Expanding Horizons

2018 Annual Report

OVERVIEW

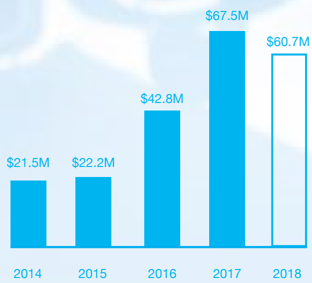
Nanosonics (ASX: NAN) has developed a unique automated disinfection technology, which is the first major innovation in high level disinfection (HLD) for ultrasound probes in more than 20 years. This proprietary technology is now being introduced around the world and has the opportunity to become the 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 address significant unmet needs in the area of infection prevention.

CONTENTS

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.

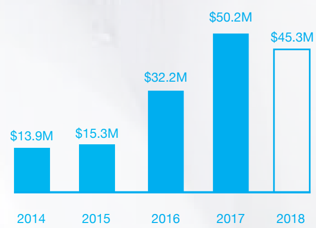
SALES ($M)

$60.7 million



GROSS PROFIT ($M)

$45.3 million



FINANCIAL HIGHLIGHTS

2009-2018 RESULTS

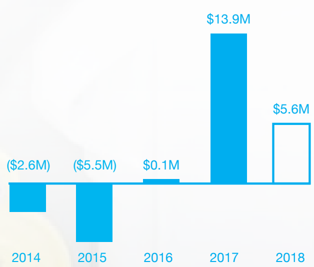
	2018 $'000	2017 $'000	2016 $'000	2015 $'000	2014 $'000	2013 $'000	2012 $'000	2011 $'000	2010 $'000	2009 $'000
Operating revenue	60,698 [1]	67,507	42,796	22,214	21,492	14,899	12,301	2,247	763	309
Gross Profit	45,291	50,155	32,166	15,313	13,921	8,471	7,502	1,266	479	188
Research and Development expenses	(9,882)	(9,486)	(7,297)	(4,902)	(4,103)	(3,167)	(3,135)	(3,627)	(2,369)	(3,435)
EBITDA	5,861	14,110	950	(4,732)	(1,845)	(5,366)	(4,982)	(11,963)	(8,187)	(9,529)
EBIT	4,362	12,866	(359)	(5,795)	(2,820)	(6,410)	(5,896)	(12,973)	(8,958)	(9,948)
Operating profit/(loss) before tax	5,583	13,852	136	(5,465)	(2,636)	(5,735)	(5,310)	(11,921)	(8,173)	(8,754)
Net income tax benefit/(expense)	168	12,306 [2]	(14)	5	31	(33)	631	707	—	—
Operating profit/(loss) after tax	5,751	26,158	122	(5,460)	(2,605)	(5,768)	(4,679)	(11,214)	(8,173)	(8,754)
Cash and Cash equivalents	69,433	62,989	48,841	45,724	21,233	24,064	29,310	12,356	21,144	13,881

1. *Total sales of $60.7 million ($62.2 million in constant currency) were down 10% (7.8% in constant currency) on prior year. Sales of consumables and service were up 25% (28% in constant currency) to $35.2 million ($36.0 million in constant currency) reflecting the increasing installed base, demonstrating strong growth in the annuity revenue profile. Total sales reflect a transitionary reduction in capital revenue associated with the earlier than anticipated regulatory approval of trophon2 and subsequent run down of trophon EPR inventory by distributors as well as some customers deferring purchase, pending launch of trophon2. Sales also reflect a broadening number of selling models each with different revenue profiles, including Managed Equipment Service in the UK where a growing number of trophon units were placed with no upfront capital revenue recognised. The resulting operating profit before tax was $5.6 million, compared with $13.9 million in the prior year.*

2. *Initial recognition of deferred tax asset. Refer to Note 3 of the financial statements.*

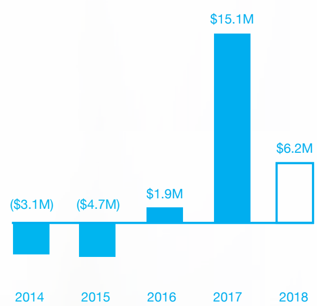
PROFIT/(LOSS) BEFORE TAX ($M)

$5.6 million



FREE CASH FLOW ($M)

$6.2 million



CHAIRMAN'S LETTER

On behalf of Nanosonics' Board of Directors I am pleased to present our 2018 Annual Report.

This past year has been pleasing from a number of points of view: seeing a significant growth in the Company's global trophon install base, exciting progress in terms of our R&D pipeline, and an increase in shareholder value. Importantly, our next generation trophon®2 device has achieved regulatory approvals in key markets and is currently gaining exceptional feedback from both distributors and customers worldwide.

The results for the year were very pleasing with sales of $60.7 million and a pre-tax profit of $5.6 million contributing to a further increase in the cash balance to $69.4 million. The indications point to an even stronger 2019 Financial Year.

Nanosonics has strategically positioned itself for future growth with investment in global sales and marketing. In parallel we have achieved outstanding and proactive customer engagement, which has helped to direct our R&D program to focus on unmet needs in the infection control arena.

The fundamentals for adoption of trophon technology strengthened further during the year with the publication of a number of significant new studies and guidelines supporting the need for high level disinfection of ultrasound probes used in both critical and semi-critical procedures. The trophon technology is well positioned to take advantage of the market need created by these new publications as it addresses the deficiencies of traditional disinfection methods highlighted in them. I'm delighted that trophon was also recognised for its environmental excellence when Nanosonics won the *Environmental Solutions Award* at The Premier's NSW Export Awards in October 2017.

The most significant achievement of the year was the completion of development work on the next generation trophon. The trophon2 device, which was released to the market in the first quarter of the 2019 Financial Year, represents another milestone in the Company's history. Our all new trophon2 system has been developed in true partnership and consultation with our distributors and customers, and has features that should underpin our market leadership well into the future.

Our board wishes to acknowledge the tireless efforts of our entire team to bring this technology forward and achieve FDA approval earlier than anticipated, with a submission second-to-none.

Consistent with our strategy of expanding our trophon ecosystem, Nanosonics successfully launched our new trophon Companion Wipes range at the Association for Professionals in Infection Control Conference in the United States in June. The market response was highly encouraging and these new wipes will be sold in all of our existing markets providing additional "income per procedure" and continuing to build value with our customers by providing trusted products under the trophon and Nanosonics branding.

Preparing for future growth was a key theme for the Company over the past year, with continued investment of $9.9 million in innovative research and development, enhancing our core technologies, as well as progressing the development of potential new infection prevention solutions.

Positive investment in resources and infrastructure was undertaken to support our growth objectives. The Nanosonics team grew to over 225 people located in Australia, the United States, Canada and across Europe. This represents significant growth in our team from 165 people this time last year. We intend to further strengthen our investment in key markets and competencies throughout the coming year to position ourselves to support new revenue streams.

We expect growth in the global trophon installed base to continue to grow positively from the 17,740 units at 30 June 2018 through a multi-channel approach. Capital sales of trophon continue to represent the main selling model for our direct business, particularly in North America, but we also saw strong growth in the Managed Equipment Service (MES) and rental offerings. The MES and rental sales model, in appropriate markets, provides increased profitability and, critically, lowers the barriers for market adoption. By having an "all-inclusive" consumable price the customer has no need for a capital expense, but rather, has a fully maintained product over its life with the option to roll into a new machine, thus retaining the customer in the trophon ecosystem.

The North American installed base has now grown to over 15,600 units, up from 12,400 at 30 June 2017. This figure represents less than 40 percent of the estimated 40,000+ unit installed base potential of North America. This indicates there is significant opportunity in the market, together with growth potential in the number of cycles by way of expanding applications such as surface probes.

As a consequence of our team's achievements, including new guidelines and increased awareness, the market dynamics are trending very positively in the Europe/Middle East and Asia Pacific regions.

Nanosonics has achieved leadership in a key and significant sector of the infection control market. The reality is that the company has deep customer engagement, unique domain knowledge, and a strong cash balance to broaden its activities across the wider infection and microbial control markets. As your company progresses it will carefully consider activities that will target growth in shareholder value.

