

Appendix 4D

Nanosonics Limited Half Yearly Report

ABN: 11 095 076 896

Reporting period: 31 December 2019

Previous period: 31 December 2018

Results for announcement to the market

	31 December 2019 \$'000	31 December 2018 \$'000		Movement %	\$'000
Revenue from ordinary activities	48,527	40,693	Up	19%	7,834
Profit from ordinary activities before tax	6,743	11,000	Down	-39%	(4,257)
Profit from ordinary activities after tax attributable to members	5,711	7,105	Down	-20%	(1,394)
Net profit for the period attributable to members	5,711	7,105	Down	-20%	(1,394)
	Cents	Cents			Cents
Basic earnings per share	1.90	2.37	Down	-20%	(0.47)
Dividend per share	-	-			
Net tangible assets per share	34.11	30.08	up	13%	4.03

The information in this report should be read in conjunction with the 30 June 2019 Annual Report.

Record date for determining entitlements to the dividend and dividend payment date are not applicable. There were no distributions of dividends during the period or in the previous corresponding period. No dividend reinvestment plans were in operation during or since the half-year.

There were no entities over which control has been gained or lost during the period.

The Group has no associates or joint venture entities.

The Group applies International Financial Reporting Standards in compiling the financial report of its wholly-owned subsidiaries, Nanosonics Europe GmbH, Nanosonics, Inc., Nanosonics Canada, Inc., Nanosonics Europe Limited, Nanosonics UK Limited, Nanosonics Japan K.K. and Saban Ventures Pty Ltd.

The financial statements included in the half yearly report are not subject to audit dispute or qualification.

The information set out above and in the attached half year report is provided to the ASX in accordance with a resolution of the Directors.

Attachments:

The Half-Yearly Report of Nanosonics Limited for the period ended 31 December 2019 is attached.

On behalf of the directors



Geoff Wilson

Director

Sydney, 26 February 2020



HALF-YEARLY REPORT

Given to the ASX under listing rule 4.2A.

31 DECEMBER 2019

The information in this report should be read in conjunction with the 30 June 2019 Annual Report.

Directors' report

For the half-year ended 31 December 2019

Your Directors present their report, together with the interim consolidated financial statements and notes for Nanosonics Limited (the Company) and its subsidiaries (together the Group) for the half-year ended 31 December 2019, and the Auditor's review report thereon.

Principal activities

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

- Manufacturing and distribution of trophon[®] ultrasound probe disinfectant and associated consumables and accessories; and
- Research and development of infection control and decontamination technologies and related products.

Further information is included in the Review of results and operations below and in the financial statements.

Other than as discussed in this report, there have been no significant changes in the nature of these activities for the half-year ended 31 December 2019.

Directors

During the period and to the date of this report, the Board of Nanosonics Limited comprised of non-executive directors, Maurie Stang (Chairman), Steven Sargent (Deputy Chairman), David Fisher, Marie McDonald, Geoff Wilson (appointed 17 July 2019), Lisa McIntyre (appointed 13 December 2019) and Richard England (retired 1 September 2019) and executive director, Michael Kavanagh (CEO & President/Managing Director).

Review of results and operations

	31 December 2019	31 December 2018
	\$'000	\$'000
Revenue from contracts with customers	48,527	40,693
Cost of sales	(12,128)	(10,111)
Gross profit	36,399	30,582
Selling and general expenses	(17,682)	(11,181)
Administration expenses	(6,215)	(4,836)
Research and development expenses	(6,834)	(5,508)
Other income	3	5
Other gains - net	632	1,279
Finance income	609	768
Finance expense	(169)	(109)
Operating income before income tax	6,743	11,000
Income tax expense	(1,032)	(3,895)
Net profit	5,711	7,105

	31 December 2019	30 June 2019
	\$'000	\$'000
Cash and cash equivalents	81,965	72,180
Net assets	117,558	110,083

Directors' report

For the half-year ended 31 December 2019

Sales for the period were \$48,527,000. This compares with sales of \$40,693,000 in the prior corresponding period. The installed base of trophon globally increased by 1,570 units, growing to approximately 22,500 units. In North America, the installed base of trophon increased by 1,360 units in the half-year to 31 December 2019 to approximately 19,930 units.

