO/Company Secretary	30%	89.75%	43,782	43,782	10.25%
Gerard Putt	Chief Operations Officer	30%	87.75%	35,341	35,341	12.25%
Steven Farrugia	SVP – Design and Development	30%	84.75%	33,053	33,053	15.25%

1. Refers to the total STI opportunity, including cash and deferred equity as indicated in Section 4.2.1. The deferred equity will be awarded in the following year.

2. These amounts were finally determined by the Board on 18 August 2017 after the audited results for the 2017 Financial Year were known and performance reviews were completed and approved by the Board.

3. The equivalent number of Performance Rights to be awarded in the following year will be determined as set out in Section 4.4.1.

The annual STI awarded to each executive KMP was based on the achievement of Board agreed financial objectives as well as specific corporate initiatives associated with the installed base expansion, geographic market expansion and product development. The Board determined the actual STI payments in respect of the 2017 Financial Year, which were based on the relative achievement of the financial hurdles and each executive KMP's performance across a number of targets approved at the beginning of the financial year. Details of the key achievements of the business are outlined in the CEO's report and the Regional highlights on pages 6 to 14 of this Annual Report.

4.5.3 Long Term Incentives

Executive KMP are only entitled to a benefit under the current Company's LTI scheme if the relevant performance hurdles are met. Relative TSR and EPS hurdles are generally accepted proxies for creation of shareholder value and in the earlier stages of Nanosonics' development, the Board considered revenue growth to be a priority. The Board believes an appropriate balance between these performance criteria is a sound guide to medium and long term performance. The mix of each of these components in respect of the 2016, 2015 and 2014 Long Term Incentive Schemes is summarised in Section 4.4.2 and the specific details of each of these components are discussed below.

Relative Total Shareholder Return

The comparator groups of companies that have been used in in respect of the 2016, 2015 and 2014 Long Term Incentive Schemes are summarised below.

2016 LTIS Comparator Group 1 (TSR-1)

ACG	AtCor Medical Holdings Limited	ELX	Ellex Medical Lasers Limited	RHT	Resonance Health Limited
AHZ	Admedus Limited	FPH	Fisher & Paykel Healthcare Corporation	RMD	ResMed Inc.
ALT	Analytica Limited	GID	GI Dynamics, Inc.	RSH	Respiri Limited
AMT	Allegra Orthopaedics Limited	IMI	IM Medical Limited	RVA	REVA Medical, Inc.
ANN	Ansell Limited	IPD	ImpediMed Limited	SDI	SDI Limited
AXP	AirXpanders, Inc.	ITD	ITL Limited	SOM	SomnoMed Limited
AZV	Azure Healthcare Limited	LBT	LBT Innovations Limited	TSXV:SV	Simavita Limited
CLV	Clover Corporation Limited	M7T	Mach7 Technologies Limited	UBI	Universal Biosensors Inc.
CMP	Compumedics Limited	MGZ	Medigard Limited	UCM	Uscom Limited
COH	Cochlear Limited	MLA	Medical Australia Limited	UNS	Unilife Corporation
CYC	Cyclopharm Limited	OIL	Optiscan Imaging Limited		
DXB	Dimerix Limited	OSP	Osprey Medical Inc.		

2016 LTIS Comparator Group 2 (TSR-2)

ACX	Aconex Limited	IPD	Impedimed Limited	NTC	Netcomm Wireless Limited
ALU	Altium Limited	IFM	Infomedica Limited	NXT	Nextdc Limited
API	Australian Pharmaceutical Industries Limited	IRE	IRESS Limited	REG	Regis Healthcare Limited
CL1	Class Limited	ISD	iSentia Group Limited	SIG	Sigma Pharmaceuticals Limited
CSV	CSG Limited	JHC	Japara Healthcare Limited	SPL	Starpharma Holdings Limited
EHE	Estia Health Limited	MYX	Mayne Pharma Group Limited	TNE	Technology One Limited
FPH	Fisher & Paykel Healthcare Corp Limited	MSB	Mesoblast Limited	VRT	Virtus Health Limited
GBT	GBST Holdings Limited	MVF	Monash IVF Group Limited	WTC	Wisetech Global Limited
HSN	Hansen Technologies Limited	MYO	MYOB Group Limited		

2015 LTIS Comparator Group 1 (TSR-1)

3DM	3D Medical Limited	ELX	Ellex Medical Lasers Limited	OSP	Osprey Medical Inc.
ACG	AtCor Medical Holdings Limited	FPH	Fisher & Paykel Healthcare Corporation	RHT	Resonance Health Ltd.
AHZ	Admedus Limited	GID	GI Dynamics, Inc.	RMD	ResMed Inc.
ALT	Analytica Ltd.	IMI	IM Medical Ltd.	RVA	REVA Medical, Inc.
AMT	Allegra Orthopaedics Limited	IPD	ImpediMed Limited	SBN	Sun Biomedical Limited
ANN	Ansell Ltd.	ISN	iSonea Limited	SDI	SDI Limited
AXP	AirXpanders, Inc.	ITD	ITL Ltd.	SOM	SomnoMed Limited
AZV	Azure Healthcare Limited	LBT	LBT Innovations Limited	TSXV:SV	Simavita Limited
CLV	Clover Corporation Limited	MCT	Metalicity Limited	UBI	Universal Biosensors Inc.
CMP	Compumedics Ltd.	MGZ	Medigard Limited	UCM	Uscom Limited
COH	Cochlear Ltd.	MLA	Medical Australia Limited	UNS	Unilife Corporation
CYC	Cyclopharm Limited	OIL	Optiscan Imaging Ltd.		

2015 LTIS Comparator Group 2 (TSR-2)

CIP	Centuria Industrial REIT (formerly 360 Capital Industrial Fund)	FPH	Fisher & Paykel Healthcare Corporation Limited	JHC	Japara Healthcare Limited
ABP	Abacus Property Group	FXL	Flexigroup Limited	MYX	Mayne Pharma Group Limited
ACR	Acrux Limited	FET	Folkestone Education Trust	MSB	Mesoblast Limited
ALU	Altium Limited	GTY	Gateway Lifestyle Group	MVF	Monash IVF Group Limited
ARF	Arena REIT	GBT	GBST Holdings Limited	MOC	Mortgage Choice Limited
AJA	Astro Japan Property Group	GDI	GDI Property Group Limited	MYO	MYOB Group Limited
VLW	Villa World Limited	GHC	Generation Healthcare REIT	NSR	National Storage REIT
API	Australian Pharmaceutical Industries Limited	GMA	Genworth Mortgage Insurance Australia Limited	NXT	Nextdc Limited
AOG	Aveo Group	GMF	Growthpoint Metro Office Fund (formerly GPT Metro Office Fund Units)	NHF	NIB Holdings Limited
BNO	Bionomics Limited	GXL	Greencross Limited	OFX	OzForex Group Limited
BTT	BT Investment Management Limited	GOZ	Growthpoint Properties Australia Limited	PAC	Pacific Current Group Limited
BWP	BWP Trust	HSN	Hansen Technologies Limited	PTM	Platinum Asset Management Limited
CAJ	Capitol Health Limited	HFA	HFA Holdings Limited	RKN	Reckon Limited
CWP	Cedar Woods Properties Limited	HIL	Hills Limited	REG	Regis Healthcare Limited
CHC	Charter Hall Group	HPI	Hotel Property Investments Limited	SCP	Shopping Centres Australasia Property Group RE Limited
CQR	Charter Hall Retail REIT	IMF	IMF Bentham Limited	SIG	Sigma Healthcare Limited (formerly Sigma Pharmaceuticals Limited)
CVO	Cover-More Group Limited	IPD	Impedimed Limited	SMX	SMS Management & Technology Limited
CMW	Cromwell Property Group	IDR	Industria REIT Fund	SPL	Starpharma Holdings Limited
CSV	CSG Limited	IFM	Infomedia Limited	SDF	Steadfast Group Limited
ECX	Eclixp Group Limited	INA	Ingenia Communities Group	TNE	Technology One Limited
EQT	EQT Holdings Limited	IRE	IRESS Limited	UXC	UXC Limited
EHE	Estia Health Limited	ISD	iSentia Group Limited	VRT	Virtus Health Limited

2014 LTIS Comparator Group 1 (TSR-1)

ACG	AtCor Medical	ELX	Ellex Medical Lasers Limited	PBT	Phosphagenics Limited
ACL	Alchemia Limited	GID	Gi Dynamics, Inc	PRR	Prima Biomed
ACR	Acrux Limited	GTG	Genetic Technologies Ltd	PVA	Psivida Limited
ADO	Anteo Diagnostics	IDT	IDT Australia Limited	PXS	Pharmaxis Ltd
AHZ	Allied Health Ltd	IPD	Impedimed Limited	PYC	Phylogica Ltd
ANP	Antisense Therapeutics Ltd	IVX	Invin Ltd	QRX	Qrxpharma Ltd
AVH	Avita Medical Ltd	LCT	Living Cell Technologies Ltd	RMD	ResMed Inc.
AVX	Avexa Limited	MSB	Mesoblast Ltd	RVA	Reva Medical, Inc
BLT	Benitec Biopharma Ltd	MVP	Medical Developments International Ltd	SOM	SomnoMed Limited
BNO	Bionomics Limited	MYX	Mayne Pharma Group Ltd	SPL	Starpharma Holdings Ltd
CDY	Cellmid Limited	NEU	Neuren Pharmaceuticals Ltd	SRX	Sirtex Medical Ltd
CIR	Circadian Technologies Ltd	OIL	Optiscan Imaging	TIS	Tissue Therapies Ltd
CMP	Compumedics Limited	OSP	Osprey Med Inc	UBI	Universal Biosensors
COH	Cochlear Limited	PAB	Patrys Limited	UCM	Uscom Limited
CSL	CSL Limited	PBT	Prana Biotechnology Limited	VLA	Viralytics Ltd
CUV	Clinuvel Pharmaceuticals Ltd				

The TSR hurdle set and the relative vesting schedule meet contemporary market standards according to independent advice received by the Board. Testing of performance against the relevant comparator group will only occur at the vesting date of each grant because, in the opinion of the Board, the cost of preparing an interim TSR performance measure against each of the Comparator Groups outweighs the benefit of this disclosure.

Earnings Per Share

The total number of performance rights and options granted subject to Nanosonics achieving a target pre-tax Earnings Per Share (EPS), as pre-determined by the Board. Further details of the vesting of performance rights and options are set out in Section 4.4.2. For the 2016 LTIS, the relevant year for determining achievement of the EPS hurdle is the financial year ending on 30 June 2019.

Nanosonics' pre-tax EPS for the financial years ended 30 June 2016 and 2017 is as follows.

Year	Pre-tax EPS
2017	4.66 cents
2016	0.05 cents

Revenue

The revenue target under the 2014 LTIS required Nanosonics to achieve sales in 2017 of \$49.5 million for 100% vesting. 2017 sales were \$67.5 million, 36% higher than the performance hurdle set by the Board. Accordingly, 100% of the performance rights granted under the 2014 LTIS will vest.

Vesting outcome of 2013 LTIS

The performance conditions associated with the 2013 LTIS included a TSR hurdle and a revenue hurdle. To achieve 100% vesting, Nanosonics' relative TSR performance compared against the selected group of comparator companies for the 2013 LTIS was required to be at or above the 75% percentile and revenue was required to be at or above \$36.7 million. Following the release of the Company's 2016 financial statements Nanosonics' relative TSR ranking was determined to be in the 91st percentile and for the year ended 30 June 2016 Nanosonics' sales were \$42.8 million. Accordingly, 100% of the performance rights granted under the 2013 LTIS vested during the 2017 Financial Year.

4.6 Executive remuneration

4.6.1 Executive remuneration table – audited statutory disclosure (accounting cost to Nanosonics)

Fixed remuneration							Variable remuneration			Total	Proportion of total remuneration
Year	Short-term		Long-term		Total	Short-term	Equity compensation	Total		Performance related	
	Salary and fees	Non-monetary benefits and others	Super-annuation	Other long term benefits		Cash bonus ³	Performance rights and options ⁴			%	
Michael Kavanagh ¹	2017	465,743	–	19,616	54,084	539,443	111,961	446,663	558,624	1,098,067	51%
	2016	430,845	–	19,308	37,107	487,260	112,923	580,863	693,786	1,181,046	59%
Ron Weinberger	2017	286,142	–	19,616	34,254	340,012	41,309	178,125	219,434	559,446	39%
	2016	309,529	11,180	20,917	29,964	371,590	46,500	205,181	251,681	623,271	40%
McGregor Grant	2017	311,492	–	19,616	30,744	361,852	43,782	150,636	194,418	556,270	35%
	2016	283,031	37	19,308	44,640	347,016	47,361	174,250	221,611	568,627	39%
Gerard Putt	2017	231,224	–	19,616	28,664	279,504	35,341	122,889	158,230	437,734	36%
	2016	212,549	264	19,308	28,592	260,713	38,818	141,255	180,073	440,786	41%
Steven Farrugia ²	2017	192,697	–	16,583	16,484	225,764	33,053	31,777	64,830	290,594	22%
	2016	–	–	–	–	–	–	–	–	–	–
Total	2017	1,487,298	–	95,047	164,230	1,746,575	265,446	930,090	1,195,536	2,942,111	41%
	2016	1,235,954	11,481	78,841	140,303	1,466,579	245,602	1,101,549	1,347,151	2,813,730	48%

1. As part of Mr Kavanagh's appointment as CEO and President, he was granted 1,500,000 performance rights in respect of the 2013 and 2014 LTIS subject to the relevant vesting conditions. This grant was approved by the shareholders at the 2013 AGM.

2. Dr Farrugia joined the Company on 5 September 2016. No "sign on bonus" was paid.

3. The cash bonus is for the performance during the respective financial year based on the criteria set out in Section 4.4.1. 2017 amounts represent the cash STI opportunity accrued related to the financial year based on the achievement of individual goals and satisfaction of specified performance criteria. The actual cash STI award is disclosed in Section 4.5.2.

4. The amount disclosed is the amount of the fair value of the performance rights and options recognised as an expense in each reporting period. It also covers both the performance rights and options issued under the 2016 LTIS as well as the deferred STI. The ability to exercise the performance rights and options is subject to vesting conditions.

4.6.2 Executive remuneration table – unaudited

This table represents the value to the executive KMP of cash paid and vested equity awards (intrinsic value) received during the year, and unvested equity awards (IFRS-2 value) granted during the financial year at risk. The LTI equity granted is a value determined under IFRS-2

which may or may not vest depending on future outcomes that are uncertain. Accordingly, this table incorporates data that could represent an accumulation of outcomes arising from multiple years.

		Short-term benefits		Past at-risk remuneration received	Actual remuneration received during year	Future at risk remuneration received during year	
		Fixed remuneration ³ (\$)	Incentives ⁴ (\$)	Value of performance rights ^{5/6} (\$)		STI (deferred as equity) ⁷ (\$)	LTI (Equity) granted ⁷ (\$)
Michael Kavanagh ¹	2017	520,000	112,923	2,448,375	3,081,298	113,047	332,044
	2016	471,000	108,467	96,465	675,932	75,696	260,671
Ron Weinberger	2017	338,916	45,338	497,408	881,662	45,387	105,943
	2016	348,622	38,750	72,533	459,905	42,842	89,450
McGregor Grant	2017	340,594	46,888	376,745	764,227	46,940	110,111
	2016	335,087	38,318	52,810	426,215	42,364	91,108
Gerard Putt	2017	267,878	38,333	310,080	616,291	38,375	87,623
	2016	254,944	31,255	39,220	325,419	34,556	74,674
Steven Farrugia ²	2017	212,280	–	–	212,280	–	89,797
	2016	–	–	–	–	–	–
Total	2017	1,679,668	243,482	3,632,608	5,555,758	243,749	725,517
	2016	1,621,933	216,790	261,028	2,099,751	195,458	605,700

1. As part of Mr Kavanagh's appointment as CEO and President, he was granted 1,500,000 performance rights in respect of the 2013 and 2014 LTIS subject to the relevant vesting conditions. This grant was approved by the shareholders at the 2013 AGM.