At the very heart of Nanosonics' success is the outstanding global team to whom we express both our deep thanks and appreciation. Each member provides the very DNA which enables us to continue to strive for market leadership across a variety of opportunities.

Our management team, led by our CEO and President, Michael Kavanagh, strives for excellence in everything it does and is passionate about building a world leading company. Importantly I want to acknowledge my fellow Board members for their tireless efforts and commitment.

Nanosonics today is internationally recognised and respected, having proven it can deliver disruptive and inspired technologies to solve its customers' real-world problems. Our vision for the future is being supported by a program of active investment in new products and capabilities, providing excellent opportunities in pursuing our mission of **Infection Prevention. For Life.**

Mr Maurie Stang
Chairman

20 August 2018

CEO'S REPORT

The 2018 financial year has been a year of ongoing achievement and success with very solid progress across all aspects of the Nanosonics business as we continue to execute on our long term strategic growth agenda.

Every day approximately

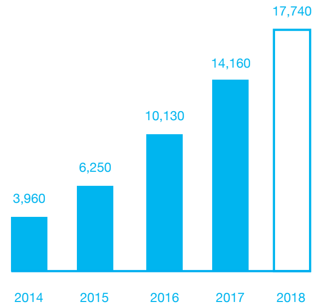
+55k

patients are protected from the risk of cross contamination because their probe has been trophoned

GLOBAL INSTALLED BASE

17,740

The trophon installed base continued to grow strongly throughout FY18. Globally the installed base grew 25% from 14,160 units at the end of FY17 to 17,740 units by 30 June 2018.



The goal of establishing trophon as the standard of care for the high level disinfection (HLD) of all semi-critical and critical ultrasound probes progressed positively. Growth of 25% in the global installed base led to 17,740 units in use at the end of June. Importantly, the market fundamentals for ongoing adoption continued to strengthen internationally with the release of a number of important guidelines, in particular across Europe.

Significant investments were made in our direct operational capacity and capability. The resulting expansion of our direct operations and infrastructure in the USA, Canada, UK and Germany will support and drive ongoing growth and prepare for the introduction of an expanded portfolio of infection prevention products. Our Research, Design and Development strategy progressed in accordance with internal milestones. Regulatory approvals were granted towards the end of the financial year in North America and Europe for our 2nd generation trophon2 technology, which will be commercially launched in the first quarter of FY19. We also made pleasing progress with the research and development of a number of novel and innovative infection prevention solutions.

Total sales of $60.7 million ($62.2 million in constant currency) were down 10% (7.8% in constant currency) on prior year. Sales of consumables and service were up 25% (28% in constant currency) to $35.2 million ($36.0 million in constant currency) reflecting the increasing installed base, demonstrating strong growth in the annuity revenue profile. Total sales reflect a transitionary reduction in capital revenue associated with the earlier than anticipated regulatory approval of trophon2 and subsequent run down of trophon EPR inventory by distributors as well as some customers deferring purchase, pending launch of trophon2. Sales also reflect a broadening number of selling models each with different revenue profiles, including Managed Equipment Service in the UK where a growing number of trophon units were placed with no upfront capital revenue recognised. The resulting operating profit before tax was $5.6 million, compared with $13.9 million in the prior year.

Nanosonics aims to become a globally recognised leader in the development, manufacture and commercialisation of infection prevention solutions where our products become the standard of care in their respective fields. Our Corporate Strategy is focussed on five core areas, namely:

1. Customer Experience

Customer Experience is at the centre of all we do. We work with our customers to identify new opportunities, obtain input into new product design, and ensure we provide them with a convenient and consistent experience with our product and brand.

2. Product Innovation

At Nanosonics we are committed to being an innovator in the field of infection prevention. 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 and can become new standards of care.

3. Operational Excellence

Our Operational Excellence objectives are focussed on ensuring we shape our organisation in a way that is agile and has scalable, compliant and performance focussed processes.

4. People Engagement

Our People Engagement strategies are centred on ensuring we continue to build our organisational capabilities to deliver on our growth strategies. We aim to attract and retain the best people, ensuring they are engaged and empowered to deliver on our corporate objectives.

5. Value Creation

Our Value Creation objective is focussed on creating ongoing sustainable shareholder value through the delivery of long term sustainable growth and returns.

The following provides an outline of some of the key achievements in FY18 under each of these growth drivers.

1. Customer Experience

trophon establishing itself as the new benchmark and global standard of care

The trophon installed base continued to grow strongly throughout FY18. Globally the installed base grew 25% from 14,160 units at the end of FY17 to 17,740 units by 30 June 2018.

This ongoing growth in the global installed base reflects the positive experience customers have with trophon which delivers an automated, safe, versatile and simple solution that fits seamlessly into their clinical workflows. We expect FY19 will see our trophon solution become even smarter with the introduction of new features and benefits in our new trophon2 device.

New guidelines and publications supporting ongoing adoption and global expansion

Throughout FY18, a number of important new guidelines and studies were published that have grown the international requirements for HLD of all critical and semi-critical ultrasound probes. Central to these were guidelines from the European Society of Radiology (ESR), the European Committee for Medical Ultrasound Safety (ECMUS), a combined guideline from the Royal Society & College of Radiographers (SCoR) and the British Medical Ultrasound Society (BMUS), as well as new guidelines from DEGUM, the German Society for Ultrasound in Medicine. All of these guidelines stipulate HLD for critical and semi-critical procedures, with a preference for automated, validated systems which trophon delivers.

In addition, a number of important studies were published which not only demonstrated and quantified the risk of cross contamination, but also highlighted the deficiencies in current practice that need to be addressed.

A population-based study was published by Health Protection Scotland in collaboration with NHS National Services Scotland. The study demonstrated a greater risk of positive microbiological reports and antibiotic prescriptions within 30 days for adults who had undergone semi-invasive ultrasound procedures when HLD was not used.

In the USA, the American Journal of Infection Control (AJIC) published the results of a national survey revealing significant non-compliance with current HLD guidelines for reprocessing critical and semi-critical surface ultrasound probes.

These new international guidelines and supporting studies further underpin the ongoing adoption of trophon as the new global standard of care.

Expansion into new international markets

Geographical expansion is a core element of our growth strategy. In FY18, a Business Development Manager was appointed to assess market opportunities for the European, Middle East and Africa (EMEA) region. Active projects are now underway in Scandinavia, the Kingdom of Saudi Arabia, Kuwait and Israel, with a number of new distributors appointed and market preparation activities currently underway.

In Japan, market development activities progressed with engagements with Key Opinion Leaders both in infection prevention and ultrasound; presentations at key National conferences; and importantly the commencement of a local Japanese study to deliver local data to support the generation of local guidelines.

2. Product Innovation

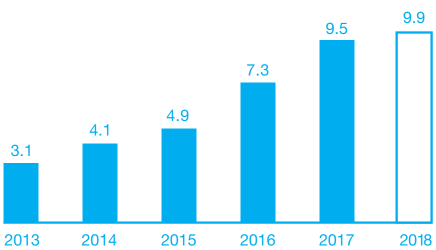
trophon2 receives regulatory approvals

Regulatory clearances for the new flagship trophon device, trophon2, were received earlier than anticipated in the USA, Canada and Europe. Commercial release is planned for Q1 of FY19. trophon2 delivers significant new benefits to customers, reflecting considerable input from our global community of customers, as well as input from infection preventionists on current and expected future trends and requirements in HLD.

Investment in product expansion strategy

Central to our growth strategy is the successful introduction of an expanded portfolio of new infection prevention products that, like trophon, can become new standards of care. Throughout FY18 the organisation continued to make strategic investments in a number of new product developments where we are targeting one or more infection prevention solutions to be brought to market by the end of FY20, subject to regulatory approvals. The organisation now has a significant research and engineering capability with over 45 people across the disciplines of Mechanical, Software, Electrical and System Engineering, as well as Chemistry and Microbiology.