Gross profit was \$36,399,000 compared with \$30,582,000 in the prior corresponding period. Gross margin as a percent of sales was 75% compared with 75% in the prior corresponding period.

Selling, general and administration expenses were \$23,897,000, an increase of \$7,880,000 compared with \$16,017,000 in the prior corresponding period. The increase is mainly attributable to an increase in staffing costs associated with an increase in headcount globally as the Company focusses on continuing to grow and establish trophon as a standard of care with existing markets including direct sales in North America and market expansion activities in the Europe/Middle East and Asia Pacific regions.

Research and development expenses for the half-year to 31 December 2019 were \$6,834,000, an increase of \$1,326,000 compared with the prior corresponding period.

Other gains – net for the period were \$632,000 compared with \$1,279,000 in the prior corresponding period, mainly as a result of net foreign exchange gains.

Income tax expense for the period was \$1,032,000 compared with an income tax expense of \$3,895,000 in the prior corresponding period.

Cash and cash equivalents at 31 December 2019 totalled \$81,965,000 compared with \$72,180,000 at 30 June 2019. The cash on hand provides a strong balance sheet for the Company to continue executing on its growth strategies. Free cash flow amounted to \$10,016,000 compared with \$1,631,000 in the previous comparable period.

Subsequent events

Note 8.3 sets out details of events subsequent to 31 December 2019 that may significantly affect the interim consolidated financial statements or require disclosure.

Apart from the items included in Note 8.3 and in the half-year report, there are no matters or circumstances that have arisen since 31 December 2019 that have significantly affected, or may significantly affect:

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

Rounding

The amounts contained in this report and in the interim consolidated financial statements 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.

Directors' report

For the half-year ended 31 December 2019

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4.

This Report is made and signed in accordance with a resolution of the Directors made pursuant to section 306(3)(a) of the *Corporations Act 2001*.

On behalf of the Directors



Geoff Wilson

Director

Sydney, 26 February 2020



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Auditor's Independence Declaration to the Directors of Nanosonics Limited

As lead auditor for the review of the interim consolidated financial statements of Nanosonics Limited for the half-year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

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

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

Ernst & Young

Ernst & Young

Gamini Martinus

Gamini Martinus
Partner
26 February 2020

Directors' declaration

In the opinion of the Directors of Nanosonics Limited:

1. The interim consolidated financial statements and notes set out on pages 6 to 22 are in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date, and
 - b. complying with the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and other mandatory professional reporting requirements.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



Geoff Wilson

Director

Sydney, 26 February 2020

Nanosonics Limited

Interim consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2019

		31 December 2019	31 December 2018
	Notes	\$'000	\$'000
Revenue from contracts with customers	2.2	48,527	40,693
Cost of sales		(12,128)	(10,111)
Gross profit		36,399	30,582
Selling and general expenses		(17,682)	(11,181)
Administration expenses		(6,215)	(4,836)
Research and development expenses		(6,834)	(5,508)
Other income		3	5
Other gains - net	2.4	632	1,279
Results from operating activities		6,303	10,341
Finance income - interest		609	768
Finance expense		(169)	(109)
Net finance income		440	659
Operating income before income tax		6,743	11,000
Income tax expense	3.1	(1,032)	(3,895)
Net income after income tax expense attributable to owners of the parent entity		5,711	7,105
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on foreign currency translation		(593)	(793)
Effective portion of changes in fair value of cash flow hedges		574	(75)
Income tax on items of other comprehensive income		(172)	22
Total items that may be reclassified subsequently to profit or loss		(191)	(846)
Total other comprehensive income		(191)	(846)
Total comprehensive income for the period attributable to owners of the parent entity		5,520	6,259
Earnings per share for losses attributable to ordinary shareholders of the company:			
		Cents	Cents
Basic earnings per share	2.5	1.90	2.37
Diluted earnings per share	2.5	1.88	2.35