2. Dr Farrugia joined the Company on 5 September 2016. No "sign on bonus" was paid.

3. Includes base salary, superannuation, and other cash benefits received during the year (excludes annual leave and long service leave accrual).

4. STI received as cash in respect of the previous Financial Year. The incentive paid to the CEO&P in 2016 includes a payment of \$40,000 that was made at the discretion of the Board in respect of the 2015 Financial Year.

5. Intrinsic value at vesting date of performance rights and options issued in previous periods that vested during the year.

6. Includes 2015 deferred STI and 2013 LTIS which vested at 100% following the achievement of the performance hurdles.

7. Accounting value of performance rights and options awarded during the year that are unvested and subject to vesting conditions (i.e. achievement of performance conditions and service conditions).

4.7 Other remuneration elements and disclosures relevant to Executive KMP

4.7.1 Clawback

Nanosonics has implemented a policy that gives the Board discretion to clawback or reduce STI or LTI awards if it becomes aware of circumstances that have resulted in an unfair benefit to the executive KMP including a material misstatement of the Group's financial statements or misconduct of an executive KMP. The policy is available on Nanosonics' website, www.nanosonics.com under Investor Centre, Corporate Governance.

4.7.2 Securities trading restrictions

Under the Nanosonics Limited Securities Trading Policy and in accordance with the *Corporations Act 2001*, securities granted under Nanosonics' equity incentive schemes must remain at risk until vested, or until exercised, if options or performance rights. It is a specific condition of grant that no schemes are entered into by an individual or their associates that specifically protects the unvested value of shares, options or performance rights allocated.

KMPs are not permitted to deal at any time in financial products such as options, warrants, futures or other financial products issued over Nanosonics' securities by third parties such as banks and other institutions without the prior approval of the Board. An exception may apply where the securities form a component of a listed portfolio or index product.

KMPs are not permitted to enter into transactions in products associated with the securities without the prior approval of the Board, which operates to limit the economic risk of their security holding in the Company (e.g. hedging arrangements).

Nanosonics, as required under the ASX Listing Rules, has a formal policy setting down how and when employees, including KMPs of Nanosonics Limited, may deal in Nanosonics securities. A copy of the Company's Securities Trading Policy is available on Nanosonics' website, www.nanosonics.com under Investor Centre, Corporate Governance.

4.7.3 Cessation of employment provisions

No benefits are payable on termination other than accrued entitlements. The provisions that apply for STI and LTI awards in the case of cessation of employment are detailed in Section 6.

4.7.4 Change of control

The provisions that apply for STI and LTI awards in the case of a change of control are detailed in Section 6.

4.7.5 Conditions of LTI grants

The conditions under which LTI awards (performance rights) are granted are approved by the Board in accordance with the relevant scheme rules as summarised in Section 5.

5.0 Employee Share Scheme information

This section provides:

1. A description of the Employee Share Schemes (ESS) Nanosonics uses to provide equity rewards to Nanosonics employees.
2. Disclosures required in relation to ESS grants provided to KMP.
3. Disclosures required about ESS instruments that Nanosonics has issued.
4. Disclosures required in relation to Nanosonics' shares and other ESS instruments held by KMP.

5.1 Employee Share Schemes operated by Nanosonics

On 4 November 2016 the Nanosonics Omnibus Equity Plan (NOEP) was adopted following approval by shareholders at the Annual General Meeting of shareholders. The Omnibus Plan allows the Board to issue a range of incentive awards with the purpose of providing competitive, performance-based remuneration in alignment with the interests of shareholders. The NOEP operates in accordance with the terms of the Nanosonics Omnibus Equity Plan Trust Deed, under which the trustee may subscribe for, or acquire, deliver, allocate or hold, shares for the benefit of the participant. The key terms of the NOEP were set out in the notice of meeting for the 2016 AGM. Participants will be able to access the relevant taxation concessions available under the Income Tax Assessment Act 1997 (ITAA 1997).

Following the adoption of the NOEP, the Nanosonics Employee Share Option Plan (ESOP), the General Share Option Plan (GSOP), the Deferred Employee Share Plan (DESP) and the Nanosonics Exempt Employee Share Plan (EESP) are being phased out and replaced by the NOEP.

Details of securities issued during the 2017 Financial Year and the number of outstanding securities as at the date of this report were as follows.

Plan name	Type of instruments	Details
Nanosonics Omnibus Equity Plan (NOEP)	Performance rights Options	Since the NOEP was approved, 495,783 options and 583,258 performance rights have been issued to the Plan. 495,783 options and 573,134 performance rights remain outstanding as at the date of this report.
Nanosonics Deferred Employee Share Plan (DESP)	Ordinary shares	The purpose of the plan is provide eligible employees (including Executive Directors but excluding NED) with performance incentives through opportunities to acquire beneficial ownership of shares in the Company and to access the taxation concessions available under the Income Tax Assessment Act. As at the date of this report, the DESP holds 2,152,589 unrestricted shares held in trust for employees. No new shares were issued under the plan.
Nanosonics Exempt Employee Share Plan (EESP)		No grants have been made under the EESP. This plan was phased out accordingly.
Nanosonics Employee Share Option Plan (ESOP)	Performance Rights	No new options were granted under the ESOP. As at the date of this report, 2,452,292 performance rights remain outstanding.
Nanosonics General Share Option Plan (GSOP)	Options	No options were granted under the GSOP in 2017 and there were no outstanding options as at the date of this report. This plan was phased out accordingly.

5.2 ESS grants to KMP

5.2.1 Analysis of share-based payments granted as remuneration

Details of the vesting profiles for the year and as at 30 June 2017 of the performance rights and options granted as remuneration to each Executive KMP are set out below:

KMP	Description	Grant Date	Vesting Date	Expiry Date	Exercise Price \$	Performance Rights				Options		Total intrinsic value of performance rights and options at year end (\$)	
						Number granted	Number vested during the year	% vested during the year	Number vested to date	Balance at year end	Number granted		Balance at year end
Michael Kavanagh	2016 LTIS Tranche 1	05-Jan-17	31-Aug-19	31-Aug-22	-	10,535	-	-	-	10,535	-	-	26,759
	2016 LTIS Tranche 2	05-Jan-17	31-Aug-19	31-Aug-22	-	10,534	-	-	-	10,534	-	-	26,756
	2016 LTIS Tranche 3	05-Jan-17	31-Aug-19	31-Aug-22	-	21,069	-	-	-	21,069	-	-	53,515
	2016 LTIS Tranche 1	05-Jan-17	31-Aug-19	31-Aug-22	2.85	-	-	-	-	-	52,827	52,827	-
	2016 LTIS Tranche 2	05-Jan-17	31-Aug-19	31-Aug-22	2.85	-	-	-	-	-	52,826	52,826	-
	2016 LTIS Tranche 3	05-Jan-17	31-Aug-19	31-Aug-22	2.85	-	-	-	-	-	105,653	105,653	-
	2016 Deferred STI	05-Jan-17	01-Sep-17	01-Sep-20	-	36,823	-	-	-	36,823	-	-	93,530
	2015 LTIS Tranche 1	04-Jan-16	31-Aug-18	30-Sep-18	-	103,441	-	-	-	103,441	-	-	262,740
	2015 LTIS Tranche 2	04-Jan-16	31-Aug-18	30-Sep-18	-	103,441	-	-	-	103,441	-	-	262,740
	2015 Deferred STI	11-Nov-15	01-Sep-16	01-Oct-16	-	48,061	48,061	100%	48,061	-	-	-	-
	2013 LTIS Tranche 1 ¹	08-Nov-13	31-Aug-16	30-Sep-16	-	375,000	375,000	100%	375,000	-	-	-	-
	2013 LTIS Tranche 2 ¹	08-Nov-13	31-Aug-16	30-Sep-16	-	375,000	375,000	100%	375,000	-	-	-	-
	2013 LTIS Tranche 3	08-Nov-13	31-Aug-17	30-Sep-17	-	375,000	-	-	-	375,000	-	-	952,500
	2013 LTIS Tranche 4	08-Nov-13	31-Aug-17	30-Sep-17	-	375,000	-	-	-	375,000	-	-	952,500
	Total					1,833,904	798,061		798,061	1,035,843	211,306	211,306	2,631,041
Ron Weinberger	2016 LTIS Tranche 1	05-Jan-17	31-Aug-19	31-Aug-22	-	3,361	-	-	-	3,361	-	-	8,537
	2016 LTIS Tranche 2	05-Jan-17	31-Aug-19	31-Aug-22	-	3,361	-	-	-	3,361	-	-	8,537
	2016 LTIS Tranche 3	05-Jan-17	31-Aug-19	31-Aug-22	-	6,723	-	-	-	6,723	-	-	17,076
	2016 LTIS Tranche 1	05-Jan-17	31-Aug-19	31-Aug-22	2.85	-	-	-	-	-	16,855	16,855	-
	2016 LTIS Tranche 2	05-Jan-17	31-Aug-19	31-Aug-22	2.85	-	-	-	-	-	16,854	16,854	-
	2016 LTIS Tranche 3	05-Jan-17	31-Aug-19	31-Aug-22	2.85	-	-	-	-	-	33,710	33,710	-
	2016 Deferred STI	05-Jan-17	01-Sep-17	01-Sep-20	-	14,784	-	-	-	14,784	-	-	37,551
	2015 LTIS Tranche 1	04-Jan-16	31-Aug-18	30-Sep-18	-	35,496	-	-	-	35,496	-	-	90,160
	2015 LTIS Tranche 2	04-Jan-16	31-Aug-18	30-Sep-18	-	35,496	-	-	-	35,496	-	-	90,160
	2015 Deferred STI	11-Nov-15	01-Sep-16	01-Oct-16	-	27,201	27,201	100%	27,201	-	-	-	-
	2014 LTIS Tranche 1	11-Mar-15	31-Aug-17	30-Sep-17	-	50,276	-	-	-	50,276	-	-	127,701
	2014 LTIS Tranche 2	11-Mar-15	31-Aug-17	30-Sep-17	-	50,275	-	-	-	50,275	-	-	127,699
	2013 LTIS Tranche 1 ¹	08-Nov-13	31-Aug-16	30-Sep-16	-	67,409	67,409	100%	67,409	-	-	-	-
	2013 LTIS Tranche 2 ¹	08-Nov-13	31-Aug-16	30-Sep-16	-	67,409	67,409	100%	67,409	-	-	-	-
	Total					361,791	162,019		162,019	199,772	67,419	67,419	507,421
McGregor Grant	2016 LTIS Tranche 1	05-Jan-17	31-Aug-19	31-Aug-22	-	2,568	-	-	-	2,568	-	-	6,523
	2016 LTIS Tranche 2	05-Jan-17	31-Aug-19	31-Aug-22	-	2,567	-	-	-	2,567	-	-	6,520
	2016 LTIS Tranche 3	05-Jan-17	31-Aug-19	31-Aug-22	-	5,135	-	-	-	5,135	-	-	13,043
	2016 LTIS Tranche 1	05-Jan-17	31-Aug-19	31-Aug-22	2.85	-	-	-	-	-	20,028	20,028	-
	2016 LTIS Tranche 2	05-Jan-17	31-Aug-19	31-Aug-22	2.85	-	-	-	-	-	20,028	20,028	-
	2016 LTIS Tranche 3	05-Jan-17	31-Aug-19	31-Aug-22	2.85	-	-	-	-	-	40,056	40,056	-
	2016 Deferred STI	05-Jan-17	01-Sep-17	01-Sep-20	-	15,290	-	-	-	15,290	-	-	38,837
	2015 LTIS Tranche 1	04-Jan-16	31-Aug-18	30-Sep-18	-	36,154	-	0%	-	36,154	-	-	91,831
	2015 LTIS Tranche 2	04-Jan-16	31-Aug-18	30-Sep-18	-	36,154	-	0%	-	36,154	-	-	91,831
	2015 Deferred STI	11-Nov-15	01-Sep-16	01-Oct-16	-	26,898	26,898	100%	26,898	-	-	-	-
	2014 LTIS Tranche 1	11-Mar-15	31-Aug-17	30-Sep-17	-	36,041	-	0%	-	36,041	-	-	91,544
	2014 LTIS Tranche 2	11-Mar-15	31-Aug-17	30-Sep-17	-	36,041	-	0%	-	36,041	-	-	91,544
	2013 LTIS Tranche 1 ¹	03-Mar-14	31-Aug-16	30-Sep-16	-	47,888	47,888	100%	47,888	-	-	-	-
	2013 LTIS Tranche 2 ¹	03-Mar-14	31-Aug-16	30-Sep-16	-	47,889	47,889	100%	47,889	-	-	-	-
	Total					292,625	122,675		122,675	169,950	80,112	80,112	431,673
Gerard Putt	2016 LTIS Tranche 1	05-Jan-17	31-Aug-19	31-Aug-22	-	2,043	-	-	-	2,043	-	-	5,189
	2016 LTIS Tranche 2	05-Jan-17	31-Aug-19	31-Aug-22	-	2,043	-	-	-	2,043	-	-	5,189
	2016 LTIS Tranche 3	05-Jan-17	31-Aug-19	31-Aug-22	-	4,087	-	-	-	4,087	-	-	10,381
	2016 LTIS Tranche 1	05-Jan-17	31-Aug-19	31-Aug-22	2.85	-	-	-	-	-	15,937	15,937	-
	2016 LTIS Tranche 2	05-Jan-17	31-Aug-19	31-Aug-22	2.85	-	-	-	-	-	15,937	15,937	-
	2016 LTIS Tranche 3	05-Jan-17	31-Aug-19	31-Aug-22	2.85	-	-	-	-	-	31,875	31,875	-
	2016 Deferred STI	05-Jan-17	01-Sep-17	01-Sep-20	-	12,500	-	-	-	12,500	-	-	31,750
	2015 LTIS Tranche 1	04-Jan-16	31-Aug-18	30-Sep-18	-	29,632	-	0%	-	29,632	-	-	75,265
	2015 LTIS Tranche 2	04-Jan-16	31-Aug-18	30-Sep-18	-	29,633	-	0%	-	29,633	-	-	75,268
	2015 Deferred STI	11-Nov-15	01-Sep-16	01-Oct-16	-	21,940	21,940	100%	21,940	-	-	-	-
	2014 LTIS Tranche 1	11-Mar-15	31-Aug-17	30-Sep-17	-	29,739	-	0%	-	29,739	-	-	75,537
	2014 LTIS Tranche 2	11-Mar-15	31-Aug-17	30-Sep-17	-	29,739	-	0%	-	29,739	-	-	75,537
	2013 LTIS Tranche 1 ¹	03-Mar-14	31-Aug-16	30-Sep-16	-	39,514	39,514	100%	39,514	-	-	-	-
	2013 LTIS Tranche 2 ¹	03-Mar-14	31-Aug-16	30-Sep-16	-	39,515	39,515	100%	39,515	-	-	-	-
	Total					240,385	100,969		100,969	139,416	63,749	63,749	354,117
Steven Farrugia	2016 LTIS Tranche 1	05-Jan-17	31-Aug-19	31-Aug-22	-	1,369	-	-	-	1,369	-	-	3,477
	2016 LTIS Tranche 2	05-Jan-17	31-Aug-19	31-Aug-22	-	1,368	-	-	-	1,368	-	-	3,475
	2016 LTIS Tranche 3	05-Jan-17	31-Aug-19	31-Aug-22	-	2,737	-	-	-	2,737	-	-	6,952
	2016 LTIS Tranche 1	05-Jan-17	31-Aug-19	31-Aug-22	2.85	-	-	-	-	-	18,299	18,299	-
	2016 LTIS Tranche 2	05-Jan-17	31-Aug-19	31-Aug-22	2.85	-	-	-	-	-	18,299	18,299	-
	2016 LTIS Tranche 3	05-Jan-17	31-Aug-19	31-Aug-22	2.85	-	-	-	-	-	36,599	36,599	-
	Total					5,474	-	-	-	5,474	73,197	73,197	13,904

1. The performance conditions associated with the 2013 LTIS were fully met. Accordingly, these performance rights vested on 31 August 2016.