INVESTMENT IN R&D ($M)



Strengthening our IP position

Nanosonics recognises the importance of its IP portfolio in maintaining its sustainable competitive advantage and has an active program to continue to protect the IP in our technology. Our patent portfolio continued to make strong progress in FY18 with fifteen applications successfully passing examination to proceed to allowance or grant. Patents were allowed or granted in the US, Europe, Canada, Australia and Japan among others. Five provisional applications for new inventions were filed. The Company now has a total of 141 patents (up from 110 last year) and five design registrations. Importantly, Nanosonics also enjoys IP protection over subject matter related to its ongoing consumables revenue out to 2029.

3. Operational Excellence

Investment in direct operations

During FY18, we continued to invest in our direct operations in North America, UK and Germany, as well as provide ongoing support for our distributor partners. Our North American direct operation expanded to 54 people with growth across our sales force, clinical applications specialists, service and logistics. Order fulfilment was successfully brought in house where we now fulfil customer orders direct from our facility in Indianapolis. Likewise, in the UK service and warehousing/logistics also expanded to support the growing sales and installed base. Investment in sales staff in our direct operations in Germany also commenced in anticipation of the launch of trophon2 and new guidelines to be released in that market.

trophon2 manufacturing set up

Building on the successful introduction of LEAN principles into manufacturing, a totally new manufacturing set up was designed and implemented for the introduction of trophon2. Through the introduction of LEAN our manufacturing capacity has increased, allowing for expected ongoing growth in volumes.

Upgraded our Quality Management System to meet new requirements

As a medical device company, our Quality Management System (QMS) is paramount to our ongoing success. During the year a number of audits from regulatory authorities were conducted and passed. In addition, the organisation successfully upgraded its QMS to meet the new requirements of ISO 13485: 2016 as well as new requirements from The Medical Device Single Audit Program (MDSAP).

Investments in our IT and ERP system to support expanding operations and future growth

With our operations growing both geographically and operationally, investments were made to upgrade our IT and ERP systems to support the ongoing scalability and integration of our global operations moving forward.

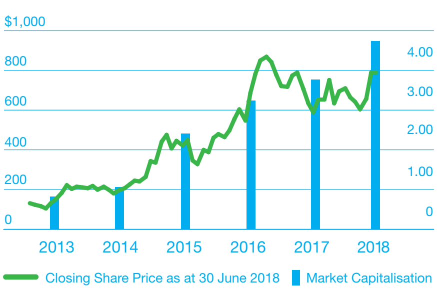
4. People Engagement

Our highly skilled and dedicated team at Nanosonics is what makes the company successful. During the year we grew the team by 36%. We now have over 225 team members internationally who bring a diverse range of skills and capabilities to develop and deliver on our corporate objectives. An active employee attraction, retention and development program is in place to ensure we continually grow our internal capabilities to meet the growing demands of the business.

5. Value Creation

The creation of sustainable shareholder value is achieved from the successful implementation of our strategic growth agenda. Over the last five years, shareholder value has grown at a cumulative annual rate of 39%, with growth of 24% over the last 12 months.

SHAREHOLDER RETURN ('000)



The global installed base grew by 25% to 17,740 units and this continued strong growth provides a significant ongoing annuity revenue stream from consumables.

Of significance in FY18 was the renegotiation of our contract with GE Healthcare. The new three year agreement, commencing on 1 July 2019, provides GE Healthcare Capital Reseller rights as part of Nanosonics' global ultrasound OEM Program. The new arrangements provide GE Healthcare's customers ongoing access to the state of the art trophon through the GE Healthcare ultrasound sales channel in North America. As a result of the new agreement, Nanosonics will gain a material increase in both sales and margins on consumables in North America as of and beyond July 2019.

Sales and earnings in FY18 were in line with analyst expectations and reflect the growing mix of selling models, some of which do not recognise revenue for capital equipment sales up front. This includes rental models and our Managed Equipment Service (MES) sales model in the UK. However the longer term returns on these selling models are attractive.

Sales revenue also reflects the fact that earlier than anticipated regulatory approvals were achieved for trophon2. As a result, some customers delayed their purchase to wait for availability of trophon2 and distributor partners reduced their trophon EPR inventory.

> *"We expect FY19 will see our trophon solution become even smarter with the introduction of the new features and benefits of the trophon2 device."*
>
> Michael Kavanagh
> CEO and President

FY19 Outlook

Our longer term growth strategy is focussed on:

1. Continuing to grow the trophon installed base in existing markets, ensuring all healthcare facilities are aware of, and understand, which of their procedures are classified as semi-critical or critical and the requirement to high level disinfect all those probes (surface and intracavity).
2. Expanding into new markets as the fundamentals for adoption continue to strengthen with the emergence of new guidelines.
3. Continuing to execute on our product expansion plans with the aim to release at least one new product by the end of FY20, subject to regulatory approval.

A core focus in FY19 will be the successful introduction of our trophon2 technology which was released in Q1 of FY19.

In North America we expect the installed base to continue to grow with similar numbers adopting trophon in FY19 as FY18. In addition to this we expect the upgrade market to commence, especially for existing units that are five years or older. Over time this upgrade market is expected to grow as the existing installed base of trophon EPRs ages.

In Europe, we expect strong growth in the UK to continue into FY19 and sales in Germany to increase on the back of new guidelines and the introduction of trophon2.

In France, new guidelines are expected from the Ministry of Health in FY19. For the rest of Europe and Middle East, the major focus will be on market development with the expectation of modest sales while guidelines are developed.

In Japan, results from the local clinical study are expected by the second quarter. These will be leveraged in discussions with the relevant associations and authorities for the development of local guidelines. The regulatory submission for trophon2 is also expected to be submitted and approved in Japan by the end of the financial year.

The organisation will continue to invest in our growth strategy where it is expected our total operating expenses for the full year will be approximately $53 million, including approximately $13 million in R&D.

I would like to thank the entire Nanosonics team and our distributor partners for their relentless efforts and significant achievements in FY18. I would also like to recognise the support from all our shareholders as they share in our vision of establishing Nanosonics as a major global leader in infection prevention.

Michael Kavanagh
CEO and President

20 August 2018

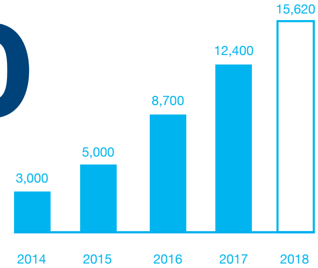
REGIONAL HIGHLIGHTS

North America

NORTH AMERICA TROPHON INSTALLED BASE

15,620

Throughout FY18, trophon continued to be adopted as the new standard of care with the installed base increasing by 26% — growing from 12,400 units to approximately 15,620 units.



Throughout FY18, trophon continued to be adopted as the new standard of care with the installed base increasing by 26% — growing from 12,400 units to 15,620 units. This represents 39% of the estimated market potential.

The trophon device is now installed in approximately 5,000 hospitals and clinics including all of the top 50 US hospitals[1]. The growth in the installed base equates to around 47,000 ultrasound probes being trophoned every working day in the US. More importantly this means 47,000 patients are protected from the risk of potential cross contamination associated with ultrasound procedures.

Fundamentals for ongoing adoption of trophon continue to strengthen

Regulations and guidelines requiring high level disinfection (HLD) of semi-critical ultrasound probes have existed for some time in North America. Until now the main focus has been on reprocessing intracavity probes. However, there are a growing number of surface ultrasound procedures, such as ultrasound guided biopsies or wound scanning, that are classified as critical or semi-critical because the probe can come into contact with broken skin, mucous membranes, sterile tissue or the vascular system. This means these surface probes require HLD between patients.