The notes on pages 10 to 22 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Interim consolidated statement of financial position

As at 31 December 2019

		31 December 2019	30 June 2019
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	5.1	81,965	72,180
Trade and other receivables		18,448	19,700
Inventories		10,234	14,018
Derivative financial instruments		553	189
Cost to obtain customer contracts		247	280
Income taxes receivable		135	143
Prepayments and other current assets		1,971	2,102
Total current assets		113,553	108,612
Non-current assets			
Property, plant and equipment		7,109	6,729
Right-of-use assets	1.2(b)	1,706	-
Intangible assets		616	799
Net deferred tax assets		12,833	12,893
Other non-current assets		50	37
Derivative financial instruments		205	237
Costs to obtain customer contracts		169	214
Total non-current assets		22,688	20,909
Total assets		136,241	129,521
LIABILITIES			
Current liabilities			
Trade and other payables		4,655	7,004
Income taxes payable		75	82
Contract liabilities		4,025	4,012
Employees benefits liabilities	4.1	3,542	3,453
Provisions	6.1	745	678
Borrowings		302	445
Lease liabilities	1.2(b)	1,163	-
Derivative financial instruments		37	287
Total current liabilities		14,544	15,961
Non-current liabilities			
Trade and other payables		-	121
Contract liabilities		2,748	2,532
Employees benefits liabilities	4.1	440	513
Provisions	6.1	75	75
Borrowings		-	76
Lease liabilities	1.2(b)	876	-
Derivative financial instruments		-	160
Total non-current liabilities		4,139	3,477
Total liabilities		18,683	19,438
Net assets		117,558	110,083
EQUITY			
Contributed equity	7.1	113,177	112,713
Reserves		16,270	14,820
Accumulated losses		(11,889)	(17,450)
Total equity		117,558	110,083

The notes on pages 10 to 22 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Interim consolidated statement of changes in equity

For the half-year ended 31 December 2019

	Reserves				Total reserves	Accumulated losses	Total equity
	Contributed equity	Share-based payments	Foreign currency translation	Hedging			
	Note 7.1						
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2019	112,713	16,324	(1,458)	(46)	14,820	(17,450)	110,083
Change in accounting policy ¹	-	-	-	-	-	(150)	(150)
At 1 July 2019 restated	112,713	16,324	(1,458)	(46)	14,820	(17,600)	109,933
Profit for the period	-	-	-	-	-	5,711	5,711
Other comprehensive income	-	-	(593)	574	(19)	-	(19)
Income tax on items of other comprehensive income	-	-	-	(172)	(172)	-	(172)
Total comprehensive income	-	-	(593)	402	(191)	5,711	5,520
Transaction with owners in their capacity as owners							
Exercise of options	464	-	-	-	-	-	464
Share-based payments	-	713	-	-	713	-	713
Income tax on share-based payments	-	928	-	-	928	-	928
At 31 December 2019	113,177	17,965	(2,051)	356	16,270	(11,889)	117,558
At 1 July 2018	112,713	13,386	(234)	(91)	13,061	(31,471)	94,303
Change in accounting policy ²	-	-	-	-	-	419	419
At 1 July 2018 restated	112,713	13,386	(234)	(91)	13,061	(31,052)	94,722
Profit for the period	-	-	-	-	-	7,105	7,105
Other comprehensive income	-	-	(793)	(75)	(868)	-	(868)
Income tax on items of other comprehensive income	-	-	-	22	22	-	22
Total comprehensive income	-	-	(793)	(53)	(846)	7,105	6,259
Transaction with owners in their capacity as owners							
Share-based payments	-	725	-	-	725	-	725
Income tax on share-based payments	-	(36)	-	-	(36)	-	(36)
At 31 December 2018	112,713	14,075	(1,027)	(144)	12,904	(23,947)	101,670

1. Refer to Note 1.2(b) for further information regarding changes in accounting policies.

2. Refer to the 30 June 2019 Annual Report for changes in the accounting policies related to AASB 15.

The notes on pages 10 to 22 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Interim consolidated statement of cash flows