There were no performance rights or options forfeited or lapsed during the period. No share-based payments were settled in cash.

5.2.2 Exercise of performance rights and options granted as remuneration

During the financial year, the following shares were issued on the exercise of performance rights previously granted as part of remuneration to KMP:

KMP	Number of shares	Amount paid per share (\$)	Total amount paid (\$)	Intrinsic value ¹ (\$)
Michael Kavanagh	798,061	–	–	2,448,375
Ron Weinberger	162,019	–	–	497,408
McGregor Grant	122,675	–	–	376,745
Gerard Putt	100,969	–	–	310,080
Steven Farrugia	–	–	–	–
Total	1,183,724	–	–	3,632,608

1. The intrinsic value of the shares is calculated as the market price of the shares of the Company on the ASX as at close of trading on the date the options were exercised and the shares were issued after deducting the price paid to exercise the option; or the 5-day volume weighted average price of the shares on the vesting date of zero-priced performance rights.

There are no amounts unpaid on the shares issued as a result of the exercise of the options in the current financial year or in prior years. There were no options exercised during the year.

5.2.3 Analysis of movement in performance rights and options

The movement in number and value during the financial year of performance rights and options over ordinary shares of Nanosonics Limited held by KMP is detailed below.

KMP	Balance at start of the year		Granted in year		Exercised in year		Forfeited in year		Balance at end of the year	
	Number	Value (\$) ¹	Number	Value (\$) ¹	Number	Value (\$) ²	Number	Value (\$) ²	Number	Value (\$) ¹
Performance rights										
Michael Kavanagh	1,754,943	1,495,305	78,961	229,558	798,061	2,448,375	–	–	1,035,843	1,075,680
Ron Weinberger	333,562	389,751	28,229	82,563	162,019	497,408	–	–	199,772	326,384
McGregor Grant	267,065	312,698	25,560	75,337	122,675	376,745	–	–	169,950	277,109
Gerard Putt	219,712	257,116	19,398	60,974	100,969	310,080	–	–	138,141	226,961
Steven Farrugia	–	–	5,474	15,136	–	–	–	–	5,474	15,136
Total	2,575,282	2,454,870	157,622	463,567	1,183,724	3,632,608	–	–	1,549,180	1,921,269
Options										
Michael Kavanagh	–	–	211,306	215,532	–	–	–	–	211,306	215,532
Ron Weinberger	–	–	67,419	68,767	–	–	–	–	67,419	68,767
McGregor Grant	–	–	80,112	81,714	–	–	–	–	80,112	81,714
Gerard Putt	–	–	65,024	65,024	–	–	–	–	65,024	65,024
Steven Farrugia	–	–	73,197	74,661	–	–	–	–	73,197	74,661
Total	–	–	497,058	505,699	–	–	–	–	497,058	505,699

1. The fair value of the performance rights and options granted in the year is the fair value of the options calculated at grant date and derived by applying the valuation methodology prescribed under IRS-2. The total value of performance rights and options granted is included in the table above. This amount is allocated to remuneration over the vesting period.

2. The value of performance rights and options exercised and forfeited during the year is calculated as the market price of the shares of the Company on the ASX as at close of trading on the date the options were exercised and the shares were issued after deducting the price paid to exercise the option; or the 5-day volume weighted average price of the shares on the vesting date of zero-priced performance rights.

3. No performance rights or options as at 30 June 2017 have vested or are exercisable.

5.3 Fair value of share-based compensation

The following factors and assumptions were used in determining the fair value on grant date of performance rights and options granted to directors and KMP under ESOP which were unexpired on 30 June 2017, including those granted during the period:

Description	Vesting conditions	Grant date	Vesting date	Expiry date	Share price at grant date (\$)	Exercise price (\$)	Valuation model
Performance rights							
2013 LTIS Tranche 3 – CEO	Relative TSR performance and service	01-Nov-13	31-Aug-17	30-Sep-17	0.85	–	Monte Carlo
2013 LTIS Tranche 4 – CEO	FY17 Revenue and service	01-Nov-13	31-Aug-17	30-Sep-17	0.85	–	Binomial
2014 LTIS Tranche 1 – Other KMP	Relative TSR performance and service	11-Mar-15	31-Aug-17	30-Sep-17	1.72	–	Monte Carlo
2014 LTIS Tranche 2 – Other KMP	FY17 Revenue and service	11-Mar-15	31-Aug-17	30-Sep-17	1.72	–	Binomial
2015 LTIS Tranche 1 – CEO & KMP	Relative TSR performance and service	04-Jan-16	31-Aug-18	30-Sep-18	1.67	–	Monte Carlo
2015 LTIS Tranche 2 – CEO & KMP	Relative TSR performance and service	04-Jan-16	31-Aug-18	30-Sep-18	1.67	–	Monte Carlo
2016 LTIS Tranche 1	Relative TSR performance and service	05-Jan-17	31-Aug-19	31-Aug-22	3.07	–	Monte Carlo
2016 LTIS Tranche 2	Relative TSR performance and service	05-Jan-17	31-Aug-19	31-Aug-22	3.07	–	Monte Carlo
2016 LTIS Tranche 3	Pre-tax EPS and service	05-Jan-17	31-Aug-19	31-Aug-22	3.07	–	Black-Scholes
2016 Deferred STI	Service	05-Jan-17	01-Sep-17	01-Sep-20	3.07	–	Black-Scholes
Options							
2016 LTIS Tranche 1	Relative TSR performance and service	05-Jan-17	31-Aug-19	31-Aug-22	3.07	2.85	Monte Carlo
2016 LTIS Tranche 2	Relative TSR performance and service	05-Jan-17	31-Aug-19	31-Aug-22	3.07	2.85	Monte Carlo
2016 LTIS Tranche 3	Pre-tax EPS and service	05-Jan-17	31-Aug-19	31-Aug-22	3.07	2.85	Black-Scholes

5.4 KMP equity interests

In accordance with the Corporations Act (section 205G (1)), Nanosonics is required to notify the interests (shares and rights to shares) of directors to the ASX. In the interests of transparency and completeness of disclosure we have provided this information for each director (as required under the Corporations Act) and all other Executive KMP.

Equity interests as at 30 June 2017	Nanosonics Limited ordinary shares ¹	Performance rights and options over Nanosonics Limited ordinary shares	Total intrinsic value of NAN securities as at year end (\$) ^{2/3}
Non-Executive Directors			
Maurie Stang ⁴	22,679,701	–	57,606,441
Richard England	128,301	–	325,885
David Fisher	503,940	–	1,280,008
Steven Sargent	66,000	–	167,640
Marie McDonald	19,600	–	49,784
Executive Director			
Michael Kavanagh	1,018,540	1,247,149	5,218,133
Other Executive KMP			
Ron Weinberger ⁵	220,013	267,191	1,066,254
McGregor Grant	595,000	250,062	1,942,973
Gerard Putt ⁴	189,270	203,165	834,862
Steven Farrugia	–	78,671	13,904

1. Includes the number of Nanosonics shares held directly or indirectly and under the employee share plans.

2. The intrinsic value of Nanosonics shares calculated as at the closing share price of Nanosonics Limited on 30 June 2017 times the number of shares.

3. The intrinsic value of performance rights and options calculated as at the closing share price of Nanosonics Limited on 30 June 2017 less the applicable exercise price times the number of and performance rights and options.

4. Includes shares held by a close family member.

5. Dr Weinberger was previously an Executive Director but retired from the Board on 4 November 2016. He was an Executive KMP for the full year.

Equity interests as at the date of this report	Nanosonics Limited ordinary shares ¹	Performance rights and options over Nanosonics Limited ordinary shares
Non-Executive Directors		
Maurie Stang ²	22,793,301	–
Richard England	128,301	–
David Fisher	503,940	–
Steven Sargent	66,000	–
Marie McDonald	19,600	–
Executive Director		
Michael Kavanagh	1,018,540	1,247,149
Other Executive KMP		
Ron Weinberger ³	220,013	267,191
McGregor Grant	595,000	250,062
Gerard Putt ²	189,270	203,165
Steven Farrugia	–	78,671

1. Includes the number of Nanosonics shares held directly or indirectly and under the employee share plans.

2. Includes shares held by a close family member.

3. Dr Weinberger was previously an Executive Director but retired from the Board on 4 November 2016. He is an Executive KMP for the full year.

Refer to Section 4.5.2 regarding Securities Trading Restrictions.

5.5 KMP share movement

The numbers of shares in the Company held during the financial year by KMP, including their personally-related parties, are set out below.

	Balance at start of the year	Received during the year on the exercise of performance rights and options	Sale of shares during the year	Other net changes during the year	Balance at end of the year
Non-Executive Directors					
Maurie Stang ¹	22,679,701	–	–	–	22,679,701
Richard England	128,301	–	–	–	128,301
David Fisher	503,940	–	–	–	503,940
Steven Sargent ²	–	–	–	66,000	66,000
Marie McDonald ³	–	–	–	19,600	19,600
Executive Director					
Michael Kavanagh	220,479	798,061	–	–	1,018,540
Other Executive KMP					
Ron Weinberger ⁴	104,994	162,019	(47,000)	–	220,013
McGregor Grant	633,584	122,675	(161,259)	–	595,000
Gerard Putt ¹	128,751	100,969	(41,000)	550	189,270
Steven Farrugia ⁵	–	–	–	–	–

1. Includes shares held by a close family member.

2. Mr Sargent was appointed to the Board on 6 July 2016. Change in shares above represents his on-market purchase of shares to the Company during the period.

3. Ms McDonald was appointed to the Board on 24 October 2016. Change in shares above represents her on-market purchase of shares to the Company during the period.

4. Dr Weinberger was previously an Executive Director but retired from the Board on 4 November 2016. He is an Executive KMP for the full year.

5. Dr Farrugia joined the Company on 5 September 2016 and currently holds no shares.

6.0 Employment agreements

6.1 CEO and President

The following sets out the key terms of the employment agreement for the CEO and President, Michael Kavanagh.

Length of contract	Ongoing employment contract until notice is given by either party.
Fixed Remuneration	\$530,400 p.a., inclusive of superannuation and reviewed annually.
Short-term Incentive	50% of Base Salary.
Long-term Incentive	60% of Base Salary. LTI arrangements in respect of 2014, 2015 and 2016 are described in section 4.4.2.
Notice periods	In order to terminate the employment arrangements, Mr Kavanagh is required to provide Nanosonics with 9 months written notice. Nanosonics must provide Mr Kavanagh with 9 months written notice.
Resignation	On resignation, unless the Board determines otherwise: • All unvested STI or LTI benefits are forfeited. • All vested but unexercised STI or LTI benefits are forfeited after 30 days following cessation of employment.
Termination on notice by Nanosonics	Nanosonics may terminate employment by providing 9 months' written notice or payment in lieu of the notice period based on fixed remuneration. Upon termination on notice by Nanosonics, unless the Board determines otherwise: • All unvested STI or LTI benefits are forfeited. • All vested but unexercised STI or LTI benefits are forfeited after 30 days following cessation of employment.
Change of control	In the event of a takeover or change in control of Nanosonics Limited, any unvested performance rights and options will vest on a pro-rata basis based on the most current financial reports available at the time a change of control occurs, unless otherwise determined by the Board. The pro-rata period will be calculated from the grant date to the change of control date. Performance rights and options that vest following a change of control will not generally be subject to restrictions on dealings.
Termination for serious misconduct	Nanosonics may immediately terminate employment at any time in the case of serious misconduct, and Mr Kavanagh will be only be entitled to payment of fixed remuneration up to the date of termination. On termination without notice by Nanosonics in the event of serious misconduct all unvested STI or LTI benefits will be forfeited. At the Board's discretion, Nanosonics may seek reimbursement of amounts previously paid in accordance with the Company's Clawback Policy (see Section 4.7.1).
Statutory entitlements	Payment of statutory entitlements of long service leave and annual leave applies in all events of separation.
Post-employment restraints	Mr Kavanagh will be restrained for a period of up to 24 months after termination of his employment by either party from being engaged in any of the following activities: • Engaging with clients of Nanosonics with a view to obtaining the custom of those clients in a business that is the same as or similar to Nanosonics' business. • Interfering with the relationship between Nanosonics, its customers, employees, agents, contractors or suppliers. • Inducing or assisting in the inducement of any employee, agent or contractor of Nanosonics to leave their employment or terminate their contract. • Carrying-on or becoming in any way involved in any trade or business that is in competition with Nanosonics.

6.2 Other Executive KMP

The following sets out details of the employment agreements relating to other Executive KMP. The terms for all other Executive KMP are similar, but do on occasion, vary to suit different needs.

Length of contract	Ongoing employment contract until notice is given by either party.
Notice periods	In order to terminate the employment arrangements, either Nanosonics or the Executive KMP are required to provide the other party with written notice as summarised below: • Ron Weinberger: 6 months. • McGregor Grant: 4 months. • Gerard Putt and Steven Farrugia: 3 months.
Resignation	On resignation, unless the Board determines otherwise: • All unvested STI or LTI benefits are forfeited. • All vested but unexercised STI or LTI benefits are forfeited after 30 days following cessation of employment.
Termination on notice by Nanosonics	Nanosonics may terminate employment by providing the relevant written notice or payment in lieu of the notice period based on fixed remuneration. On termination on notice by Nanosonics, unless the Board determines otherwise: • All unvested STI or LTI benefits are forfeited. • All vested but unexercised STI or LTI benefits are forfeited after 30 days following cessation of employment.
Change of control	In the event of a takeover or change in control of Nanosonics Limited, any unvested performance rights and options will vest on a pro-rata basis based on the most current financial reports available at the time a change of control occurs, unless otherwise determined by the Board. The pro-rata period will be calculated from the grant date to the change of control date. Performance rights and options that vest following a change of control will not generally be subject to restrictions on dealings.
Termination for serious misconduct	Nanosonics may immediately terminate employment at any time in the case of serious misconduct, and the Executive KMP will only be entitled to payment of fixed remuneration up to the date of termination. On termination without notice by Nanosonics in the event of serious misconduct, all unvested STI or LTI benefits will be forfeited. At the Board's discretion, Nanosonics may seek reimbursement of amounts previously paid in accordance with the Company's Clawback Policy (see Section 4.7.1).
Statutory entitlements	Payment of statutory entitlements of long service leave and annual leave applies in all events of separation.
Post-employment restraints	All Executive KMP will be restrained for a period of up to 24 months after termination of their employment by either party from being engaged in any of the following activities: • Engaging with clients of Nanosonics with a view to obtaining the custom of those clients in a business that is the same as or similar to Nanosonics' business. • Interfering with the relationship between Nanosonics, its customers, employees, agents, contractors or suppliers. • Inducing or assisting in the inducement of any employee, agent or contractor of Nanosonics to leave their employment or terminate their contract. • Carrying-on or becoming in any way involved in any trade or business that is in competition with Nanosonics.