An important survey was published in the American Journal of Infection Control in June 2018. The survey of infection preventionists across the US revealed significant non-compliance with guidelines for reprocessing surface ultrasound probes. The study concluded there is an urgent need to review policies and ensure best practice for patient safety. Initiatives are now in place focusing on educating customers on the survey results and potential risks of cross infection for patients if surface probes are not properly reprocessed.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Major Article

Ultrasound probe use and reprocessing: Results from a national survey among U.S. infection preventionists

Ruth M. Carrico PhD, DNP, FSHEA, CIC *, Stephen Furmanek MS, MPH, Connor English BS, MPH

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Key Words:
Disinfection
interventional ultrasound
reprocessing
probe
endocavitary
Doppler
ultrasound gel

Background: Improper infection prevention practice associated with ultrasound probe use has been linked to increased infection risk, outbreaks, and death. Although guidelines for reprocessing and use of probes exist, it is unclear how extensively these have been adopted in practice.
Methods: Infection preventionists from U.S. health care facilities were surveyed (N = 358). The anonymous survey had 31 multiple choice, sliding scale, and text response questions. The survey was developed and deployed and the data were stored in the REDCap system.
Results: A high degree of noncompliance with U.S. guidelines was identified. Surface probes used in invasive procedures were not high-level disinfected or sterilized 15% (intraoperative) to 78% (peripheral line placements) of the time. Of invasive procedures, 5%-47% did not use sterile gel (same procedures, respectively). Of the participants, 20% were aware of instances where an ultrasound probe was used but was not correctly reprocessed. Extensive breaches of infection control guidelines were reported. The rapid expansion in use of ultrasound has brought clinical benefit but may be exposing patients to preventable infection risk.
Conclusions: Infection preventionists are well placed to act as major drivers of change based on their expertise and experience in the management of infection risk across facilities and health systems. They, along with clinicians responsible for probe use and reprocessing, should review practices relating to ultrasound in their facilities. Where practice does not comply with guidelines, policy and training should be updated to ensure patient safety.
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In recent years, ultrasound procedures have seen a rapid expansion throughout U.S. hospitals, outpatient ambulatory settings, and medical offices. This expansion carries with it documented infection risks that have been recognized worldwide. In 2016, The Joint Commission found that 74% of all immediate threats to life declarations were related to improperly sterilized or high-level disinfected equipment.[1] In 2017, the first study to investigate the risk of improper reprocessing at an epidemiologic level was published.[2] The retrospective study, undertaken by a department of the NHS Health Scotland, showed that patients undergoing a transvaginal scan were 41% more likely (hazard ratio [HR], 1.41) to have positive bacterial cultures and 26% (HR, 1.26) more likely to be prescribed antibiotics in the 30 days after ultrasound versus matched controls ($P < .001$). Similarly, patients undergoing transrectal scans were 3.4 times (HR, 3.4) and 75% (HR, 1.75) more likely to have positive cultures and be prescribed antibiotics, respectively. Compounding these findings are recent studies demonstrating glutaraldehyde and *ortho*-phthalaldehyde (OPA) are ineffective in inactivating human papillomavirus (HPV).[3,4] It has also been reported that >80% of probe handles are contaminated with pathogens, including methicillin-resistant *Staphylococcus aureus*, supporting the call for inclusion of the handle in reprocessing along with the probe body.[5,6]

Patient deaths have also been reported as a result of ultrasound probe contamination. In 2012, a patient death because of hepatitis B after an endocavitary examination with an improperly

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E-mail address: Ruth.carrico@louisville.edu (R.M. Carrico).
Funding/support: Nanosonics provided a grant to support researcher time (R.M.C.) spent during survey development, deployment, analysis, and manuscript development.
Conflicts of interest: None to report.
Author contributions: R.M.C. was responsible for design of the survey process, initial survey design and validation, development of the manuscript, and primary writing. C.E. was responsible for survey deployment and management of the survey process. S.F. and C.E. were responsible for survey design, analysis of survey results, critical review, and editing of the manuscript.

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https://doi.org/10.1016/j.ajic.2018.03.025

A survey of infection preventionists revealed significant non-compliance with guidelines for reprocessing surface ultrasound probes.

Growing ultrasound OEM partnerships

Capital reseller agreements are now in place with all major ultrasound companies in North America, with sales through this channel growing. In this model the ultrasound companies are able to sell the trophon capital equipment. Once the unit is sold, Nanosonics is responsible for installation, customer training and the ongoing provision of consumables and service. The majority of these companies now include trophon in their trade displays at major ultrasound meetings, demonstrating to customers the importance of probe decontamination and trophon as the recommended standard of care.

During the year, Nanosonics announced that it is entering into a new capital reseller agreement with GE Healthcare which comes into effect at the end of the current GE Healthcare Distribution agreement. This new three year agreement commences on 1 July 2019 and provides GE Healthcare with capital reseller rights as part of Nanosonics' global ultrasound OEM program.

New capital reseller agreement with GE Healthcare will deliver a material increase in sales and margin from 1 July 2019.

The new arrangements provide GE Healthcare customers with ongoing access to the trophon through the GE Healthcare ultrasound sales channel in North America. Under the terms of the new agreement, Nanosonics will gain a material increase in both consumable sales and margin in North America as of and beyond July 2019.

Positioning for scalable growth

Significant investments were made in the region in FY18 with North America now employing 54 people across sales, clinical applications, service, finance and distribution functions. This investment supports the ongoing growth of trophon and sets up the necessary infrastructure for the introduction of new products, as well as the capability to supply consumables to the North American installed base from July 2019. A new Regional President, Ken Shaw, was appointed in the first half to lead our growing North American operations.

A new central US service and support location began operating in January 2018.

1. US News and World Report.

The North America Sales team.

Nanosonics' booth at this year's Association for Professionals in Infection Control and Epidemiology (APIC) conference.

+47k

patients are protected every working day because their ultrasound probes are trophoned

+15k

trophons in more than 5,000 hospitals and clinics in North America

50

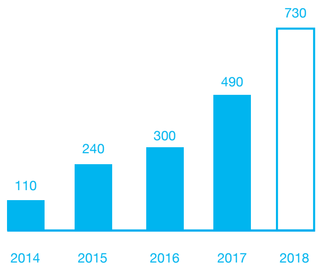
out of the top 50 US hospitals now use trophon

REGIONAL HIGHLIGHTS
Europe

EMEA TROPHON INSTALLED BASE

730

trophon adoption grew 49% in Europe/Middle East, driven mainly by the MES business model in the UK.



Favourable guideline changes over the past few years have improved the fundamentals for trophon adoption in the UK market.

United Kingdom and Ireland

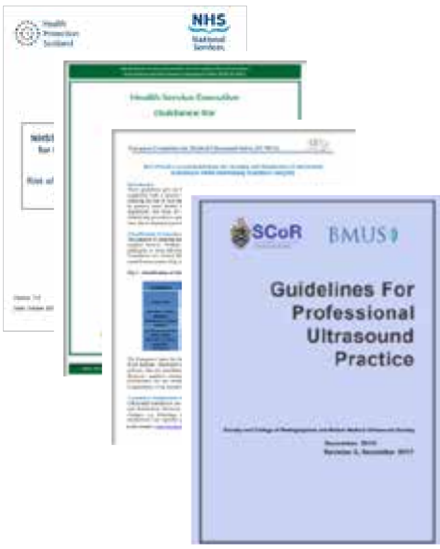
In December 2017, the British Medical Ultrasound Society (BMUS), together with the Society & College of Radiographers in the UK, issued guidance requiring appropriate disinfection or sterilisation of ultrasound probes. The BMUS guidance draws on best practice infection prevention guidance for ultrasound probes previously published by NHS Wales and Scotland, as well as more recent guidance from the Health Service Executive of Ireland and the joint guidance from the Australasian College of Infection Prevention and Control and Australasian Society for Ultrasound in Medicine. All of these highlight the importance of high level disinfection (HLD) of all semi-critical ultrasound probes.

All four regions in the UK now have guidance recommending HLD of ultrasound probes between patients. Importantly, the market now recognises the need to high level disinfect all semi-critical probes – not only invasive probes – and trophon is well established as the best automated HLD solution in the UK.

The recommendations of the UK's guidelines were supported in November 2017 by the results of a population-based Scottish study. The study showed there is an increased risk of both infection and antibiotic prescriptions following semi-invasive ultrasound procedures. While there have been numerous individual reports of infection associated with improperly reprocessed probes, this is the first study to demonstrate the extent of the problem at the broader population level. The study concluded that re-using probes that have not been properly reprocessed poses an increased risk of infection. It recommended that probes should be high level disinfected in accordance with guidelines.