For the half-year ended 31 December 2019

	31 December 2019	31 December 2018
Notes	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST/VAT)	49,676	35,286
Payments to suppliers and employees (inclusive of GST/VAT)	(39,119)	(33,390)
Interest received	768	766
Income taxes paid	(123)	(96)
Net cash proceeds from operating activities	11,202	2,566
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,182)	(736)
Purchase of intangible assets	(4)	(199)
Net cash (used) in investing activities	(1,186)	(935)
Cash flows from financing activities		
Payment of principal portion of lease liabilities	(559)	-
Interest paid on lease liabilities	(48)	-
Repayment of borrowings	(220)	(209)
Interest paid on borrowings	(12)	(22)
Proceeds from exercise of options	464	-
Net cash (used) in financing activities	(375)	(231)
Net increase in cash and cash equivalents	9,641	1,400
Cash and cash equivalents at the beginning of the financial half-year	72,180	69,433
Effect of exchange rate changes on cash and cash equivalents	144	423
Cash and cash equivalents at the end of the financial half-year	5.1 81,965	71,256

The notes on pages 10 to 22 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2019

1 General accounting policies

1.1 Reporting entity

Nanosonics Limited (the Company) is a listed public company, limited by shares, incorporated and domiciled in Australia. The interim consolidated financial statements of the Company as at and for the half-year ended 31 December 2019 comprises Nanosonics Limited and its subsidiaries (the Group). The interim consolidated financial statements is presented in Australian dollars.

1.2 Basis of preparation

a. Statement of Compliance

The interim consolidated financial statements and notes for the reporting period ended 31 December 2019 is prepared in accordance with AASB134 Interim Financial Reporting (IAS34 Interim Financial Reporting) and the *Corporations Act 2001*.

The interim consolidated financial report does not include all of the information for a full annual financial report. Accordingly, this report should be read in conjunction with the Annual Financial Report for the Group as at and for the year ended 30 June 2019, together with the public announcements made by the Company during the half year and to the date of this report in accordance with continuous disclosure requirements of the *Corporations Act 2001*. The audited Annual Financial Report for the Company as at and for the year ended 30 June 2019 is available upon request from the Company's registered office and principal place of business at 14 Mars Road, Lane Cove NSW 2066, Australia or from the Investor Centre section of the Company's website: www.nanosonics.com.au. Copies of the Company's public announcements made during the half year and to the date of this report are also available from the Investor Centre section of the Company's website.

The interim consolidated financial statements was approved by the Board of Directors on 26 February 2020.

b. Changes in significant accounting policies

The accounting policies applied are consistent with those of the 30 June 2019 Annual Report and corresponding interim reporting period except for the change outlined below.

The Group has adopted the new accounting standards AASB 16 *Leases* utilising the modified retrospective method with initial application from 1 July 2019. The Group will elect to apply the standard to contracts that were previously identified as leases applying AASB 117 *Leases* and AASB *Interpretation 4*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The right-of-use assets for all leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. The cumulative effect of adopting the standard has been recorded as an adjustment to the opening balance of retained earnings as set out below. Therefore, the comparative information was not restated and continues to be reported under the previous accounting standard. The Group has elected to use the practical expedients wherein it:

- excluded short-term leases for which the lease term ends within 12 months at the date of initial application;
- excluded lease contracts for which the underlying asset is of low value;
- used a single discount rate to a portfolio of leases with similar characteristics;
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117. Therefore, AASB 16 does not have an impact for leases where the Group is the lessor.

1 General accounting policies (continued)

A summary of the opening balance adjustment as at 1 July 2019 is included below.

Opening balance adjustment as at 1 July 2019	1 July 2019 \$'000
Right-of-use assets	5,499
Accumulated depreciation – right-of-use assets	(3,488)
Right-of-use assets – net of accumulated depreciation	2,011
Deferred tax assets	56
Increase in assets	2,067
Lease liabilities	(2,413)
Trade and other payables ¹	196
Increase in liabilities	(2,217)
Net decrease in retained earnings as at 1 July 2019	(150)

1. Reversal of lease straight-lining liability.

The following tables summarise the impact of adopting AASB 16 on the Group's statement of financial position as at 31 December 2019 and its statement of profit or loss and other comprehensive income for the period ended for each of the line items affected.