7.0 Key Management Personnel transactions

7.1 Loans to KMP and their related parties

During the financial year and to the date of this report, the Group made no loans to directors and other KMP and none were outstanding as at 30 June 2017 (2016: Nil).

7.2 Other transactions with KMP

Certain directors and KMP, or their personally-related entities (Related Parties), hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company in the 2016 and 2017 Financial Years. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with unrelated entities on an arms-length basis.

Related Party	Related entity	Transactions
Maurie Stang	Gryphon Capital Pty Ltd	Director fees
Maurie Stang	Ramlist Pty Ltd	Rent of premises
Maurie Stang	Regional Healthcare Group Pty Ltd	Products purchased, services received and products sold
Richard England	Angleterre Nominees Pty Ltd and Domkirke Pty Ltd	Director fees

The following transactions occurred with entities controlled by Related Parties:

	2017 \$	2016 \$
Sale of products and services to Related Parties	2,055,438	1,821,765
Interest charged	1,115	11,388
Purchases of goods and services from Related Parties	255,861	210,697
Rent of premises and equipment from Related Parties and make good payments	–	210,079

The above transactions exclude director fees which were disclosed in section 3.3.

The following balances are outstanding at the end of the reporting period in relation to transactions with Related Parties:

	2017 \$	2016 \$
Current trade receivables (supply of goods and services)	791,582	639,133
Current trade payables (purchases of goods and services)	1,976	–

Indemnifying officers or auditor

During the financial year, the Company paid insurance premiums to insure the directors and secretary and KMP of the Company and its controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their positions or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

The directors have not included in this report the amount of the premium paid in respect of the insurance policy, as such disclosure is prohibited under the terms of the contract.

No indemnities have been given or insurance premiums paid, during or since the financial year, for any person who is or has been an auditor for the Group.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) and where noted (\$'000) under the option available to the Company under ASIC Instrument 2016/191. The Company is an entity to which that Instrument applies.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

The Board of directors has considered the position and, in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services by the auditor, if any, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- a. All non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor.
- b. None of the services undermines the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

The auditor of the Group, UHY Haines Norton did not provide any non-audit services during the year. Its related practice firms outside of Australia provided non-audit services.

Details of amounts paid or payable to the auditor of the Group in relation to audit and non-audit services are disclosed in note 9.5 to the financial statements.

Officers of the Company who are former audit partner of UHY Haines Norton

There are no officers of the Company who are former audit partners of UHY Haines Norton.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 94 of this report.

Auditor

UHY Haines Norton continues in office as auditor in accordance with section 327 of the *Corporations Act 2001*.

Corporate Governance

The Company's Corporate Governance Statement and ASX Appendix 4G are released to ASX on the same day the Annual Report is released, and the Corporate Governance Statement and Corporate Governance Manual can be found on the Company's website at <http://www.nanosonics.com.au/Investor-Centre/Corporate-Governance>.

This report, which includes the review of operations in the CEO's report and the Regional highlights (on pages 6 to 14) and the Information on the directors, company secretaries and the executive team (on pages 18 to 21), is made and signed in accordance with a resolution of directors, pursuant to section 298 (2)(a) of the *Corporations Act 2001*, on 23 August 2017.



Richard England
Director, Sydney

24 August 2017

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Auditor's independence declaration



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Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

As auditor for the audit of Nanosonics Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Nanosonics Limited and the entities it controlled during the period.

Mark Nicholaeff
Partner

Sydney

Date 24 August 2017

UHY Haines Norton
Chartered Accountants

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Passion beyond numbers

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000
Continuing operations			
Sale of goods and services	2.1	67,507	42,796
Cost of sales		(17,352)	(10,630)
Gross profit		50,155	32,166
Selling and general expenses		(19,540)	(17,943)
Administration expenses		(9,041)	(7,418)
Research and development expenses		(9,488)	(7,297)
Other income	2.3	780	133
Results from operating activities		12,866	(359)
Finance income-interest		1,063	1,098
Finance expense-borrowing costs		(77)	(603)
Net finance income		986	495
Operating income before income tax		13,852	136
Income tax benefit/(expense)	3.1	12,306	(14)
Net income after income tax expense attributable to owners of the parent entity		26,158	122
Other comprehensive income			
Items that may be classified subsequently to profit or loss			
Exchange difference on foreign currency translation		501	205
Income tax on items of other comprehensive income		—	—
Total items that may be classified subsequently to profit or loss		501	205
Total other comprehensive income		501	205
Total comprehensive income for the period attributable to owners of the parent entity		26,659	327
		Cents	Cents
Basic earnings per share	2.4 (a)	8.79	0.04
Diluted earnings per share	2.4 (b)	8.70	0.04

The notes on pages 59 to 92 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 30 June 2017

	Notes	2017 \$'000	2016 \$'000
Assets			
Current assets			
Cash and cash equivalents	5.1	62,989	48,841
Trade and other receivables	5.2	8,923	7,734
Inventories	6.1	7,728	6,935
Derivative financial instruments	5.3	338	35
Prepayments and other current assets		1,379	1,050
Total current assets		81,357	64,595
Non-current assets			
Property, plant and equipment	6.2	3,464	3,304
Intangible assets	6.3	281	260
Net deferred tax assets	3.2	14,134	-
Other non-current assets		20	10
Total non-current assets		17,899	3,574
Total assets		99,256	68,169
Liabilities			
Current liabilities			
Trade and other payables	5.4	3,727	4,613
Income taxes payable		53	4
Deferred revenue		1,697	989
Employee benefits liabilities	4.2	2,748	2,238
Provisions	6.4	534	643
Borrowings	5.5	404	395
Total current liabilities		9,163	8,882
Non-current liabilities			
Trade and other payables	5.4	236	252
Deferred revenue		1,235	747
Employee benefits liabilities	4.2	355	205
Provisions	6.4	70	70
Borrowings	5.5	946	1,349
Total non-current liabilities		2,842	2,623
Total liabilities		12,005	11,505
Net assets		87,251	56,664
Equity			
Contributed equity	8.1(a)	112,713	112,698
Reserves		11,760	7,346
Accumulated losses		(37,222)	(63,380)
Total equity		87,251	56,664

The notes on pages 59 to 92 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2017

	Contributed equity	Option premium on convertible note	Reserves			Accumulated losses	Total equity
			Share-based payments	Foreign currency translation	Total reserves		
	Note 8.1(a) \$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 30 June 2015	103,059	376	4,709	34	4,743	(63,502)	44,676
Profit for the period	–	–	–	–	–	122	122
Other comprehensive income	–	–	–	205	205	–	205
Total comprehensive income	–	–	–	205	205	122	327
Transactions with owners in their capacity as owners							
Shares issued	9,601	(376)	–	–	–	–	9,225
Transaction costs	(28)	–	–	–	–	–	(28)
Share-based payments	66	–	2,398	–	2,398	–	2,464
At 30 June 2016	112,698	–	7,107	239	7,346	(63,380)	56,664
Profit for the period	–	–	–	–	–	26,158	26,158
Other comprehensive income	–	–	–	501	501	–	501
Total comprehensive income	–	–	–	501	501	26,158	26,659
Transactions with owners in their capacity as owners							
Share-based payments	15	–	2,139	–	2,139	–	2,154
Income tax on share-based payments	–	–	1,774	–	1,774	–	1,774
At 30 June 2017	112,713	–	11,020	740	11,760	(37,222)	87,251

The notes on pages 59 to 92 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000
Cash flows from operating activities			
Receipts from customers		67,816	41,243
Receipts from government grants		–	120
Payments to suppliers and employees		(52,443)	(39,138)
Interest received		1,005	1,004
Income taxes refund received/(paid)		10	(5)
Net cash provided by operating activities	5.1 (b)	16,388	3,224
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,065)	(1,087)
Purchase of intangible assets		(201)	(217)
Proceeds from disposal of property, plant and equipment		21	23
Net cash used in investing activities		(1,245)	(1,281)
Cash flow from financing activities			
Repayments of borrowings		(395)	(322)
Interest paid on borrowings		(77)	(71)
Proceeds from exercise of options		15	66
Proceeds from borrowings		–	2,048
Share issue costs		–	(27)
Net cash (used in) provided by financing activities		(457)	1,694
Net increase in cash and cash equivalents		14,686	3,637
Cash at the beginning of the financial year		48,841	45,724
Effects of exchange rate changes on cash and cash equivalents		(538)	(520)
Cash and cash equivalents at the end of year	5.1 (a)	62,989	48,841

The notes on pages 59 to 92 form an integral part of these consolidated financial statements.

Notes to the financial statements

For the year ended 30 June 2017

1. General accounting policies

This section sets out the Company's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

1.1 Reporting entity

Nanosonics Limited (the Company or Parent Entity) is a publicly listed company, limited by shares, incorporated and domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2017 comprise the Company and its subsidiaries (together referred to as Nanosonics, the Group or the Consolidated Entity).

Nanosonics Limited is a for-profit entity for the purpose of preparing the financial statements. A description of the nature of the Group's operations and its principal activities is included in the review of operations in the CEO's report and Regional highlights on pages 6 to 14 of this Annual Report and in the Directors' report on page 22.

1.2 Basis of preparation

(a) Statement of Compliance

The Financial Report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASB) and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Board of directors approved the consolidated financial statements on 24 August 2017.

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities including derivative instruments which are measured at fair value.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the financial statements from the date the control commences until the date that control ceases. Information on subsidiaries is contained in note 9.3 to the financial statements.

(ii) Transactions eliminated on consolidation

In preparing the consolidated financial statements, all inter-company balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated in full.

(d) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars (AUD), which is Nanosonics Limited's functional currency.

(e) Foreign currency**(i) Transactions and balances**

Foreign currency transactions are translated into the respective functional currencies of the entities using the exchange rates that approximate the actual exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities are recognised in the profit and loss statement as part of the fair value gain or loss.

(ii) Financial statements of foreign operations

The results and financial position of foreign operations are translated into the Company's functional and presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that statement of financial position,
- income and expenses for each profit and loss statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income – foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

(f) Use of judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to exercise judgment and make estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of certain assets and liabilities are included in the following notes:

Note 3.2	Deferred taxes
Note 4.2	Employee benefits liabilities
Note 4.3	Share-based payments
Note 6.4	Provisions
Note 7	Financial risk management

(g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, taking into account defined terms of payment and excluding taxes or duty. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

Revenue from sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the distributor or end customer. Sales are recorded based on the prices specified in the sales contracts net of any discounts and returns at the time of sale. No element of financing is deemed to be present as the sales are made with credit terms which are consistent with practices in each market.

(ii) Sale of services

Revenue from sale of services is recognised when services have been provided to the customers and where there are no continuing unfulfilled obligations. Revenue from service contracts is recognised as services are rendered over the service period, typically over one year.

(iii) Deferred revenue

Unearned service revenue is deferred and recognised as a liability in the consolidated statement of financial position. Deferred revenue expected to be realised within twelve months after the reporting period is classified as current.

(iv) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(h) Goods and services tax (GST), Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of associated GST or VAT as applicable, unless the GST/ VAT incurred is not recoverable from the taxation authority, in which case, the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST/VAT receivable or payable. The net amount of GST/VAT recoverable from, or payable to, the taxation authority is included with other current receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST/VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

(i) **Rounding**

The Company is of a kind referred to in ASIC Instrument 2016/191 issued in 2016 and in accordance with that Instrument, all financial information presented in AUD has been rounded to the nearest one thousand dollars (\$'000), unless otherwise stated.

2. Performance for the year

2.1 Segment information

(i) **Operating segment**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer & President (the chief operating decision maker) in assessing performance and in determining the allocation of resources. The Group operates in a single operating segment, being the healthcare equipment segment. Accordingly, the Group's consolidated total assets is the total reportable assets of the operating segment.

(ii) **Types of products and services**

The principal products and services of the healthcare equipment segment are the manufacture and commercialisation of infection control and decontamination products and related technologies.

(iii) **Major customers**

The Group has a number of customers to which it provides products and services. The most significant customer accounts for 65.7% (2016: 55.2%) of external revenue. The next most significant customer accounts for 3.3% of external revenue (2016: 8.0%).

(iv) **Geographical information**

Geographically, the Group operates in the global markets. Australia is the home country of the parent entity. Revenues are allocated based on the country in which the customer is located.

Revenue from external customers by geographical location is detailed below.

	2017	2016
	\$'000	\$'000
North America	62,305	39,029
Europe	1,673	1,061
Asia Pacific	3,529	2,706
Total revenue	67,507	42,796

For the purpose of this note, non-current assets consist of property, plant and equipment, intangible assets and other non-current assets. Assets and capital expenditure are allocated based on where the assets are located.

The analysis of non-current assets is detailed below:

	2017 \$'000	2016 \$'000
North America	273	248
Europe	103	23
Asia Pacific	17,523	3,303
Total non-current assets	17,899	3,574

For the year ended 30 June 2017, revenue and non-current assets by geographical location has been amended to include the category, Asia Pacific which includes revenue from customers based in Australia, New Zealand, Japan, Singapore and Hong Kong. Accordingly, the comparative information has been amended to reflect this change. Previously, sales to Singapore and Hong Kong were included in Europe and other countries.

2.2 Individually significant items

The profit from ordinary activities before income tax includes:

	2017 \$'000	2016 \$'000
Depreciation, amortisation and impairment	1,274	1,322
Rental expenses relating to operating leases	882	895
Bad debts provision	12	9
Inventories provision/write off	611	195
Loss on disposal of fixed assets	3	4
Net foreign exchange losses	1,032	541

2.3 Other income

Other income, including government grants, is recognised on a systematic basis over the period necessary to match it with related costs for which it is intended to compensate. If the costs have already been incurred, the amount is recognised in the period the entitlement is confirmed.

	2017 \$'000	2016 \$'000
Realised gains/(losses) on foreign currency forward contracts and options	433	(24)
Unrealised gains on foreign currency forward contracts and options	338	35
Net gains on foreign currency forward contracts and options	771	11
Government grant	–	120
Other income	9	2
Total	780	133

Prior year government grant comprise receipt of payments under the Export Market Development Grant scheme. There were no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other form of government assistance.

2.4 Earnings per share

(i) Basic earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit or loss attributable to equity holders of the Company for the reporting period, by the weighted average number of ordinary shares of the Company outstanding during the financial year.

(ii) Diluted earnings per share

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	2017 Cents	2016 Cents
(a) Basic earnings per share		
Basic earnings attributable to the ordinary equity holders of the Company	8.79	0.04
(b) Diluted earnings per share		
Diluted earnings attributable to the ordinary equity holders of the Company	8.70	0.04
(c) Earnings used in calculating earnings per share		
Net earnings after income tax expense attributable to shareholders	26,158	122
(d) Weighted average number of shares used as the denominator	Numbers	Numbers
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	297,422,292	285,619,275
Adjustments for calculation of diluted earnings per share:		
Performance rights and options unvested	3,294,862	3,972,299
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	300,717,154	289,591,574

2.5 Dividends

No dividends were proposed, declared or paid during the financial year and to the date of this report (2016: Nil).

3. Income taxes

Nanosonics Limited and its wholly-owned Australian resident entity, Saban Ventures Pty Limited, are part of a tax consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is Nanosonics Limited.