As anticipated, the Managed Equipment Service (MES) business model introduced last year resulted in strong unit growth with the installed base of MES units increasing 146% during the year. Under the MES program, trophon capital equipment owned by Nanosonics is placed in hospitals. The facility pays an all-inclusive price for consumables in return for the use of the fully maintained capital equipment. Luminary sites such as Kings College Hospital, London adopted 40 units across nine departments and NHS Fife Hospital in Scotland adopted 20 units.

To support market growth, the UK headcount doubled in FY18 and the team moved its operations to new facilities. During the year the team focussed on educational activities including presentations to regional infection prevention society groups, study days and numerous on-site product training sessions which highlighted the importance of HLD.



European guidelines are evolving rapidly to reflect disinfection best practice.

All four regions in the UK now have guidance recommending HLD of ultrasound probes between patients.

trophon2 launch training at our distributor, Wassenburg Medical, Dublin.

Activity outside the UK is mainly focussed around strengthening the fundamentals for adoption of trophon. Some of this is happening organically with the growing number of new guidelines recommending HLD for ultrasound probe disinfection. Nanosonics is also conducting education and awareness initiatives and consulting with key infection prevention societies and authorities.

Germany

In Germany there was further good news regarding guidelines. In April 2018, the German Society of Ultrasound in Medicine (DEGUM), published comprehensive recommendations for infection prevention in ultrasound and endoscopic ultrasound.

Published in the European Journal of Ultrasound, the new guidelines require HLD for all semi-critical ultrasound probes. They are aligned with the growing number of international guidelines, including the most recent European guidelines issued by the European Society of Radiology, European Federation of Societies for Ultrasound in Medicine and Biology, and the BMUS mentioned above.

As well as requiring disinfectants to be proven bactericidal, fungicidal and virucidal, the DEGUM guidelines require virucidal activity to meet the strict requirements of the German Society for Virology — trophon has been shown to meet all these requirements. This is highly positive as Germany is an important market that represents a large opportunity for trophon.

Greater awareness of the importance of ultrasound probe decontamination was evident in March 2018 at the annual national conference of the German Infection Prevention Society (DGKH) in Berlin. A Nanosonics' symposium on the topic of ultrasound probe decontamination attracted an audience of over 450 infection prevention healthcare practitioners to hear from key opinion leaders in the field about the latest advances and requirements for probe decontamination.

Key luminary sites are now adopting trophon and a highlight this year included the University Hospital of Frankfurt, a recognised European luminary hospital, installing 22 trophons across a range of departments.

As a result of the strengthening fundamentals for trophon adoption, Nanosonics' German team grew its direct sales force and service infrastructure to prepare for market expansion.


Guidelines & Recommendations

Thieme

DEGUM Recommendations on Infection Prevention in Ultrasound and Endoscopic Ultrasound

DEGUM-Empfehlungen zur Hygiene in Sonografie und Endosonografie

Authors
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ultrasound, infection, intervention, disinfection, endoscopic ultrasound

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Bibliography
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ABSTRACT

Microbial contamination of ultrasound probes for percutaneous or endoscopic use is common. However, infectious diseases caused by transmission of microorganisms by US procedures have rarely been reported. In Germany, legal regulations address hygiene in ultrasound procedures. Based on these regulations and the available literature, an expert panel of the German Society of Ultrasound in Medicine (DEGUM) has formulated sophisticated recommendations on hygienic measures in percutaneous and endoscopic US, including US-guided interventions.

ZUSAMMENFASSUNG

Mikrobielle Kontaminationen von Schallköpfen, kutan oder endokavitär angewandt, sind häufig, tatsächliche Infektionen nach Sonografien werden jedoch nur kasuistisch berichtet. In Deutschland existieren rechtliche Vorschriften zur Schallkopfhygiene. Ein Expertengremium der DEGUM hat vor dem Hintergrund der Vorschriften und der verfügbaren Literatur differenzierte Empfehlungen zur Hygiene in der Sonografie und der Endosonografie, einschließlich der ultraschallgestützten Interventionen, formuliert.

Müller T et al. DEGUM Recommendations on… Ultraschall in Med

The German Society of Ultrasound in Medicine (DEGUM) published guidelines requiring HLD for all semi-critical ultrasound probes.

Key luminary sites in Germany are now adopting trophon.

France

Emerging new guidelines are good news for the French market. The European Society of Radiology (ESR) guidelines, published in November 2017, were well accepted by radiologists in France. The guidelines mandate HLD of all intracavity and interventional probes with the recommendation that this best practice is incorporated into local guidelines.

In addition, the French Urology Association (Infectiology Committee of Association Française d'Urologie) published a paper reporting that only 22% of respondents comply with current guidelines and instructions. Survey findings led the association to conclude that intermediate level disinfection (the equivalent of HLD for ultrasound probes) of endo-rectal probes should "become the norm". As a result of the findings, the president of the French infection control society was appointed by the Ministry of Health to head a working group tasked with drafting new guidelines expected in FY19.

Middle East

During the year, Nanosonics appointed a Business Development Manager who is dedicated to overseeing activities in the rest of Europe and the Middle East. Active expansion projects are now in place for Scandinavia as well as a number of countries in the Middle East. Distribution agreements were signed for Lebanon and Kuwait with sales expected to commence in early FY19. Work is continuing to further open up other markets in the Middle East, with distributor negotiations in process for Israel, Oman and Saudi Arabia.

49%

trophon adoption grew in FY2018

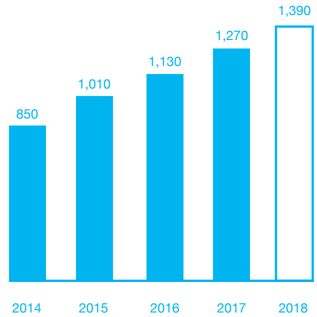
REGIONAL HIGHLIGHTS

Asia Pacific

ASIA PACIFIC TROPHON INSTALLED BASE

1,390

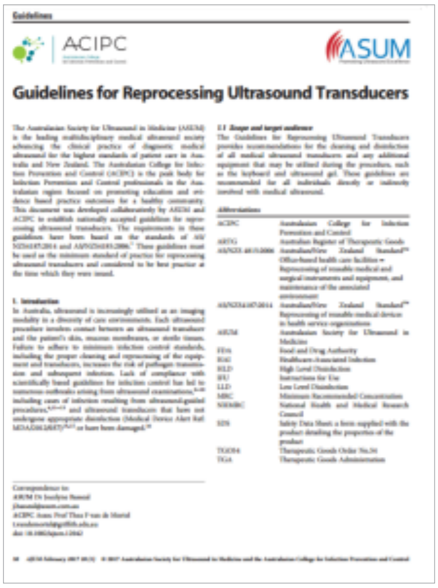
With market penetration in the region approximately 70% and growing, trophon is well established as the standard of care for high level disinfection of ultrasound probes in Australia and New Zealand.



Australia and New Zealand

With market penetration in the region approximately 70% and growing, trophon is well established as the standard of care for high level disinfection of ultrasound probes in Australia and New Zealand.

This is due to these markets having relevant disinfection guidelines in place and strong fundamentals for adoption. This position was further strengthened after last year's release of the joint guideline between the Australian Society of Ultrasound in Medicine (ASUM) and the Australasian College for Infection Prevention and Control (ACIPC). The guidelines emphasise the need to high level disinfect all probes used in semi-critical procedures (surface and intracavity).


Guidelines

ACIPC

ASUM

Guidelines for Reprocessing Ultrasound Transducers

New guidelines in Australia and New Zealand further strengthened the fundamentals for trophon adoption.

In New Zealand, the new guidelines resulted in increased sales outside radiology departments and increased use and sales of chemical indicators. Marketing activities across Australia and New Zealand are focussed on ensuring all semi-critical ultrasound probes are high level disinfected in accordance with local guidelines, which will further drive consumables revenue.

Japan

In Japan, pre-marketing programs are progressing via engagement with relevant key opinion leaders and societies. A pivotal local clinical study, which aims to provide local data on microbial contamination on ultrasound probes, is now underway. The data aims to support the generation of local Japanese guidelines.