Impact on the consolidated statement of financial position

As at 31 December 2019

	Amounts under the previous standard \$'000	Adjustments \$'000	As reported with the adoption of AASB16 \$'000
Assets			
Right-of-use assets	-	5,686	5,686
Accumulated depreciation – right-of-use assets	-	(3,980)	(3,980)
Right-of-use assets – net of accumulated depreciation	-	1,706	1,706
Deferred tax asset	12,805	28	12,833
Other assets	121,702	-	121,702
Total assets	134,507	1,734	136,241
Liabilities			
Trade and other payables	4,815	(160) ²	4,655
Current lease liabilities	-	1,163	1,163
Non-current lease liabilities	-	876	876
Other liabilities	11,989	-	11,989
Total liabilities	16,804	1,879	18,683
Net assets	117,703	(145)	117,558
Equity			
Accumulated losses	(11,744)	(145)	(11,889)
Others	129,447	-	129,447
Total Equity	117,703	(145)	117,558

2. Lease straight-lining liability.

1 General accounting policies (continued)

Impact on the consolidated statement of profit or loss and other comprehensive income

For the period ended 31 December 2019

Continuing operations	Amounts under previous lease standard \$'000	Adjustments \$'000	As reported with the adoption of AASB16 \$'000
Selling and general expenses	(17,734)	52	(17,682)
Administration expenses	(6,219)	4	(6,215)
Research and development expenses	(6,849)	15	(6,834)
Finance expense - interest	(121)	(48)	(169)
Income tax expense	(1,004)	(28)	(1,032)
Others	37,643	-	37,643
Profit after tax	5,716	(5)	5,711

Individual significant items	Amounts under previous lease standard \$'000	Adjustments \$'000	As reported with the adoption of AASB16 \$'000
Rental expense	(671)	565	(106)
Finance expense - interest	(121)	(48)	(169)
Depreciation expense – right-of-use assets	-	(494)	(494)
Income tax expense	(1,004)	(28)	(1,032)

The Group leases various offices, warehouses, equipment and motor vehicles. Rental contracts are typically made for fixed periods between 3 to 8 years. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. Until the 2019 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

On adoption of AASB 16, the group recognised lease liabilities in relation to leases and were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 4.12%.

1 General accounting policies (continued)

These lease liabilities as at 1 July 2019 are reconciled to the operating lease commitments as of 30 June 2019 as follows:

	\$'000
Operating lease commitments as at 30 June 2019	2,517
Weighted average incremental borrowing rate as at 1 July 2019	4.12%
Lease liability as at 1 July 2019	2,413

As at 31 December 2019 lease liabilities are disclosed as follows:

	31 December 2019
	\$'000
Current lease liabilities	1,163
Non-current lease liabilities	876
Total lease liabilities as at 31 December 2019	2,039

The associated right-of-use assets relate to the following types of assets:

	31 December 2019	1 July 2019
	\$'000	\$'000
Properties	1,561	1,853
Motor vehicles and other equipment	145	158
Total right-of-use assets	1,706	2,011

The accounting policies of the comparative information in this report should be read in conjunction with the 30 June 2019 Annual Report.

2 Performance for the year

2.1 Revenue

AASB 15 *Revenue from Contracts with Customers* establishes a five-step model to account for revenue arising from contracts with customers. Entities are required to exercise judgment in developing revenue recognition policies, taking into consideration all the relevant facts and circumstances when applying each step of the model. The group has revised its accounting policy in line with the requirements of AASB 15 in the previous financial period.

Revenue from contracts with customers is recognised when the control of goods and services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services.