3.1 Income tax expense

The income tax expense or benefit for the period is the tax payable on or benefit attributable to the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Current and any deferred tax utilised are recognised in the consolidated statement of profit or loss except to the extent that they relate to items recognised directly in other comprehensive income or equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

The major components of income tax benefit/(expense) for the period are:

	2017 \$'000	2016 \$'000
Consolidated statement of profit or loss		
Current tax		
Current tax expense for the period	(8,487)	(3,331)
Deferred tax		
Recognition of deferred tax assets (net) including origination and reversal of temporary differences	20,893	3,338
Effect of tax rate change	(35)	–
	20,858	3,338
Adjustment relating to prior periods	(65)	(21)
Income tax benefit/(expense) reported in the statement of profit or loss	12,306	(14)
Consolidated statement of changes in equity		
Aggregate current and deferred tax not recognised in net profit or loss but directly debited or credited into equity		
Current tax benefit on share-based payments	1,138	–
Deferred tax benefit on share-based payments	636	–
Tax benefit charged to equity	1,774	–

Following an assessment of the operations of the Group, it has been determined that it is probable that taxable profits will be generated against which carried forward tax losses and tax credits can be utilised. As a consequence, previously unrecognised deferred tax assets in relation to the Australian entities were recognised as non-current assets as at 30 June 2017 amounting to \$14,134,000, as detailed in note 3.2.

The reconciliation of income tax expense to prima facie tax payable is as follows:

	2017 \$'000	2016 \$'000
Operating profit from ordinary activities	13,852	136
The prima facie income tax expense applicable to the operating profit is calculated at Australian tax rate of 30% (2016: 30%)	(4,156)	(41)
Tax effect of amounts in calculating taxable income		
Other deductible items	423	257
Research and development expense	(2,846)	(2,189)
Other non-deductible items	(645)	(723)
Other temporary differences	(927)	(315)
Effect of tax rate in foreign jurisdictions	(336)	(320)
Current tax expense	(8,487)	(3,331)
Recognition and utilisation of deferred tax assets in Australia	20,552	6,673
Derecognition of deferred tax assets in foreign jurisdictions	(666)	(3,335)
Utilisation of unrecognised deferred tax assets in foreign jurisdictions	1,007	–
Effect of tax rate change	(35)	–
Deferred tax benefit	20,858	3,338
Adjustment relating to prior periods	(65)	(21)
Income tax benefit/(expense)	12,306	(14)

3.2 Deferred taxes

Deferred income tax is provided using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised for deductible temporary differences and unused tax losses and tax offsets only if it is probable that future taxable amounts will be available to utilise these temporary difference, losses and offsets, and on the assumption that no adverse change will occur in income tax legislation enabling the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Significant management judgment is required to determine the amount of deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. These are reviewed at each reporting date.

An assessment of the operations resulted in the recognition of the deferred tax assets on losses, non-refundable R&D tax credits and temporary differences relating to the Australian tax consolidated group as it has been determined that it is probable that taxable profits will be generated against which these can be utilised.

Deferred tax asset and liabilities, if recognised, are classified as non-current assets and liabilities.

As of 30 June 2017, the net deferred tax assets recognised in the statement of financial position comprises:

	2017 \$'000
Deferred tax assets	
Non-refundable R&D tax credits	8,092
Tax losses	2,277
Share-based payments	1,401
Employee benefits liabilities	695
Patent costs	593
Provisions for warranties and make good	184
Provision for impairment	11
Share issue costs	120
Deferred revenue	172
Inventory provision	217
Deferred rent	79
Unrealised foreign exchange losses	283
Others	236
Total deferred tax assets	14,360
Deferred tax liabilities	
Accrued interest and other income	(104)
Derivative financial instruments	(101)
Prepayments	(7)
Property, plant and equipment	(14)
Total deferred tax liabilities	(226)
Net deferred tax assets	14,134

The Group offsets tax assets and liabilities only if it has legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

As at 30 June 2017, the Group has unrecognised deferred tax assets in relation to its subsidiaries. Unrecognised deferred tax assets include:

	2017 \$'000	2016 \$'000
Estimated tax losses carried forward (a)	3,439	18,077
Non-refundable R&D tax credits (b)	–	–
	3,439	18,077
(a) Estimated unrecognised tax losses carried forward:		
Unrecognised tax losses brought forward at the beginning of the period	57,489	56,423
Adjustment in respect of unrecognised tax losses carried forward relating to prior period ¹	(15,664)	(354)
Carried forward tax losses utilised	(26,011)	(7,392)
Tax losses for the period related to non-Australian entities	3,059	8,812
Recognition of deferred tax assets on Australian tax losses	(7,589)	–
Estimated unrecognised tax losses carried forward at the end of the period	11,284	57,489
Potential tax benefit at 30.5% effective tax rate (30 June 2016: 31.4%)	3,439	18,077

	2017 \$'000	2016 \$'000
(b) Estimated unrecognised non-refundable R&D tax credits:		
Non-refundable R&D tax credits brought forward at the beginning of the period	–	3,841
Adjustment in respect of non-refundable R&D tax credits carried forward relating to prior periods ¹	11,097	(53)
Credits that arose during the period	9,488	7,297
Credits that were utilised during the period	–	(11,085)
Recognition of deferred tax assets on R&D tax credits	(20,585)	–
Estimated unrecognised non-refundable R&D tax credits at the end of the period	–	–

1. At 30 June 2016 it was anticipated that the Company would utilise the available R&D tax credits to offset its Australian current tax expense in relation to the year ended 30 June 2016. Subsequently, it was determined that the Company would first utilise carried forward tax losses instead of R&D tax credits.

The probability of recovery of unrecognised tax losses in relation to the subsidiaries is reviewed on an on-going basis.

4. Employee benefits

4.1 Staffing costs

Staffing costs included in the profit and loss statement consist of:

	2017 \$'000	2016 \$'000
Salaries and wages	18,311	15,581
Termination benefits	226	132
Superannuation and social security contribution	1,772	1,515
Workers compensation costs	121	129
Other employee benefits and staffing costs	4,112	3,282
Share-based payments	2,139	2,398
	26,681	23,037

The above staffing costs have been broken down into:

	2017 \$'000	2016 \$'000
Cost of sales	4,122	2,939
Selling and general expenses	12,486	11,608
Administration expenses	4,388	3,874
Research and development expenses	5,685	4,616
Total staffing costs	26,681	23,037

4.2 Employee benefits liabilities

(i) Wages, salaries and annual leave

Liabilities for employee benefits, including wages, salaries and non-monetary benefits, and accumulated annual and other leave, represent present obligations resulting from employees' services provided to the reporting date. Employee benefits have been measured at the amounts expected to be paid when the liabilities are settled and are recognised in the provision for employee benefits. The liability is calculated on remuneration rates as at the reporting date including related on-costs such as workers compensation insurance and payroll tax.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity that match as closely as possible, the estimated future cash outflows.

The current portion of this liability includes the unconditional entitlements to long service leave where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances.

(iii) Bonuses

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where contractually obliged and where there is a past practice that has created a constructive obligation.

(iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement or end of employment contract date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Short-term and long-term classification of benefits

Benefits that are expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service are classified as short-term employee benefits. Short-term employee benefits are accounted for on an undiscounted basis in the period in which the service is rendered. Long-term employee benefits are benefits that are not expected to be wholly settled within 12 months, are discounted allowing for expected salary levels in the future period. Cash bonuses are classified as short-term employee benefits while annual leave and long service leave are long-term employee benefits.

Employee benefits liabilities as at the reporting date:

	2017			2016		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Provision of annual leave	1,182	–	1,182	956	–	956
Provision for long service leave	302	355	657	272	205	477
Provision for bonuses	1,264	–	1,264	1,010	–	1,010
Total employee benefit liabilities	2,748	355	3,103	2,238	205	2,443

4.3 Share-based payments

Share-based compensation benefits are equity-settled transactions provided to employees via the Nanosonics share-based compensation plans.

(i) Share-based compensation plans

On 4 November 2016, the Nanosonics Omnibus Equity Plan (NOEP) was adopted following approval by shareholders. The Omnibus Plan allows the Board to issue a range of incentive awards with the purpose of providing competitive, performance-based remuneration in alignment with the interests of shareholders. The NOEP is intended to replace existing plans and will operate in accordance with the terms of the Nanosonics Omnibus Equity Plan Trust Deed, under which the trustee may subscribe for, or acquire, deliver, allocate or hold, shares for the benefit of the participant. Participants will be able to access the relevant taxation concessions available under the Income Tax Assessment Act 1997 (ITAA 1997).

Under the NOEP Plan, eligible employees (including Executive Directors, casual employees and certain contractors) may be offered shares in Nanosonics Limited (share awards), performance share awards, options or rights.

Participation in the NOEP is at the Board's discretion and no individual has a contractual right to participate in it or to receive any guaranteed benefits.

The Company also has existing share option plans and share plans which were phased out during the period or in the process of being phased out and replaced by the NOEP.

Share option plans

The Nanosonics Employee Share Option Plan (ESOP) and the Nanosonics General Share Option Plan (GSOP) were established in 2007 and last approved by the shareholders on 8 November 2013. Under the plans, participants are granted options for no consideration. Options may only be exercised on or after any vesting dates specified by the Board at the time of offer. The exercise price of options is determined by the Board at the time of issue.

Participation in the plans is at the Board's discretion and no individual has a contractual right to participate in a plan or to receive any guaranteed benefits.

The ESOP is designed to provide the deferred equity component of the short-term incentive and long-term incentives for employees (including executive directors) to deliver long-term shareholder returns. All employees and directors are eligible to participate in the ESOP at the invitation of the Board. The maximum number of options able to be on issue under the ESOP during any five-year period is 5% of the total number of shares on issue. As part of the phasing out of the ESOP, no new share options were issued under the ESOP during the financial year (2016: 1,446,710 share options issued).

The GSOP is designed to provide incentive, recognition and reward for non-employees, usually consultants and contractors, who create long-term value for the Company. No share options were issued under the GSOP during the financial year (2016: Nil issued) and there were no options outstanding under the GSOP at the end of the year. Accordingly, the GSOP is now phased out.

Employee share plans

The Company has two Employee Share Plans, being the Deferred Employee Share Plan (DESP) and the Exempt Employee Share Plan (EESP). The EESP and DESP were established in 2007 and last approved by shareholders on 8 November 2013.

The DESP allows invited eligible employees, including directors, to receive Nanosonics shares as a bonus or incentive or as remuneration sacrifice and, subject to certain conditions, not to pay tax for up to 10 years on the benefit in accordance with enabling tax legislation.

The EESP enables eligible employees, including directors, to acquire up to \$1,000 worth of Nanosonics shares each year on a tax-exempt basis in accordance with enabling tax legislation. No shares were granted under the EESP since it was established. Accordingly, the EESP has been phased out and replaced by the NOEP.

(ii) Exercise of performance rights and options

Performance rights and options are granted under the plans for no consideration and carry no dividend or voting rights. When exercisable, each performance right and option is convertible into one ordinary share that ranks equally with any other share on issue in respect of dividends and voting rights. The exercise prices of all performance rights and options issued to the date of this report were fixed on the dates the performance rights and options were granted.

Performance rights and options granted under the NOEP or ESOP requires the holder to be an employee of the Company at the time the performance rights and options are exercised, except that they may be exercised, if vested, up to 30 days after voluntary termination of employment.

(iii) Reconciliation of outstanding performance rights and options

The number and weighted average exercise price (WAEP) of performance rights and options under the share option plans were as follows:

Number of performance rights and options	NOEP 2017		ESOP 2017		2016		GSOP 2017		2016		All share-based compensation plans 2017		2016
	Number of performance rights and options	WAEP (\$)	Number of performance rights and options	WAEP (\$)	Number of performance rights and options	WAEP (\$)	Number of performance rights and options	WAEP (\$)	Number of performance rights and options	WAEP (\$)	Number of performance rights and options	Number of performance rights and options	
Unexpired performance rights and options as at 1 July	-	-	4,253,250	-	5,537,356	-	30,000	0.51	156,667	0.51	4,283,250	5,694,023	
Granted during the year	1,079,041	1.31	-	-	1,446,710	-	-	-	-	-	1,079,041	1,446,710	
Exercised during the year	-	-	(1,768,419)	-	(597,253)	-	(30,000)	0.51	(126,667)	0.52	(1,798,419)	(723,920)	
Forfeited during the year	(8,811)	-	(32,539)	-	(2,133,563)	-	-	-	-	-	(41,350)	(2,133,563)	
Unexpired performance rights and options as at 30 June	1,070,230	1.32	2,452,292	-	4,253,250	-	-	-	30,000	0.51	3,522,522	4,283,250	

1,798,419 performance rights and options were exercised in 2017. The weighted average market share price on the ASX based on the dates of the exercise was \$3.07 (2016:\$1.53). No performance rights or options expired during the periods covered by the above table.

Performance rights and options outstanding at the end of the year have the following expiry dates and exercise prices:

Shared-based compensation plan	Exercise price (\$)	Grant date	Assessed fair value at grant date (\$)	Expiry date	Number at start of the year	Number granted during the year	Number exercised during the year	Number forfeited during the year	Number at end of the year
GSOP	0.5133	09-Nov-12	0.27	24-Nov-16	30,000	-	(30,000)	-	-
ESOP	-	08-Nov-13	0.68	30-Sep-16	442,409	-	(442,409)	-	-
ESOP	-	08-Nov-13	0.85	30-Sep-16	442,409	-	(442,409)	-	-
ESOP	-	08-Nov-13	0.71	30-Sep-17	375,000	-	-	-	375,000
ESOP	-	08-Nov-13	0.85	30-Sep-17	375,000	-	-	-	375,000
ESOP	-	03-Mar-14	0.63	30-Sep-16	249,110	-	(249,110)	-	-
ESOP	-	03-Mar-14	0.80	30-Sep-16	249,119	-	(249,119)	-	-
ESOP	-	11-Mar-15	1.36	30-Sep-17	365,500	-	-	(9,988)	355,512
ESOP	-	11-Mar-15	1.71	30-Sep-17	365,485	-	-	(9,964)	355,521
ESOP	-	11-Nov-15	1.58	01-Oct-16	387,942	-	(385,372)	(2,570)	-
ESOP	-	04-Jan-16	1.46	30-Sep-18	500,631	-	-	(5,008)	495,623
ESOP	-	04-Jan-16	1.06	30-Sep-18	500,645	-	-	(5,009)	495,636
NOEP	-	05-Jan-17	2.59	31-Aug-22	-	87,921	-	(1,169)	86,752
NOEP	-	05-Jan-17	2.33	31-Aug-22	-	87,904	-	(1,168)	86,736
NOEP	-	05-Jan-17	3.07	31-Aug-22	-	175,844	-	(2,337)	173,507
NOEP	2.85	05-Jan-17	1.00	31-Aug-22	-	123,946	-	-	123,946
NOEP	2.85	05-Jan-17	0.98	31-Aug-22	-	123,944	-	-	123,944
NOEP	2.85	05-Jan-17	1.05	31-Aug-22	-	247,893	-	-	247,893
NOEP	-	05-Jan-17	3.07	01-Sep-20	-	231,589	-	(4,137)	227,452
Total					4,283,250	1,079,041	(1,798,419)	(41,350)	3,522,522

No performance rights or options are vested and exercisable at end of year.

(iv) Fair values**Fair values of performance rights and options granted**

The assessed fair value on the date performance rights and options were granted was independently determined using an appropriate valuation model that takes into account the exercise price, the term of the performance right or option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance right or option.