Sue Rogers, Ultrasound Manager, Ascot Radiology.

trophon helps Ascot Radiology meet guideline requirements for disinfecting surface probes.

Ascot Radiology in Auckland started using trophon to high level disinfect surface ultrasound probes when the Australasian Society for Ultrasound in Medicine (ASUM) guidelines were updated to include a recommendation to high level disinfect surface probes. The transition away from low level disinfection chemicals was an easy one. "trophon is so quick and easy to use that it's just an easy addition to the end of the scan and doesn't add any time," says Sue Rogers, Ultrasound Manager, Ascot Radiology. "You can pop the probe into the unit and walk away to carry on with the next patient. It isn't operator dependent and is more consistent than other methods."

Ascot was the first site in New Zealand to start using trophon. Since that installation in 2009, the specialised radiology clinic has purchased a further three units across its other sites. "The consumables cost a lot less than other methods so we are making considerable savings by using trophon," says Sue. "For a busy practice it's the easiest, most time efficient method to comply with disinfection policies in a consistent and thorough way – which ultimately enhances patient care and throughput in a very professional manner."

> *"...it's just an easy addition to the end of the scan and doesn't add any time."*

Marketing activities across Australia and New Zealand are focussed on ensuring all semi-critical ultrasound probes are high level disinfected in accordance with local guidelines, which will further drive consumables revenue.

70%

of all HLD systems in ANZ are represented by trophon

ESG

Environmental, social and governance

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

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

Environmental

Nanosonics' trophon product design has a number of environmental benefits. These include more than 70% of the components being recyclable, and the hydrogen peroxide disinfectant used in the machine being broken down into harmless, environmentally friendly by-products: water and oxygen.

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

In October 2017 Nanosonics' commitment to the environment was recognised with the *Environmental Solutions Award* in the Premier's NSW Export Awards. The award recognises an organisation's excellence in the export of goods and services by NSW business.

Measuring the positive impact of trophon

As using wipes for high level disinfection (HLD) is not FDA-approved in the US, bulk liquid chemicals are the only alternative for clinics and healthcare facilities that do not use trophon.

> Bulk liquid chemicals must be disposed of every two to four weeks. Each trophon prevents 372,000 litres of these harmful chemicals being dumped into the environment.

> Each trophon disinfection cycle saves 15.2 litres of additional sterile rinsing water that is required if disinfection is carried out using bulk liquid chemicals. In the US, ultrasound probes are trophoned approximately 47,000 times per day, resulting in the saving of around 714,000 litres of water per day or 171 million litres of water per year.

Nanosonics wins the Environmental Solutions Award at the Premier's NSW Export Awards.

+22m
disposable protective gowns are saved from disposal per year.

171m
litres of water are saved per year.

372k
litres of chemicals are prevented from being dumped into the environment.

> With bulk liquid chemical disinfection, additional personal protective equipment, in the form of two extra gowns for operators, is required. At 47,000 cycles per day this means up to 94,000 disposable protective gowns per day or more than 22 million gowns to be disposed of per year.

The above figures relate to the North American market only. The worldwide positive impact of trophon is greater still when further soaking disinfection and wipe disposal is taken into account.

Social

Healthy working environment

The promotion of a positive and supportive working culture is important to Nanosonics. The Company recognises that its highly specialised and highly skilled workforce is critically important to its long term sustainable performance. In August 2018, Nanosonics will undertake its first global employee input survey. The "Your Voice: Make it Heard!" culture survey aims to track the Company's engagement with its people in a tangible way. This reflects Nanosonics' consistent effort to encourage expression, equality and communication as part of an enriched and diverse work culture. The result of these efforts is evident in Nanosonics' low staff turnover rates, which were 2.36% for the 2018 Financial Year.

Diversity

Over 30 nationalities are represented in the Nanosonics workforce. Gender equality is also an important focus. 35% of permanent full time workforce is female with 29% represented at senior executive level. The Company will continue to focus on growing and developing its pipeline of female senior leaders through its talent management, succession and development initiatives.

Supporting education and research

Nanosonics supports education both from an internal and external perspective. Nanosonics regularly provides intern placements for students from the University of Sydney, University of New South Wales and the University of Technology Sydney. Placements have been made in a number of departments, including Technology Development and Commercialisation, Design Development, Service and Finance.

Training and education

Nanosonics places emphasis on all training, and in particular training on its Quality Management System (QMS). This reflects the Company's holistic and planned approach to investing in its people, as well the importance it places on compliance in the Company's highly regulated industry sector.

Giving back to the community

Nanosonics encourages and 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 remuneration.

Governance

The Board of Directors of Nanosonics is committed to high standards of corporate governance. The Board continues to ensure that the business remains focussed on corporate governance, as this area evolves and the business grows in scale and complexity. This is demonstrated by Nanosonics' efforts to consistently update policies and practices, leading to the introduction of the Company's Anti-Bribery and Anti-Corruption Policy and a revised Whistleblower Policy.

Nanosonics considers that it complies with most ASX Listing Rules and the ASX Corporate Governance Principles and Recommendations (3rd Edition). Where the company does not comply, it explains why these are not appropriate for Nanosonics' business. 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 and recognised best practice.

trophon® —

the benchmark for ultrasound probe HLD

With the ever-increasing challenges in the fight against the spread of Healthcare Acquired Infections (HAIs), trophon is setting a new benchmark in ultrasound probe disinfection.

Every day, around the world, more than 55,000 ultrasound probes are trophoned. That's over 55,000 patients protected from the risks of cross contamination with trophon's powerful disinfection technology.

Smart Protection

To reduce the risk of cross infection, multiple global 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 technology is clinically proven to inactivate an extended range of clinically infectious pathogens. Unlike other decontamination methods, with trophon there is no exposure to harmful chemistries. This means while patients are protected from ultrasound probe cross infection risk, clinic staff and the environment are protected from hazardous chemicals.

Smart Flexibility

The fully enclosed system means trophon can be placed at the point of care (POC) where examinations are carried out. This maximises 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.

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. Free radicals in the mist have superoxidative properties enabling the disinfectant to act quickly and destroy pathogens. The mist particles are so small they can get into the shadowed areas created by crevices, grooves and imperfections on the probe surface.

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.

Introducing trophon®2

Simply Smarter

High Level Disinfection for Ultrasound Probes

Smart Protection

Delivers protection for patients, staff and the environment – **reduces risk**

Smart Flexibility

Streamlines set-up, can be customised to clinic workflows and has extensive probe compatibility – **improves efficiency**

Smart Functionality

Enhances user experience so you can perform HLD simply, automatically, and with confidence – **increases compliance**

Smart Traceability

AcuTrace™ simplifies the creation of accurate digital records, all stored on trophon2 – **increases audit-readiness**

Smart Integration

AcuTrace™ PLUS delivers the option to seamlessly connect trophon2 to your hospital information systems – **simplifies data access**

THE BOARD

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 Atlas Arteria Limited (ASX ALX), formerly Macquarie Atlas Roads Limited since June 2010, a Director of Japara Healthcare Limited (ASX:JHC) since April 2014 and a Director and Chairman of QANTM Intellectual Property Ltd (ASX:QIP) from August 2016. Mr England was appointed a Non-executive Director of Bingo Industries Limited in March 2017. He was a Director and Chairman of Ruralco Holdings Limited (ASX:RHL) from 2002 to September 2016.

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.

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.

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.

David Fisher
BSurSc (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.

Steven Sargent
BBus, FAICD, FTSE | NON-EXECUTIVE DIRECTOR AND DEPUTY CHAIRMAN

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.

THE EXECUTIVE TEAM

Steven Farrugia
BE, PhD |
CHIEF TECHNOLOGY OFFICER

Steven joined Nanosonics as Senior Vice President, Design and Development in September 2016 and was appointed to the role of CTO in February 2018. He has over 20 years' experience leading the development of medical devices. Prior to Nanosonics, Steven 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 a past Adjunct Professor of Engineering at The University of Sydney. In addition to Design and Development, Steven is responsible for the Regulatory Affairs function of the Company.

Gerrard 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. Gerard is responsible for the Product Supply, Service and Quality functions at Nanosonics.