Sale of goods

The Group's sales of goods consist of the sale of capital equipment which includes the sale of trophon and related accessories, and the sale of consumables and spare parts. Sales revenue is recognised at a point in time when the Group has delivered goods to its customers, and it is probable that consideration will be collected in exchange. Revenue is measured on the consideration expected to be received, net of trade rebates and discounts paid. If the contract includes variable consideration, the variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of goods provide customers with volume rebates which give rise to variable consideration.

The Group provides retrospective volume rebates to certain customers once certain contracted thresholds have been achieved. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with multi-tiered threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Group then applies the requirements on constraining estimates of variable consideration and recognises an offset against trade and other receivables for the expected future rebates.

Service

The Group's sale of services is recognised using a proportionate fair value method based on relative standalone selling prices or in certain circumstances, using the residual method of distinct performance obligations within service contracts. Service contracts have separately identifiable performance obligations that are either provided at a point in time or over time. Revenue from the sale of services is recognised when the distinct performance obligation is fulfilled.

Financing component

The timing between upfront consideration received and the fulfilment of services gives rise to a financing component. Using the practical expedient in AASB 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less. Some customers purchase service contracts up-front or enter into multi-period service contracts resulting in the Group holding the payment greater than 12 months in advance of revenue recognition. The transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

Interest income

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

2 Performance for the year (continued)

2.2 Segment and revenue 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 are 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, GE Healthcare, accounts for approximately 54% of external revenue (31 December 2018: 56%). The next most significant customer, Regional Healthcare Group Pty Ltd, accounts for approximately 3% of external revenue (31 December 2018: 3%).

iv. Geographical information

Geographically, the Group operates globally. 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.

For the half-year ended 31 December 2019

	North America	Europe and Middle East	Asia Pacific	Total
Capital revenue before hedging	13,819	466	450	14,735
Foreign exchange loss on hedged sales	(334)	-	-	(334)
Total capital revenue	13,485	466	450	14,401
Consumables and spare parts	26,663	1,633	963	29,259
Service	3,633	257	977	4,867
Total consumables and service revenue	30,296	1,890	1,940	34,126
Total revenue	43,781	2,356	2,390	48,527

For the half-year ended 31 December 2018

	North America	Europe and Middle East	Asia Pacific	Total
Capital revenue before hedging	15,756	479	334	16,569
Foreign exchange loss on hedged sales	(169)	-	-	(169)
Total capital revenue	15,587	479	334	16,400
Consumables and spare parts	19,102	996	754	20,852
Service	2,408	238	795	3,441
Total consumables and service revenue	21,510	1,234	1,549	24,293
Total revenue	37,097	1,713	1,883	40,693

2 Performance for the year (continued)

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

The analysis of non-current assets is detailed below:

	31 December 2019	30 June 2019
	\$'000	\$'000
North America	1,122	1,032
Europe and Middle East	1,704	1,464
Asia Pacific	6,824	5,283
Total non-current assets	9,650	7,779

2.3 Profit or loss items

The profit from ordinary activities before income tax includes:

	31 December 2019	31 December 2018
	\$'000	\$'000
Depreciation, amortisation and impairment	1,935	998
Inventory provision	263	6
Loss on disposal of property, plant and equipment	12	-

Depreciation, amortisation and impairment for the period ended 31 December 2019 includes \$494,000 of depreciation on right-of-use assets as detailed in Note 1.2(b).

2.4 Other gains - net

Foreign exchange gains and losses are recognised in accordance with the accounting policy set out in the 30 June 2019 Annual Report. Gains or losses on derivative financial instruments are recognised in accordance with the accounting policy referred in Note 5.2.

	31 December 2019	31 December 2018
	\$'000	\$'000
Realised loss on derivative financial instruments	(222)	(67)
Unrealised gain/(loss) on derivative financial instruments	211	(495)
Net foreign exchange gain	655	1,841
Net gain on foreign currency	644	1,279
Loss on disposal of fixed assets	(12)	-
Total other gains – net	632	1,279

2 Performance for the year (continued)

2.5 Earnings per share (EPS)

i. Basic earnings per share

Basic EPS is calculated by dividing the net profit 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 half 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.