The inputs used in the measurement of the fair values at the grant date are the following:

Compensation plan	Description	Vesting conditions	Exercise price (\$)	Grant date	Vesting date	Expiry date	Estimated share price at grant date (\$)	Valuation model	Expected price volatility of the Company's shares	Expected dividend yield	Risk-free interest rate	Assessed fair value at grant date (\$)
Granted during the year												
NOEP	2016 LTIS Tranche 1	Relative TSR performance and service	–	5-Jan-17	31-Aug-19	31-Aug-22	3.07	Monte Carlo	35.80%	0%	2.00%	2.59
NOEP	2016 LTIS Tranche 2	Relative TSR performance and service	–	5-Jan-17	31-Aug-19	31-Aug-22	3.07	Monte Carlo	35.80%	0%	2.00%	2.33
NOEP	2016 LTIS Tranche 3	Pre-tax EPS and service	–	5-Jan-17	31-Aug-19	31-Aug-22	3.07	Black-Scholes	35.80%	0%	2.00%	3.07
NOEP	2016 LTIS Tranche 1	Relative TSR performance and service	2.85	5-Jan-17	31-Aug-19	31-Aug-22	3.07	Monte Carlo	35.80%	0%	2.00%	1.00
NOEP	2016 LTIS Tranche 2	Relative TSR performance and service	2.85	5-Jan-17	31-Aug-19	31-Aug-22	3.07	Monte Carlo	35.80%	0%	2.00%	0.98
NOEP	2016 LTIS Tranche 3	Pre-tax EPS and service	2.85	5-Jan-17	31-Aug-19	31-Aug-22	3.07	Black-Scholes	35.80%	0%	2.00%	1.05
NOEP	2016 Deferred STI	Service	–	5-Jan-17	1-Sep-17	1-Sep-20	3.07	Black-Scholes	35.80%	0%	2.00%	3.07
Granted in prior periods and unexpired at report date:												
ESOP	2015 LTIS Tranche 1	Relative TSR performance and service	–	4-Jan-16	31-Aug-18	30-Sep-18	1.67	Monte Carlo	37.50%	0%	2.00%	1.46
ESOP	2015 LTIS Tranche 2	Relative TSR performance and service	–	4-Jan-16	31-Aug-18	30-Sep-18	1.67	Monte Carlo	37.50%	0%	2.00%	1.06
ESOP	2014 LTIS Tranche 1	Relative TSR performance and service	–	11-Mar-15	31-Aug-17	30-Sep-17	1.72	Binomial	45.00%	0%	1.88%	1.36
ESOP	2014 LTIS Tranche 2	FY17 Revenue and service	–	11-Mar-15	31-Aug-17	30-Sep-17	1.72	Monte Carlo	45.00%	0%	1.88%	1.71
ESOP	2013 LTIS Tranche 3	Relative TSR performance	–	8-Nov-13	31-Aug-17	30-Sep-17	0.85	Monte Carlo	45.00%	0%	3.20%	0.71
ESOP	2013 LTIS Tranche 4	FY17 Revenue and service	–	8-Nov-13	31-Aug-17	30-Sep-17	0.85	Binomial	45.00%	0%	3.20%	0.85

Fair values of shares granted

The issue price for shares granted is calculated as the 5-day weighted average market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the shares were granted. The fair value of shares granted is taken to be the issue price.

(v) Recognition of expenses**Recognition of expense of performance rights and options granted**

The fair value of performance rights and options granted is recognised as an employee expense with a corresponding increase in equity, on a straight line monthly basis over the vesting period in which the performance and/or service conditions are fulfilled after which the employees become unconditionally entitled to them. The cumulative expense recognised for share-based payments at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of the period. No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting are conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2017	2016
	\$'000	\$'000
Performance rights and options issued under ESOP	1,549	2,394
Performance rights and options issued under NOEP	590	–
Options issued under GSOP	–	4
	2,139	2,398

Recognition of expense of shares granted

The assessed fair values of shares granted under the NOEP and DESP are expensed in full in the month in which they are granted, except if they are granted with a vesting condition, in which case the fair value of NOEP and DESP shares granted is apportioned on a straight line monthly basis over the period between grant date and the date on which the shares all vest. At the end of a period, the Company assesses the probability of achievement of a benefit, being the percentage probability that employees will achieve at least the fair value of the unvested shares. The value of DESP shares expensed in any period is calculated as that portion of the fair value applicable to the period factored by the probability of achievement. A share-based payments reserve is created as part of shareholders' equity.

During the financial year there were no shares directly granted under the DESP (2016: Nil)

Shares issued on the exercise of performance rights and options granted to employees as part of their performance bonus or short term incentive under the ESOP were issued to the DESP.

Following is a reconciliation of shares on issue under the DESP:

	2017	2016
Employee shares on issue as at 1 July	1,010,585	715,366
Granted during the year	–	–
Issued on exercise of performance rights and options during the year	1,798,419	597,253
Withdrawn during the year	(655,078)	(302,034)
Employee shares on issue as at 30 June	2,153,926	1,010,585

5. Financial assets and financial liabilities

5.1 Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments presented at market value that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Cash and cash equivalents

Cash and cash equivalents at the reporting date as shown in the consolidated statements of cash flows and financial position are as follows:

	2017 \$'000	2016 \$'000
Cash at bank and on hand	13,781	16,591
Deposit on call	2,526	750
Short term deposits	46,682	31,500
Total cash and cash equivalents	62,989	48,841

Cash term investments which are highly liquid irrespective of their maturity dates are classified as current assets at market value as they may not necessarily be held by the Company for their full term.

The Group's exposure to interest rate risk is discussed in note 7(a)(ii). The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

(ii) Reconciliation of profit after income tax to net cash inflow from operating activities

	2017 \$'000	2016 \$'000
Operating profit after income tax	26,158	122
Adjustment for:		
Depreciation, amortisation and impairment	1,274	1,322
Share-based payments expense	2,139	2,398
Borrowing costs	77	603
Loss on disposal of fixed assets	3	4
Effect of foreign exchange movements	1,095	896
Changes in assets and liabilities		
(Increase)/decrease in derivative financial instruments	(303)	(35)
(Increase)/decrease in trade and other receivables	(1,326)	(4,075)
(Increase)/decrease in inventories	(1,022)	(965)
(Increase)/decrease in other current assets	(358)	(416)
(Increase)/decrease in other non-current assets	(9)	140
Increase/(decrease) in trade and other payables	(874)	2,286
Increase/(decrease) in deferred revenue	1,261	1,334
Increase/(decrease) in employee benefit liabilities	677	456
Increase/(decrease) in provisions	(109)	(855)
(Increase)/decrease in net current tax assets/liabilities	65	9
(Increase)/decrease in net deferred tax assets	(12,360)	–
Net cash provided by operating activities	16,388	3,224

(iii) Credit standby arrangements unused

	2017 \$'000	2016 \$'000
Facility limits		
Borrowing facilities	2,115	2,115
Guarantee facility	475	475
Facility available		
Borrowing facilities	766	365
Guarantee facility	14	14

5.2 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Trade receivables generally have 30 to 60 days credit terms and therefore are all classified as current.

Due to the short-term nature of the receivables, their carrying amount is assumed to be the same as their fair value.

Information about the impairment of trade and other receivables, their credit quality and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 7.

	2017 \$'000	2016 \$'000
Trade receivables net of allowance for impairment loss	8,204	7,092
GST/VAT receivable	346	286
Interest and other receivables	373	356
Total trade and other receivables	8,923	7,734

5.3 Derivative financial instruments

The Group uses derivative financial instruments (foreign currency forward contracts and options) to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the profit and loss statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges, when they hedge the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges, when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction.

Hedges that meet the strict criteria for hedge accounting are accounted as follows:

- For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the profit and loss statement.
- For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged and the derivative is remeasured to fair value. Gains and losses from both are taken to the profit and loss statement.

During the year, all foreign exchange contracts entered into by the Group do not satisfy the requirements for hedge accounting (economic hedges).

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

All of the Group's foreign exchange forward contracts and options were valued using market comparison technique (Level 2) and there were no transfers between levels during the year. The fair values are based on third party independent valuation. Similar contracts are traded in an active market and the independent valuation reflects the actual transactions in similar instruments.

As at 30 June 2017, the Group holds derivative financial instruments carried at fair value of \$338,000 (2016: \$35,000).

5.4 Trade and other payables

Trade and other payables are carried at amortised cost. These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition. Amounts due to be settled within twelve months after the reporting period are classified as current.

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

	2017			2016		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Trade payables	1,405	–	1,405	2,586	–	2,586
Lease straight-lining liability	28	236	264	10	252	262
Other payables	2,294	–	2,294	2,017	–	2,017
Total trade and other payables	3,727	236	3,963	4,613	252	4,865

5.5 Borrowings

Loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequently loans and borrowings are stated at amortised cost using the effective interest method. Amounts due to be settled within twelve months after the reporting period are classified as current.

Borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

	2017 \$'000	2016 \$'000
Finance leases – secured		
Current	404	395
Non-current	946	1,349
	1,350	1,744

On 21 September 2015, the Company entered into a finance lease arrangement with its bank for the leasehold improvements of its global corporate and manufacturing facility in Lane Cove, NSW, Australia for \$2,048,000 repayable in fixed monthly instalments for a period of 5 years at 4.92% per annum. This borrowing is secured by the leasehold improvements included in Property, plant and equipment.

Finance lease and hire purchase liability at the end of the year is as follows:

	2017		2016	
	Minimum payments \$000	Present value of payments \$000	Minimum payments \$000	Present value of payments \$000
Within one year	461	404	472	395
After one year but not more than 5 years	1,000	946	1,460	1,349
Total minimum lease payments	1,461	1,350	1,932	1,744
Less future finance charges	111	–	188	–
Present value of minimum lease payments	1,350	1,350	1,744	1,744

The carrying value of the finance lease liability approximates its fair value since the interest payable on this borrowing is close to current market rates.

6. Operating assets and liabilities

6.1 Inventories

Inventories are measured at the lower of cost and net realisable value. Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. In the case of manufactured inventory and work in progress, cost includes materials, labour and an appropriate level of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling, marketing and distribution expenses.

	2017	2016
	\$'000	\$'000
Raw materials and stores	4,721	2,608
Work in progress	334	832
Finished goods	2,673	3,495
	7,728	6,935

Inventories recognised as an expense (cost of sales) during the year ended 30 June 2017 amounted to \$15,891,000 (2016: \$9,796,000).

Write-downs of inventories during the year ended 30 June 2017 amounted to \$611,000 (2016: \$195,000). The expense has been included in selling and general expenses in the profit and loss statement.

6.2 Property, plant and equipment

(i) Owned assets

All property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when it is replaced. All other repairs and maintenance are charged to the profit and loss statement during the reporting period in which they are incurred. Production tooling used to manufacture component parts qualifies as property, plant and equipment when the Company expects to use it during more than one period.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss statement.

(ii) Leased assets

Finance leases that transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the profit and loss statement.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are expensed on a straight-line basis over the term of the lease. Minimum lease payments include fixed rate increases.

(iii) Depreciation

All assets have limited useful lives and are depreciated using the straight line method over their estimated useful lives, or in the case of leasehold improvements, over the estimated useful life or lease term, whichever is shorter, taking into account residual values. Depreciation is expensed. The depreciation rates or useful lives used in the current and comparative years are as follows: leasehold improvements over the lease term; and plant and equipment two to seven years.

The assets' residual values, useful lives and depreciation methods are reviewed prospectively and adjusted, if appropriate, at least annually.

(iv) Impairment

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. Non-financial assets, other than intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Total property, plant and equipment at net book value

	Leasehold improvements \$'000	Plant and equipment \$'000	Capital work in progress \$'000	Total \$'000
Year ended 30 June 2016				
Opening net book amount	2,032	1,360	176	3,568
Additions	335	655	14	1,004
Retirement and others	–	(105)	–	(105)
Impairment	–	–	–	–
Depreciation charge	(378)	(785)	–	(1,163)
Foreign currency translation effect (net)	–	3	(3)	–
Closing net book amount at 30 June 2016	1,989	1,128	187	3,304
At 30 June 2016				
Cost	2,393	4,619	187	7,199
Impairment	–	(9)	–	(9)
Accumulated depreciation	(404)	(3,482)	–	(3,886)
Net book amount at 30 June 2016	1,989	1,128	187	3,304
Year ended 30 June 2017				
Opening net book amount	1,989	1,128	187	3,304
Additions	39	773	478	1,290
Retirement and others	–	(25)	–	(25)
Impairment	–	(36)	–	(36)
Depreciation charge	(384)	(675)	–	(1,059)
Foreign currency translation effect (net)	–	(8)	(2)	(10)
Closing net book amount at 30 June 2017	1,644	1,157	663	3,464
At 30 June 2017				
Cost or fair value	2,432	4,852	663	7,947
Impairment	–	(45)	–	(45)
Accumulated depreciation	(788)	(3,650)	–	(4,438)
Net book amount at 30 June 2017	1,644	1,157	663	3,464

6.3 Intangible assets

(i) Research and development

Research and development expenditure is expensed as incurred except that costs incurred on development projects, relating to the design and testing of new or improved products, are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably.

(ii) Patents and trademarks

The costs of registering and protecting patents and trademarks are expensed as incurred.

(iii) ERP system and computer software

The expenditure incurred on the Enterprise Resource Planning (ERP) system and computer software and the costs necessary for the implementation of the system are recognised as an intangible asset, to the extent Nanosonics controls future economic benefits as a result of the costs incurred, and are stated at cost less accumulated amortisation. Costs include expenditure that is directly attributable to the development and implementation of the system.

(iv) Amortisation

Amortisation is calculated to expense the cost of the intangible assets less its estimated residual values on a straight line basis over their estimated useful lives. The estimated useful lives for the current and comparative years are as follows: development costs five years and ERP system and computer software three years.

Amortisation is recognised in the profit and loss statement from the date the asset is available for use unless their lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment annually.

(v) Impairment

Intangible assets are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. No impairment of intangibles were assessed during the period (2016: Nil).

	Development costs \$'000	ERP system and computer software \$'000	Total \$'000
Year ended 30 June 2016			
Opening net book amount	–	207	207
Additions	–	217	217
Amortisation	–	(159)	(159)
Foreign currency translation effect (net)	–	(5)	(5)
Closing net book amount at 30 June 2016	–	260	260
At 30 June 2016			
Cost	201	1,267	1,468
Accumulated depreciation	(201)	(1,007)	(1,208)
Net book amount at 30 June 2016	–	260	260
Year ended 30 June 2017			
Opening net book amount	–	260	260
Additions	–	201	201
Amortisation	–	(179)	(179)
Foreign currency translation effect (net)	–	(1)	(1)
Closing net book amount at 30 June 2017	–	281	281
At 30 June 2017			
Cost or fair value	201	1,464	1,665
Accumulated depreciation	(201)	(1,183)	(1,384)
Net book amount at 30 June 2017	–	281	281

6.4 Provisions

(i) General

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reasonably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. An increase in the provision due to the passage of time is recognised as interest expense.

(ii) Provision for warranty

Provision for warranty related costs are made in respect of the Group's estimated liability on all products sold or services provided under warranty at the reporting date. The provision is measured at current values estimated to be required to settle the warranty obligation. The initial estimate of warranty-related costs is revised annually.

(iii) Provision for make good

The Group has operating leases over its offices that require the premises to be returned to the lessor in their original condition.