Ken Shaw
BSc, REGIONAL PRESIDENT FOR THE UNITED STATES, CANADA AND LATIN AMERICA

Ken joined Nanosonics in September 2017 as Regional President for the United States, Canada and Latin America. He has more than 20 years' experience in the healthcare, medical devices and consumer products industries. Most recently Ken was the President for Amoena GmbH and prior to that he held general management roles at BSN Medical, Medicom, Energizer and Pfizer.

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.

Leanne Bexendale

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.

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 Michael Kavanagh, has joint responsibility for investor relations. He has more than 22 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.

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 2018, 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 disinfector and its associated consumables and accessories; and

> 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 $60,698,000 (2017: $67,507,000), a decrease of $6,809,000 or 10%, reflecting a reduction in sales to GE Healthcare in North America mainly due to changes in GE's inventory holding management and anticipation of the launch of trophon2. Sales in North America decreased by $7,899,000 to $54,406,000. Sales in Europe increased by $1,310,000 or 78% to $2,983,000 compared with the previous year resulting from the increased trophon adoption in the UK under the Managed Equipment Service selling model. Sales in Asia Pacific amounted to $3,309,000, a decrease of 6% or $220,000 compared with the previous year reflecting lower sales of capital equipment partially offset by higher consumables sales.

Gross profit decreased by 10% to $45,291,000 compared with $50,155,000 in the prior period. Gross margin as a percentage of sales was 74.6% compared with 74.3% in previous year reflecting lower sales of capital equipment partially offset by higher consumables sales.

Selling, general and administration expenses (SG&A) were $32,689,000 (2017: $27,548,000) excluding foreign exchange losses which were now reclassified in other gains/losses-net. The increase in SG&A of $5,141,000 (2017: 3,220,000) was mainly to support the increased sales in North America and market expansion activities in Europe and other markets, expansion of internal operational capacity and capabilities to support a growing global organisation and the transition of a distributor to a capital reseller from 1 July 2019.

Research and development expenses (R&D) for the year were $9,882,000, an increase of 2.6% compared with $9,486,000 in 2017. This increase is consistent with the Company's commitment to strategic investment in R&D targeted at design and development activities associated with trophon2 which obtained regulatory approval in USA and Europe towards the end of the year, as well as investment in research into novel solutions aimed at addressing unmet needs in the infection prevention field.

Other income for the period amounted to $93,000 (2017: $9,000).

Other gains, comprised mainly of net gain on foreign currency forward contracts and options, were $1,549,000 million compared with a net loss of $264,000 in 2017.

Finance income amounting to $1,279,000 (2017: $1,063,000) relates to interest earned on cash investments.

Finance expense for the year of $58,000 related to interest on leases (2017: $77,000).

Income tax benefit for the period was $168,000 compared with $12,306,000 in 2017 which included the initial recognition of deferred tax assets relating to the Australian entities. Based on an updated assessment of the operations of the Group for the year ended 30 June 2018, it has been determined that taxable profits will continue to be generated by the Australian entities against which tax credits and deductible temporary differences will be utilised. In addition, it has been determined that it is probable that taxable profits will be generated by the US entity against which carried forward tax losses and deductible temporary differences will be utilised. As a result, previously unrecognised deferred tax assets in relation to the US entity were recognised as a non-current asset. Further information on the income tax expense and movements on net deferred tax assets are detailed in note 3.

The consolidated profit after tax amounted to $5,751,000 (2017: $26,158,000).

The Group ended the year with $69,433,000 (2017: $62,989,000) in cash and cash equivalents, an increase of $6,444,000. 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 2018 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. Other risks besides those detailed below or in the financial statements could also adversely affect Nanosonics' business and operations, and the material business risks below should not be considered an exhaustive list of potential risks that may affect Nanosonics.

Risk	Description and potential consequences	Strategies used by Nanosonics to mitigate the risk
Significant distribution customer	The Group's key distribution customer accounts for approximately 49.3% of the Group's revenue (see note 2.1 of the financial statements), the majority of which is in United States, Nanosonics' largest market. Nanosonics is aware of the need to continue to closely manage its key distribution customer including closely managing any changes in its commercial and contractual relationship with that distributor as the parties transition to a new capital reseller agreement from 1 July 2019.	The Group has further strengthened its own direct operations in North America and now 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. The Group continues to invest in infrastructure in the North American market to assist the business to scale.
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. New products are also likely to require a range of regulatory approvals.	To manage these risks, the Company has a clearly defined framework to support the processes covering product ideation, development and subsequent commercialisation and has made the development of additional technologies a key strategic priority and investment. Nanosonics also engages with a range of experts in relevant fields to determine the focus of its R&D efforts.
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 has invested in R&D for the second generation of trophon, trophon2, which was released to the market in August 2018, and continues to invest heavily in product diversification.
Intellectual Property	The Company relies heavily on its ability to maintain and protect its intellectual property (IP) including registered and unregistered IP. Nanosonics recognises the potential risk of third party infringement claims on its IP portfolio, the expiry of its IP, the risk of being unable to register the underlying subject matter or processes in any new products and the risk that third parties may claim that our IP infringes their rights.	Nanosonics seeks appropriate patent and trade mark protection and manages any specifically identified IP risks. Along with internal personnel to manage IP opportunity and risk, Nanosonics works closely with specialists and advisors to continually manage its IP opportunities and risks. Trophon, for example, is covered by 14 patent families. Most are active through to 2025 and in many cases beyond including patents relating to the consumables which go out to 2029. The Group has an active program to continue to protect the IP in its technology. Nanosonics ensures that its projects, products and related activities include an appropriate assessment of any third party IP profile against its own IP profile.
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 could make substitution costly and time-consuming.	The Group regularly monitors its suppliers and their performance, and seeks to enter into agreements where appropriate to mitigate any supply risk. 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 third party suppliers and failure to satisfy regulatory requirements presents significant risks including the Company's ability to sell the products, and/or result in an adverse event such as a product recall.	The Group has a highly developed Quality Management System to manage this risk.
Financial	The Group is exposed to foreign currency risk and credit risk in light of the international nature of its operation.	These risks are managed through its internal financial risk management policy. The Company seeks external advice as appropriate. Further information is available in note 7 to the financial statements.
Product liability	The Company recognises the risk that its products (or their use) may cause damage to a third party given the nature of the product and the industry the Company operates in.	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.
Personnel	Nanosonics recognises that providing a safe and rewarding working environment is critical to its sustainability. Further, the Company operates in a competitive market in relation to attracting scientific and engineering talent.	The Company has programs in place both for WHS, and the attraction and retention of talent.
Cyber security	Nanosonics recognises the emerging risk associated with cyber security and the potential impact on the Company's operations.	Nanosonics has a cyber security strategy which it is implementing with a view to safeguarding the business against these risks.

DIRECTORS' REPORT CONTINUED

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 15 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 2018. No dividends were proposed, declared or paid during the financial year (2017: Nil).

The Board review the dividend policy regularly. The Company's dividend policy in the future will depend upon the profitability and the financial position and the capital allocation priorities 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 2018 that has 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.

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 15 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 Maurie Stang, David Fisher, Richard England, Michael Kavanagh, Steven Sargent and Marie McDonald.

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 28.

During the year, McGregor Grant and Rob Waring were in office as Company Secretaries. On 19 July 2018 Mr Waring retired as company secretary. McGregor Grant remains as sole Company Secretary.

Information on the directors, company secretary and the executive team is a part of the Directors' report and can be found on pages 28 to 29 of the Annual Report.

Meetings of directors

The number of directors' meetings, including meetings of the committees, held during the year ended 30 June 2018, 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 [3]		R&D and Innovation	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Maurie Stang	8	8	—	4 [1]	1	1	2	2	4	4 [1]
Richard England	8	8	4	4	1	1	2	2	—	3 [1]
David Fisher	8	7	4	3	1	1	—	2 [1]	4	4
Steven Sargent	8	8	—	4 [1]	1	1	2	2	4	4
Marie McDonald	8	8	4	4	1	1	2	2	—	4 [1]
Michael Kavanagh	8	8	—	4 [2]	—	1 [2]	—	2 [2]	4	4

1. Attended in part or in full in ex-officio capacity.
2. Attended in part by invitation.
3. In addition to the 2 Remuneration Committee meetings held during the year, remuneration matters were considered at a number of Board meetings. These remuneration matters included the proposed changes to the Company's remuneration framework set out in section 4.8 of the Remuneration report.