	31 December 2019	31 December 2018
	Cents	Cents
(a) Basic earnings per share		
Basic earnings attributable to the ordinary equity holders of the company	1.90	2.37
(b) Diluted earnings per share		
Diluted earnings attributable to the ordinary equity holders of the company	1.88	2.35
	\$'000	\$'000
(c) Net earnings used in calculating earnings per share		
Net earnings after income tax expense attributable to shareholders	5,711	7,105
	31 December 2019	31 December 2018
	Number	Number
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	300,198,013	299,607,040
Adjustments for calculation of diluted earnings per share:		
Options and performance rights unvested	3,604,024	2,887,164
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	303,802,037	302,494,204

2.6 Dividends

No dividends were proposed, declared or paid during the interim financial period and to the date of this report (31 December 2018: 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 reconciliation of income tax expense to prima facie tax payable is as follows:

	31 December 2019	31 December 2018
	\$'000	\$'000
Operating profit from ordinary activities	6,743	11,000
The prima facie income tax (expense) applicable to the operating profit is calculated at the Australian tax rate of 30% (31 December 2018: 30%)	(2,023)	(3,300)
Increase in income tax expense due to:		
Non-deductible expenses	(75)	(402)
Research and development expenses	(2,054)	(1,675)
Derecognition of deferred tax assets in foreign jurisdictions	(133)	(541)
Decrease in income tax expense due to:		
Utilisation of R&D tax credits in Australia	2,635	2,150
Other deductible expenses	384	191
Utilisation of unrecognised deferred tax assets in foreign jurisdictions	-	30
Effect of tax rate in foreign jurisdictions	234	(348)
Income tax (expense)	(1,032)	(3,895)

The Group offsets tax assets and liabilities only if it has a 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 31 December 2019, the Group has unrecognised deferred tax assets in relation to its subsidiaries.

Estimated unrecognised losses carried forward at the end of the period are \$5,855,000 (30 June 2019: \$4,452,000) for a potential tax benefit of \$1,264,000 (30 June 2019: \$909,000) at an effective tax rate of 21.59% (30 June 2019: 20.4%). The probability of recovery of unrecognised tax losses in relation to the subsidiaries are reviewed on an on-going basis.

4 Employee benefits

4.1 Employee benefit liabilities

	31 December 2019			30 June 2019		
	Current	Non-current	Total	Current	Non-current	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Provision of annual leave	2,035	-	2,035	1,818	-	1,818
Provision for long service leave	160	440	600	162	513	675
Provision for bonuses	1,347	-	1,347	1,473	-	1,473
Total employee benefit liabilities	3,542	440	3,982	3,453	513	3,966

4.2 Share based payments

For the half-year ended 31 December 2019, share-based payments expense amounted to \$713,000 (31 December 2018: \$725,000).

On 18 February 2020, the Company issued 131,586 performance rights, which have a nil exercise price, to employees, including Executive Director, Michael Kavanagh, under the Nanosonics Omnibus Equity Plan in relation to the 2019 Short Term Incentive Scheme. 53,501 performance rights will vest on 31 August 2020 and will be available for exercise until expiry on 31 August 2023. 78,085 performance rights will vest and automatically exercise on 31 August 2020 into restricted shares subject to a one year holding lock. These performance rights are subject to a service condition up to the dates of vesting.

5 Financial assets and financial liabilities

The carrying amounts and estimated fair value of the Group's financial assets and liabilities are materially the same except for derivative financial instruments.

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.

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

	31 December 2019	30 June 2019
	\$'000	\$'000
Cash at bank and on hand	16,979	11,626
Deposits on call	986	1,054
Short term deposits	64,000	59,500
Total cash and cash equivalents	81,965	72,180

5 Financial assets and financial liabilities (continued)

5.2 Derivative financial instruments

The Group uses derivative financial instruments (foreign currency contracts) 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 foreign 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.

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 currency contracts were valued using market comparison technique (Level 2) and there were no transfers between levels during the period. 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 31 December 2019, the Group has \$758,000 derivative financial assets (30 June 2019: \$426,000) and \$37,000 derivative financial liabilities (30 June 2019: \$447,000).