The operating lease payments do not include an element for repairs or make good. A provision for make good lease costs is recognised at the time it is determined that it is probable that such costs will be incurred in a future year, measured at the expected cost of returning the asset to the lessor in its original condition. An offsetting asset of the same value is also recognised and is classified in property, plant and equipment. This asset is amortised to the profit and loss statement over the life of the lease.

(iv) Provision for onerous contracts

A provision for onerous contracts is recognised when expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting contractual obligations. The provision is measured at the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with the contract.

(a) Provisions as at the reporting date follows:

	2017			2016		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Provision for warranty	534	–	534	643	–	643
Make good provision	–	70	70	–	70	70
Total provisions	534	70	604	643	70	713

(b) Movements in provisions

	Provision for warranty \$'000	Make good provision \$'000	Total \$'000
Carrying amount at start of year	643	70	713
Additional provisions recognised	332	–	332
Amounts used during the year	(200)	–	(200)
Unused amount reversed during the year	(241)	–	(241)
Carrying amount at end of year	534	70	604

7. Financial risk management

The Group is exposed to a variety of risks, including market risk (comprising foreign currency risk and interest rate risk), credit risk and liquidity risk.

The Board of directors has overall responsibility for the Group's risk management framework. Responsibility for the development and implementation of controls to address risks is assigned to the Audit and Risk Committee. This responsibility is supported by the development of standards, policies and procedures for the management of these risks.

(a) Market risk

Market risk is the risk that changes in market prices will affect the Group's financial performance.

(i) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expenses are denominated in different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries. The Group enters into foreign currency forward contracts to mitigate its foreign currency risk on its net cash flows.

Exposure

The Group's exposure to foreign currency risk in the consolidated balance sheet at the end of the reporting period mainly comprised:

	2017			2016		
	USD \$'000	GBP £'000	Euro €'000	USD \$'000	GBP £'000	Euro €'000
Cash and cash equivalents	8,380	315	137	11,109	255	98
Trade and other receivables	5,068	255	328	4,208	256	145
Trade and other payables	(597)	(122)	(146)	(1,416)	(44)	(89)
	12,851	448	319	13,901	467	154
Foreign currency forward contracts and options to sell	10,186	–	–	2,232	–	–

Sensitivity

The following table demonstrates the sensitivity to a reasonable possible change in the USD, EUR and GBP against the AUD, with all other variables held constant.

	Impact on post-tax profit		Impact on other components of equity	
	30 June 2017 \$'000	30 June 2016 \$'000	30 June 2017 \$'000	30 June 2016 \$'000
Change in USD rate				
Increase 10% (3%)	2,234	623	(1,216)	(310)
Decrease 5% (10%)	(1,344)	(1,830)	521	913
Change in GBP rate				
Increase 9% (3%)	293	42	(344)	24
Decrease 3% (6%)	(86)	(76)	101	(52)
Change in EUR rate				
Increase 6% (3%)	(1)	3	31	(3)
Decrease 3% (6%)	–	(5)	(14)	7

Impact on post-tax profit and on other components of equity is most sensitive to movements in the Australian dollar/US dollar exchange rates because of the increased amount of US dollar denominated sales, trade receivables and bank balances. The sensitivity analysis above takes into account foreign currency denominated intercompany receivables and payables which do not form part of a net investment in foreign operations as although intercompany balances are eliminated in the consolidated balance sheet, the effect on profit or loss of their revaluation is not fully eliminated. The Group's exposure to movement in other foreign currencies are not material.

(ii) Interest rate risk

The Group's main interest rate risk arises from the cash reserves in the operating bank accounts and short-term deposits, which expose the Group to cash flow interest rate risk.

The Group's exposure to interest rate risk is noted below:

			Fixed interest rate maturing in:					
		Floating interest rate	1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total	
2017	Notes	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Financial assets								
Cash and cash equivalents	5.1	16,307	46,682	–	–	–	62,989	
Trade and other receivables	5.2	–	–	–	–	8,923	8,923	
Derivative financial instruments	5.3	–	–	–	–	338	338	
Total financial assets		16,307	46,682	–	–	9,261	72,250	
Weighted average interest rate		0.37%	2.58%	–	–	–	–	
Financial liabilities								
Trade and other payables	5.4	–	–	–	–	3,963	3,963	
Borrowings	5.5	–	404	946	–	–	1,350	
Total financial liabilities		–	404	946	–	3,963	5,313	
Weighted average interest rate		–	4.92%	4.92%	–	–	–	
Net financial assets (liabilities)		16,307	46,278	(946)	–	5,298	66,937	

			Fixed interest rate maturing in:				
		Floating interest rate	1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
2016	Notes	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets							
Cash and cash equivalents	5.1	17,341	31,500	–	–	–	48,841
Trade and other receivables	5.2	–	–	–	–	7,734	7,734
Derivative financial instruments	5.3	–	–	–	–	35	35
Total financial assets		17,341	31,500	–	–	7,769	56,610
Weighted average interest rate		0.11%	3.03%	–	–	–	–
Financial liabilities							
Trade and other payables	5.4	–	–	–	–	4,865	4,865
Borrowings	5.5	–	395	1,349	–	–	1,744
Total financial liabilities		–	395	1,349	–	4,865	6,609
Weighted average interest rate		–	5.01%	4.92%	–	–	–
Net financial assets (liabilities)		17,341	31,105	(1,349)	–	2,904	50,001

Sensitivity

The profit and loss statement is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates.

	Impact on pre-tax profit	
	2017	2016
	\$'000	\$'000
Interest rates – increase by 25 basis points	140	118
Interest rates – decrease by 25 basis points	(140)	(118)

(b) Credit risk

Credit risk is the risk of financial loss to Nanosonics if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, favourable derivative financial instruments, deposits with banks and financial institutions, and credit exposures to customers. The maximum exposure to credit risk as at the reporting date is the carrying amount of the financial assets as described in note 5. The Company exposure to credit risk is influenced mainly by the geographical location, the type and characteristics of individual customers.

Maximum exposure to credit risk for trade receivable by geographical region was as follows:

	2017	2016
	\$'000	\$'000
North America	6,437	5,617
Europe	655	553
Asia Pacific	1,112	922
	8,204	7,092

Maximum exposure to credit risk for trade receivable by type of counterparty was as follows:

	2017	2016
	\$'000	\$'000
Distributors	3,506	3,457
End-user customers	4,698	3,635
	8,204	7,092

As at 30 June 2017, GE Healthcare (worldwide) and Regional Healthcare Group, combined, accounted for over 40% of the trade receivables (2016: GE Healthcare Group and Regional Healthcare Group, combined, accounted for over 44% of the trade receivables).

Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

(i) Risk management

Credit risk is managed on a group basis. The Group may only invest surplus funds in deposits and floating rate notes offered by any major bank approved by the Board.

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to credit risk management. The Group performs credit assessments of its customers prior to entering into any sales agreements. The Group utilises an external credit rating agency to assess the credit worthiness of its customers. In North America, outstanding customer receivables are regularly monitored and are generally covered by credit insurance.

As a result, the Group believes that its accounts receivable credit risk exposure is mitigated and it has not experienced significant write-downs in its accounts receivable balances.

The credit risk arising from derivative financial instruments is not significant.

(ii) Credit quality

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

An analysis of the credit policy of trade receivables that are neither past due nor impaired as follows:

	2017 \$'000	2016 \$'000
External financial ratings at least 1A from Dun & Bradstreet	2,207	2,163
Covered by credit insurance	3,022	1,834
Other customers:		
Four or more years trading history with the Group	763	554
Less than four years of trading history with the Group	443	51
	6,435	4,602

Impaired trade receivables

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified. For these receivables the estimated impairment losses are recognised in a separate provision for impairment. The Group considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or delinquency in payments.

Receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash.

Impairment losses are recognised in the profit and loss statement within selling and general expenses. Subsequent recoveries of amounts previously written off are credited against selling and general expenses.

As at 30 June 2017, trade receivables with a nominal value of \$21,000 (2016: \$9,000) were considered impaired and fully provided for.

The movement in provision for impairment in respect of trade and other receivables during the year was as follows:

	2017 \$'000	2016 \$'000
At 1 July	9	5
Provision for impairment recognised during the year	12	9
Receivables written off during the year as uncollectible	–	(5)
Unused amount reversed	–	–
At 30 June	21	9

Past due but not impaired

As at 30 June 2017, trade receivables of \$1,255,000 (2016: \$2,490,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The aging analysis of trade receivables is as follows:

	2017 \$'000	2016 \$'000
Neither past due nor impaired	6,435	4,602
Past due but not impaired		
< 30 days	949	829
30–60 days	353	793
> 60 days	467	868
	8,204	7,092

(c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are invested in short and medium term instruments which are tradeable in highly liquid markets.

At the end of the reporting period the Group held short term deposits of \$46,682,000 (2016: \$31,500,000) that are expected to readily generate cash inflows for managing liquidity risk.

Maturities of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

2017	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Trade and other payables	3,699	28	236	–	3,963
Borrowings	99	305	946	–	1,350
Total financial liabilities	3,798	333	1,182	–	5,313
2016					
Trade and other payables	4,603	10	230	22	4,865
Borrowings	96	299	1,349	–	1,744
Total financial liabilities	4,699	309	1,579	22	6,609

8. Capital structure

8.1 Capital and reserves

(a) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or performance rights and options are shown in equity as a deduction, net of tax, from the proceeds.

Ordinary shares carry one vote per share and entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands, every ordinary shareholder present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote. Ordinary shares have no par value, are fully paid and the Company does not have a limited amount of authorised capital.

Movements in ordinary share capital

	Number of shares	\$'000
Opening balance 1 July 2015	282,910,890	103,059
Exercise of performance rights and options – proceeds received	723,920	66
Shares issued on redemption of convertible notes	12,299,726	9,601
	295,934,536	112,726
Less: Transaction costs arising on share issues	–	(28)
Balance 30 June 2016	295,934,536	112,698
Exercise of performance rights and options – proceeds received	1,798,419	15
Balance 30 June 2017	297,732,955	112,713

On 28 June 2012, the Company issued unsecured Tranche A Convertible note of \$4,000,000 and Tranche B Convertible note of \$3,500,000 which maturity date 4 years after the issue date. The convertible notes accrued 6% interest per annum on a simple interest basis calculated on each anniversary of issue date and were able to be converted at any time up until the maturity date at \$0.75 per share, subject to certain adjustments. The noteholder elected to have all accrued interest form part of the face value of the note. On 20 April 2016, the noteholder exercised its right to redeem the convertible notes. As a result, 12,299,726 shares were issued on 28 April 2016 in accordance with the terms of the Convertible Note Deed Poll.

(b) Reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the grant date fair value of performance rights and options issued but not exercised.

Foreign currency translation reserve

Exchange differences arising on translation of the foreign subsidiaries are recognised in other comprehensive income as described in note 1.2(e) and accumulated in a separate reserve within equity.

8.2 Capital management

The Board and management controls the capital of the Group to ensure that the Group can fund its operations and continue as a going concern.

The Group's capital includes ordinary share capital and financial liabilities supported by financial assets. There are no externally imposed capital requirements. The Board and management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

9. Other notes

9.1 Commitments

Non-cancellable operating leases

The Group leases offices and warehouses under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2017 \$'000	2016 \$'000
Within one year	949	802
Later than one year but not later than five years	2,644	3,293
Later than five years	–	161
	3,593	4,256

Capital commitments

As at 30 June 2017, the Group had commitments to purchase plant and equipment of \$1,434,000 (2016: \$129,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

9.2 Related party transactions

Note 9.3 provides the information about the Group's structure including the details of the subsidiaries and the parent entity.

(a) Directors and key management personnel compensation

	2017 \$	2016 \$
Director fees	481,733	278,538
Short-term employee benefits	1,752,744	1,493,037
Long-term benefits	305,042	245,606
Termination benefits	–	–
Share-based payments	930,090	1,101,549
Total directors and key management personnel compensation	3,469,609	3,118,730
Total compensation includes total remuneration for executive and non-executive directors of the parent entity	1,305,556	2,109,317

Detailed remuneration disclosures are provided in the remuneration report on pages 26 to 50.

(b) Transactions with other related parties

Certain directors and Key Management Personnel, or their personally-related entities (Related Parties), hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

Details of the type of transactions that were entered into with Related Parties are as follows:

Related party	Related entity	Transactions
Maurie Stang	Gryphon Capital Pty Ltd	Director fees
Maurie Stang	Ramlist Pty Ltd	Rent of premises
Maurie Stang	Regional Healthcare Group Pty Ltd	Products purchased, services received and products sold
Richard England	Angleterre Nominees Pty Ltd and Domkirke Pty Ltd	Director fees

	2017 \$	2016 \$
Sale of products to Related Parties	2,055,438	1,821,765
Interest charged	1,115	11,388
Purchases of goods and services from Related Parties	255,861	210,697
Rent of premises and equipment from Related Parties and make good payments	–	210,079

The above transactions exclude director fees which are disclosed in Non-executive Directors remuneration in section 3.3 of the remuneration report on page 30.

(c) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the end of the reporting period in relation to transactions with Related Parties:

	2017 \$	2016 \$
Current trade receivables (supply of goods and services)	791,582	639,133
Current trade payables (purchases of goods and services)	1,976	–

There were no provisions for impaired receivables in relation to any outstanding balances from Related Parties (2016: Nil) and no expense has been recognised during the period in respect of impaired receivables due from related parties.

(d) Loans to directors and Key Management Personnel

During the financial year and to the date of this report, the Group made no loans to directors and Key Management Personnel and none were outstanding at the year ended 30 June 2017 (2016: Nil).

(e) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

9.3 Controlled entities

The consolidated financial statements of the Group include:

Name of controlled entity	Principal activities	Country of incorporation	Class of shares	Equity Holdings	
				2017	2016
Nanosonics Europe GmbH	Provision of sales and customer support services in Germany	Germany	Ordinary	100%	100%
Saban Ventures Pty Limited	Owner of the registered intellectual property of the Group	Australia	Ordinary	100%	100%
Nanosonics, Inc.	Sales and distribution of Nanosonics' products and provision of sales and customer support services to Nanosonics Limited in the USA	USA	Ordinary	100%	100%
Nanosonics Europe Limited	Sales and distribution of Nanosonics' products in Europe	UK	Ordinary	100%	100%
Nanosonics UK Limited	Provision of sales and customer support services in Europe	UK	Ordinary	100%	100%
Nanosonics Canada, Inc.	Sales and distribution of Nanosonics' products and services in Canada	Canada	Ordinary	100%	100%

9.4 Parent entity information

As at and throughout the financial year ended 30 June 2017, the parent entity of the Group is Nanosonics Limited which is based and listed in Australia. The individual financial statements for the parent entity show the following aggregate amounts:

(a) Summary financial information

	2017 \$'000	2016 \$'000
Statement of financial position		
Current assets	99,087	78,227
Total assets	116,842	81,764
Current liabilities	10,809	7,267
Total liabilities	12,180	8,891
Shareholders' equity		
Share capital	112,713	112,697
Share-based payments reserve	10,866	6,953
Accumulated losses	(18,918)	(46,776)
Total equity	104,661	72,874
Profit for the year	27,859	12,539
Total comprehensive income	27,859	12,539

(b) Guarantees entered into by the parent entity

During the year ended 30 June 2017 and 2016, the parent entity provided assurances to its controlled entities, Nanosonics Europe GmbH, Nanosonics Europe Limited and Nanosonics UK Limited that the intercompany debts will not be required to be repaid until such time as the controlled entities have sufficient funds available. No other guarantees were provided during the period.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2017 or 30 June 2016.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2017, the parent entity had commitments to purchase plant and equipment of \$1,434,000 (2016: \$129,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

(e) Accounting policies

The accounting policies of the parent entity are consistent with the Group except for Investment in controlled entities which are carried in the parent company financial statements at the lower of cost or recoverable amount.

9.5 Remuneration of auditors

During the year, the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) UHY Haines Norton

	2017	2016
	\$	\$
Audit and other assurance services		
Audit and review of financial reports	105,120	82,500
Total remuneration of UHY Haines Norton	105,120	82,500

(b) Network firms of UHY Haines Norton

Audit and other assurance services		
Audit and review of financial reports	11,838	16,300
Tax compliance services	3,298	2,547
Total remuneration of network firms of UHY Haines Norton	15,136	18,847
Total auditors' remuneration	120,256	101,347

9.6 Changes in accounting policies

There have been no changes to accounting standards impacting Nanosonics in the current financial year.

9.7 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for financial years beginning after 1 July 2017 and have not been applied in preparing these consolidated financial statements. Of the new standards, the following are expected to have an effect on the consolidated financial statements of the Group:

AASB 9 Financial instruments, which becomes mandatory for Nanosonics' 2019 consolidated financial statements

The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. New hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss model to recognise an allowance. The Group is in the process of assessing the impact of this standard but does not expect it to be material.

AASB 15 Revenue from contracts with customers, which becomes mandatory for Nanosonics' 2019 consolidated financial statements

The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods or services. The Group is in the process of assessing the impact of this standard and it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 16 Leases, which becomes mandatory for Nanosonics 2020 consolidated financial statements

For lessee accounting, the standard eliminates the 'operating lease' and finance lease classification required by AASB 117, Leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets where an accounting policy choice exists whereby either a right-of-use asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the lease asset (included in operating expenses) and in interest expense on the recognised lease liability (included in finance costs). For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) components. For lessor accounting, standard does not substantially change how a lessor accounts for leases. The Group's operating leases with terms of more than 12 months relates to leases of office facilities. As at 30 June 2017, the Group has non-cancellable operating lease commitments of \$3,593,000 (see note 9.1). The Group is in the process of assessing the impact of this standard but has not yet determined to what extent these commitments will result in the recognition of an asset and liability for future payments. The impact is not expected to be material.

9.8 Events occurring after the reporting period

No matters or circumstances have arisen since 30 June 2017 that have significantly affected, or may significantly affect:

- (a) The Group's operations in future financial years;
- (b) The results of those operations in future financial years; or
- (c) The Group's state of affairs in future financial years.

Directors' declaration

1. In the opinion of the directors of Nanosonics:
 - (a) The consolidated financial statements and notes set out on pages 55 to 92 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company and Consolidated Entity's financial position as at 30 June 2017 and of their performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards, and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations by the Chief Executive Officer & President and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.
3. The consolidated financial statements comply with International Financial Reporting Standards, as disclosed in note 1.2(a).

This declaration is made in accordance with a resolution of directors.



Richard England
Director, Sydney

24 August 2017

Independent auditor's report to the members



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INDEPENDENT AUDITOR'S REPORT

To the Members of Nanosonics Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Nanosonics Limited (the Company) and its subsidiaries (together the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Independent auditor's report to the members



Revenue recognition (occurrence, cut off and accuracy)

Areas of focus

As per note 2.1 of the financial statements, the revenue for the financial year ended 30 June 2017 was \$67.5 million (2016: \$42.8 million).

We focused on revenue recognition because:

- Revenue is an important measure used to evaluate the performance of the company;
- Quantum of amounts involved; and
- Revenue is generally recognised when the risks and rewards of ownership of the underlying products have been transferred to the customer and tend not to have multiple deliverable elements. There is a risk that sales may be materially misstated if recognized before the risks and rewards of ownership have been transferred.

How our audit addressed the area of focus

Our audit procedures included, amongst others:

- Assessing the appropriateness of the Company's revenue recognition accounting policy and its compliance with the Australian Accounting Standards;
- Where appropriate, we tested the operating effectiveness of the internal controls over the recording of revenue in the correct period;
- We tested the accuracy of the revenue recorded by checking that revenue was recognised based on the transfer of the risks and rewards of ownership of goods to the customer, or in the accounting period in which services were rendered by agreeing a sample of revenue items to contract and shipping documents, with specific focus on transactions which occurred around the year end date;
- For sales transactions denominated in currencies other than Australian dollars, we tested the accuracy of the foreign exchange rate used for revenue recognition;
- We tested journal entries posted to revenue accounts to identify any unusual or irregular items, and assess their reasonableness; and
- We assessed the quantitative and qualitative disclosures made in the financial report, by comparing these disclosures to our understanding of the matter.

Independent auditor's report to the members



Inventory (valuation)

Area of focus

As per note 6.1 to the financial statements the inventory balance as at 30 June 2017 was \$7.7 million (2016: \$6.9 million).

We focused on this area because of:

- The subjectivity involved in estimating the conversion costs and allocation of overheads to calculate the cost of the finished goods. These costs are influenced by assumptions concerning labour and overhead recovery rates based on normal production capacity. The Group uses a standard recovery rate; and
- The impact of this item on the gross profit margin.

How our audit addressed the area of focus

Our audit procedures included, amongst others:

- We assessed the reasonability of the labour and overhead recovery rates used by management by comparing them against the historical trend and by evaluating them based on our understanding of the business;
- On a sample basis, we tested raw material costs by comparing them to supplier invoices;
- We obtained an understanding of how variances between the actual and standard costs were recorded by the Group's accounting system; and
- We assessed the quantitative and qualitative disclosures made in the financial report, by comparing these disclosures to our understanding of the matter.

Warranty provision

Area of focus

As per note 6.4 to the financial statement the provision for warranty as at 30 June 2017 was \$534,000 (2016: \$643,000).

We focused on this area because:

- The inherent uncertainty associated with estimating device return and claim rates, and associated future warranty claim costs; and
- The potential material amounts involved.

How our audit addressed the area of focus

Our audit procedures included, amongst others:

- We held discussions with management to obtain an understanding of the process followed to calculate the provision for warranty balance as at balance date with a focus on the assumptions and inputs used by the management as part of this calculation;
- We assessed the appropriateness of the Group's methodology, evaluated and tested the basis for the assumptions developed and used by management in the determination of the warranty provision;
- We checked the historical trend of actual warranty costs incurred against the provision;
- We performed sensitivity analysis and tested sensitivity of the provision to various assumptions such as failure rates, labour rate, etc. to evaluate the judgement made by management; and
- We assessed the quantitative and qualitative disclosures made in the financial report, by comparing these disclosures to our understanding of the matter.

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Deferred taxes

Area of focus

As per note 3.2 to the financial statements, the net deferred tax assets as at 30 June 2017 were \$14.1 million (2016: nil).

We focused on this area because:

- As deferred tax is recognised for the first time, there is an increased risk that the asset may not meet the recognition criteria of the Australian Accounting Standards; and
- Due to the inherent complexity involved in the computation of deferred tax, there is a risk of error in the deferred tax calculation.

How our audit addressed the area of focus

Our audit procedures included, amongst others:

- We held discussions with management to obtain an understanding of the policy applied for the recognition of deferred tax and their assessment of profitability of the company in the near future;
- We assessed whether it appears reasonably certain that sufficient profits will be available in the future to recover the deferred tax assets; and
- We checked the accuracy of input data and evaluated formulas and assumption used for the computation of deferred tax.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for the audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Independent auditor's report to the members



We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 26 to 50 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Nanosonics Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in black ink, appearing to read 'Mark Nicholaeff'.

Mark Nicholaeff
Partner

Sydney

Date: 24 August 2017

A handwritten signature in black ink, appearing to read 'UHY Haines Norton'.

UHY Haines Norton
Chartered Accountants

Shareholder information

A. Equity security holders

Twenty largest holders of quoted equity securities

Ordinary shares	Number of quoted shares held	Percentage
HSBC Custody Nominees (Australia) Limited	47,872,862	16.08%
J P Morgan Nominees Australia Limited	36,819,026	12.37%
Citicorp Nominees Pty Limited	23,211,082	7.80%
Mr Maurie Stang ¹	22,599,701	7.59%
Mr Bernard Stang	18,836,556	6.33%
UBS Nominees Pty Ltd	12,678,197	4.26%
National Nominees Limited	10,357,308	3.48%
Mr Steve Kritzer	8,489,737	2.85%
BNP Paribas Nominees Pty Ltd <Agency Lending Drp A/C>	8,137,797	2.73%
BNP Paribas Noms Pty Ltd <Drp>	3,958,400	1.33%
Asia Union Investments Pty Ltd	3,100,000	1.04%
AET SFS Pty Ltd <Nanosonics Desp A/C>	2,152,589	0.72%
Dr Harry Hirschowitz	2,010,000	0.67%
Australian Shareholder Nominees Pty Ltd	1,518,597	0.51%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	1,365,009	0.46%
Avanteos Investments Limited <2349414 Hofbauer A/C>	1,200,000	0.40%
Bennelong Resources Pty Limited <John Egan Super Fund A/C>	1,200,000	0.40%
Community Care Consulting Pty Ltd <Lim Family Super Fund A/C>	920,000	0.31%
Larinda Pty Ltd <Bg Superannuation Fund A/C>	800,000	0.27%
Roan Industries Pty Limited <Robinson Super Fund A/C>	595,332	0.20%
Total top 20 holders	207,822,193	69.80%
Total all other holders	89,910,762	30.20%
Total shares on issue	297,732,955	100%

1. Includes indirect holdings of 116,368 shares but excludes shares held by close family members.

Unquoted equity securities	Number of options over ordinary shares	Number of holders ¹
Performance rights and options on issue		
Performance rights under ESOP to take up unissued ordinary shares	2,452,292	26
Performance rights and options under NOEP to take up unissued ordinary shares	1,068,917	98
Total performance rights and options on issue	3,521,209	99

1. There are 25 common holders in ESOP and NOEP.

Shareholder information

B. Distribution of equity securities

Analysis of number of ordinary shares and performance rights and options by size holding:

	Quoted ordinary shares	Unquoted performance rights and options
1 – 1,000	2,641	34
1,001 – 5,000	3,954	32
5,001 – 10,000	1,458	5
10,001 – 100,000	1,580	21
100,001 and over	132	7
Total Holders	9,765	99

There were 441 holders of less than a marketable parcel of 205 ordinary shares.

C. Substantial holders

Substantial holders in the Company are shown below:

	Number of ordinary shares	Percentage
JCP Investment Partners	25,005,980	8.40%
Mr Maurie Stang ¹	22,599,701	7.59%
Mr Bernard Stang	18,836,556	6.33%

1. Includes indirect holdings of 116,368 shares but excludes shares held by close family members.

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and on a poll each share shall have one vote.

(b) Performance rights and options

Performance rights and options have no voting rights.

E. On-market buy-back

There is no current on-market buy-back.

Corporate directory and information for investors

Nanosonics Limited ABN 11 095 076 896
incorporated 14 November 2000



WEBSITE
NANOSONICS.COM.AU

Directors

Maurie Stang
Richard England
David Fisher
Steven Sargent
Marie McDonald
Michael Kavanagh

Company Secretaries

McGregor Grant
Robert Waring

Registered Office

14 Mars Road
Lane Cove NSW 2066 Australia
P +61 2 8063 1600

Share Register

Computershare Investor Services Pty Ltd
GPO Box 2975
Melbourne VIC 3001 Australia

P +61 3 9415 4088
P 1300 555 159 (within Australia)
au.computershare.com/au/contact

Investor/Media Relations

Buchan Consulting
P +61 3 9866 4722
P 1300 557 010 (within Australia)

McGregor Grant
– Company Secretary
P +61 2 8063 1600
info@nanosonics.com.au

Auditor

UHY Haines Norton
Level 11, 1 York Street
Sydney NSW 2000 Australia

Legal Advisors

Dibbs Barker
Level 8, Angel Place
123 Pitt Street
Sydney NSW 2000 Australia

Shelston IP
Level 21, 60 Margaret Street
Sydney NSW 2000 Australia

Baker & McKenzie
AMP Centre
Level 27, 50 Bridge Street
Sydney NSW 2000 Australia

Bankers

Australia: Australia and New Zealand Banking Group Limited, HSBC Bank Australia Limited and National Australia Bank Limited

United Kingdom: HSBC Bank plc

Germany: Deutsche Bank AG

United States: HSBC Bank USA NA and PNC Financial Services Group, Inc.

Canada: HSBC Bank Canada

Stock Exchange Listing

Nanosonics Limited shares are listed on the Australian Securities Exchange

ASX code: NAN

Industry Group
Healthcare Equipment & Services

2017 Nanosonics Limited Annual General Meeting

WHEN 11.00am, 3rd November 2017

WHERE Brisbane Room, Sofitel Sydney Wentworth 61-101 Phillip Street Sydney NSW 2000

Glossary

AASB	Australian Accounting Standards Board
AGM	Annual General Meeting
ANZ	Australia and New Zealand
APIC	Association for Professionals in Infection Control and Epidemiology
ASIC	Australian Securities and Investments Commission
ASUM	Australasian Society for Ultrasound in Medicine
ASX	Australian Securities Exchange Limited
CDC	Centers for Disease Control and Prevention
CEO&P	Chief Executive Officer and President
CFO	Chief Financial Officer
DESP	Deferred Employee Share Plan
DGKH	German Hospital Hygiene Society
EESP	Exempt Employee Share Plan
EPS	Earnings Per Share
ERP	Enterprise Resource Planning
ERS	European Radiology Society
ESOP	Employee Share Option Plan
FCF	Free Cash Flow
FDA	Food and Drug Administration
Fiscal Year	Year to 30 June
FY	Financial year, eg. FY2017 is the financial year ended 30 June 2017
Group	Nanosonics Limited and its wholly owned subsidiaries
GSOP	General Share Option Plan
GST	Goods and Services Tax
HAI	Healthcare Acquired Infection
HLD	High Level Disinfection – involves the complete elimination of all microorganisms in or on an instrument, except for small numbers of bacterial spores
HPV	Human papillomavirus
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICT	Infection Control Today
IDN	Integrated Delivery Network

IFRS	International Financial Reporting Standards
IP	Intellectual Property
ISO 13485	Quality Management System for Medical Devices – Requirements for Regulatory Purposes
JSUM	Japanese Society for Ultrasound in Medicine
KMP	Key management personnel
LLD	Low Level Disinfection
LTi	Long Term Incentives
LTIS	Long Term Incentive Scheme
NED	Non-executive Director
NHS	National Health System
NOEP	Nanosonics Omnibus Equity Plan
OEM	Original Equipment Manufacturer
PBT	Profit before tax
POC	Point of Care
Q1, 2, 3, or 4	3-monthly periods beginning 1 July, 1 October, 1 January and 1 April respectively
R&D	Research and Development
Reporting period	Year to 30 June 2017
STI	Short Term Incentives
TEC	Total Employment Cost
TFR	Total Fixed Remuneration
trophon®	The brand representing Nanosonics' range of infection control solutions designed specifically for healthcare settings
trophon® EPR	The brand of Nanosonics' device specifically designed to disinfect intracavity and surface ultrasound probes. See also www.trophon.com
TSR	Total Shareholder Return
TTR	Total Target Remuneration
UK	United Kingdom
USA	United States of America
VAT	Value Added Tax
WAEP	Weighted Average Exercise Price
WFUMB	World Federation for Ultrasound in Medicine and Biology

Notes

[illegible]

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