6 Operating assets and liabilities

6.1 Provisions

a. Provisions as at the reporting date

	31 December 2019			30 June 2019		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Provision for warranty	745	-	745	678	-	678
Make good provision	-	75	75	-	75	75
Total provisions	745	75	820	678	75	753

b. Movements in provisions

	Provision for warranty \$'000	Make good provision \$'000	Total \$'000
Carrying amount at start of period	678	75	753
Additional provisions recognised	149	-	149
Unused amount reversed during the period	-	-	-
Amounts used during the period	(82)	-	(82)
Carrying amount at end of period	745	75	820

The Group has recognised a provision for warranty consistent with the policy applied in prior periods. The Group has made assumptions in relation to the values estimated to be required to settle the warranty obligation on all products under warranty at the balance date.

7 Capital structure

7.1 Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or 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 2019	299,967,279	112,713
Exercise of options and performance rights	508,772	464
Balance 31 December 2019	300,476,051	113,177

8 Other notes

8.1 Commitments

Capital commitments

As at 31 December 2019, the Group had commitments to purchase plant and equipment of \$492,000 (30 June 2019: \$1,091,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

8.2 Related party transactions

a. Transactions with related parties

Certain directors 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.

Director fees for Maurie Stang and Richard England were paid through their personally-related management entities.

Maurie Stang is related to Regional Healthcare Group Pty Ltd and the following transactions occurred with this entity:

	31 December 2019	31 December 2018
	\$	\$
Sale of products and services to Related Parties	1,496,340	1,328,388
Purchases of goods and services from Related Parties	1,227	1,025

The above transactions exclude Director fees paid through personally-related management entities.

8 Other notes (continued)

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 Regional Healthcare Group Pty Ltd:

	31 December 2019	30 June 2019
	\$	\$
Current trade receivables (supply of goods and services)	520,018	909,619

There were no other amounts due from or to other Related Parties. There were no provisions for impaired receivables in relation to any outstanding balances from Related Parties (30 June 2019: Nil) and no expense has been recognised during the period in respect of impaired receivables due from Related Parties.

b. Loans to directors and Key Management Personnel

During the half year and to the date of this report, the Group made no loans to directors and Key Management Personnel and none were outstanding at 31 December 2019 (30 June 2019 : Nil).

c. 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.

8.3 Events occurring after the balance date

Other than above and as disclosed in Note 4.2 of the half-year financial report, there are no other matters or circumstances that have arisen since 31 December 2019 that have significantly affected, or may significantly affect:

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



**Building a better
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Independent Auditor's Review Report to the Members of Nanosonics Limited

Report on the Interim Consolidated Financial Statements

Conclusion

We have reviewed the accompanying interim consolidated financial statements of Nanosonics Limited (the Company) and its subsidiaries (collectively the Group), which comprises the interim consolidated statement of financial position as 31 December 2019, the interim consolidated statement of profit or loss and other comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the interim consolidated financial statements of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Interim Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the interim consolidated financial statements 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 interim consolidated financial statements that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim consolidated financial statements based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the interim consolidated financial statements is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of interim consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young
Ernst & Young

Gamini Martinus

Gamini Martinus
Partner
Sydney
26 February 2020

Corporate directory and information for investors

Nanosonics Limited ABN 11 095 076 896 incorporated 14 November 2000

Directors

Maurie Stang
David Fisher
Steven Sargent
Marie McDonald
Geoff Wilson
Lisa McIntyre
Michael Kavanagh

Company Secretary

McGregor Grant

Registered Office

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Auditor

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Mills Oakley
Level 7, 151 Clarence Street
Sydney NSW 2000 Australia

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

Bankers

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

United Kingdom: HSBC Bank Plc

Germany: HSBC Trinkaus & Burkhardt AG and Deutsche Bank AG

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

Japan: MUFG Bank, Ltd

Stock Exchange Listing

Nanosonics Limited shares are listed on the Australian Securities Exchange
ASX code: NAN
Industry Group: Healthcare Equipment & Services

Website address
www.nanosonics.com.au