Share-based payments

Shares issued under the DESP and performance rights and options granted under the share-based compensation plans during the year are detailed below.

Shares issued

During the year ended 30 June 2018 and to the date of this report, the Company issued a total of 1,612,124 (2017: 1,798,419) new ordinary shares in Nanosonics Limited. These shares were issued pursuant to the exercise of performance rights under the share-based compensation plans.

No amount was unpaid on any of the shares issued.

As at 30 June 2018, there were 299,345,079 (2017: 297,732,955) ordinary shares in Nanosonics Limited on issue. At the date of this report, there were 299,345,079 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, 760,994 (2017: 583,258) unquoted performance rights and 840,978 (2017: 495,783) unquoted share options over unissued ordinary shares in Nanosonics Limited. Further information on the grants is in Section 5 of the Remuneration report on pages 40 to 46 and in the Share-based payments note to the financial statements.

Shares under option

At the date of this report, there were 3,183,817 unissued ordinary shares of Nanosonics Limited under option as detailed below. As at 30 June 2018, there were 3,259,653 (2017: 3,522,522) 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	2,293,411
Employee Share Option Plan	966,542
Total shares under option at 30 June 2018	**3,259,953**
Performance Rights and Options lapsed	
Omnibus Equity Plan	(76,136)
Total shares under option to the date of this report	**3,183,817**

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

1.0 Introduction

Nanosonics is a rapidly growing medical technology company with operations in numerous 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* and accounting standard requirements, the remuneration arrangements in place for KMP of Nanosonics during the financial year ended 30 June 2018 (2018 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 2018 Financial Year
Non-executive Directors		
Maurie Stang	Chairman; Chairman, Nomination Committee; Member, Remuneration Committee; Member, R&D and Innovation Committee	
Steven Sargent	Deputy Chairman; Chairman, Remuneration Committee; Member, R&D and Innovation Committee; Member, Nomination Committee	Appointed Deputy Chair on 5 October 2017
Richard England	Director; Chairman, Audit and Risk Committee; Member, Remuneration Comamittee; Member, Nomination Committee	
David Fisher	Director; Chairman, R&D and Innovation Committee; Member, Audit and Risk Committee; Member, Nomination Committee	
Marie McDonald	Director; Member, Audit and Risk Committee; Member, Remuneration Committee; Member, Nomination Committee	
Executive Director		
Michael Kavanagh	Chief Executive Officer & President (CEO&P) and Managing Director Member, R&D and Innovation Committee	

Name	Position (at year end) [1]	Change in 2018 Financial Year
Executive KMP		
McGregor Grant	Chief Financial Officer (CFO) and Company Secretary	
Gerard Putt	Chief Operations Officer	
Steven Farrugia	Chief Technology Officer	Dr Farrugia held the position of SVP Design & Development up to 20 February 2018. As at this date, Dr Farrugia was appointed to Chief Technology Officer
Ron Weinberger	President, Technology Development/Commercialisation	Ceased employment from 20 February 2018

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

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 2018 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; and
> 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.

The Board
Reviews, applies judgement and, as appropriate, approves the Remuneration Committee's recommendations.

The Remuneration Committee
The Remuneration Committee operates under the delegated authority of the Board.

The Remuneration Committee is empowered to source any internal resources and obtain external independent professional advice it considers necessary to enable it to make recommendations to the Board on the following:

Remuneration policy, composition and quantum of remuneration components for Executive KMP, including STI performance targets	Remuneration policy in respect of Non-executive Directors	Recruitment, retention and termination policies and practices	Design features of employee and executive LTI Plan awards, including setting of performance and other vesting criteria

External Consultants	Internal Resources

2.2 Use of remuneration consultants

As appropriate, the Board and Remuneration Committee obtain and consider advice directly from external advisors, who are independent of management.

Under engagement and communication protocols adopted by Nanosonics, advice and market data was provided directly to the Remuneration Committee (which consists entirely of Non-Executive Directors) as follows:

> Laurie Wood, Remuneration Consultant, HRascent Pty Ltd (HRascent), provided 'Remuneration Recommendations' as defined by the Corporations Act which were received after 30 June 2018. The fees relating to this 'Remuneration Recommendation' amounted to $13,600. No other services were provided by HRascent.
> The Remuneration Committee engaged the services of other remuneration consultants to assist with the review of the executive remuneration framework, benchmarked KMP salaries and the provision of comparable market data. No 'Remuneration Recommendations' as defined by the Corporations Act were made during the 2018 financial year.

REMUNERATION REPORT – AUDITED CONTINUED

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 and the skills and experience of the Director. In determining the level of fees, survey data on comparable companies is 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 whilst creating alignment	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 reference to measures of the Company's performance.
Aggregate Board Fees are approved by shareholders.	The total amount of fees paid to Non-executive Directors in the year ended 30 June 2018 is within the aggregate 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 cash, superannuation contributions or charitable donations.

3.2 Non-executive Director fees and other benefits

Elements	Details	
Board fees per annum	Board Chairman fee Board Non-executive Director fee Board Committee Chairman fee	$170,000 $85,000 $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 Government's prescribed maximum contributions limit) which satisfies the Company's statutory superannuation contributions.	
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	**2018**	**155,251**	**14,749**	**170,000**
	2017	155,251	14,749	170,000
Richard England	**2018**	**91,324**	**8,676**	**100,000**
	2017	91,324	8,676	100,000
David Fisher	**2018**	**91,324**	**8,676**	**100,000**
	2017	91,324	8,676	100,000
Steven Sargent [1]	**2018**	**91,324**	**8,676**	**100,000**
	2017	90,236	8,572	98,808
Marie McDonald [2]	**2018**	**77,626**	**7,374**	**85,000**
	2017	53,598	5,092	58,690
Total	**2018**	**506,849**	**48,151**	**555,000**
	2017	481,733	45,765	527,498

1. Mr Sargent was appointed as a Non-executive Director on 6 July 2016.
2. Ms McDonald was appointed as a Non-executive Director on 24 October 2016.

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:

Executive KMP Remuneration Objectives

An appropriate balance of 'fixed' and 'at-risk' components	Attract, motivate and retain executive talent.	The creation of reward differentiation to drive performance and behaviours.	Shareholder value creation through equity components.

Total Target Remuneration (TTR) is set by reference to the relevant market and internal relativities

FIXED	AT RISK	
Total Fixed Remuneration (TFR)	**Short-Term Incentives (STI)**	**Long-Term Incentives (LTI)**
Fixed remuneration is set based on relevant market relativities, reflecting responsibilities, performance, qualifications, experience and location.	STI performance criteria are set by reference to Company and Individual performance targets relevant to the specific position.	LTI targets are linked to both Nanosonics Group internal (Revenue) and external (relative Total Shareholder Return (TSR)) outperformance measures.
Remuneration for each component will be delivered as:		
Base Salary plus any fixed elements related to local markets, including superannuation or equivalents.	Part cash and part equity. The equity component is deferred for 1 year and remains 'at risk' until vesting.	Equity is held subject to performance and service for 3 years from grant date. The equity is 'at risk' until vesting.
Strategic intent and market positioning		
TFR will generally be positioned at the median (+/-) compared to relevant market based data considering expertise and performance in the role.	Performance incentive is directed to achieving demanding growth targets. TFR + STI is intended to be positioned competitively when compared to groups of similar companies.	LTI is intended to align executive KMP with long term growth strategy aligned with shareholders' interests.

Total Target Remuneration (TTR)

TTR is intended to be positioned competitively when compared to relevant market based comparisons.

The Executive remuneration framework is currently under review, and certain changes are proposed to be made for incentives awarded after 1 July 2018 as set out in note 4.8 below.

REMUNERATION REPORT – AUDITED CONTINUED

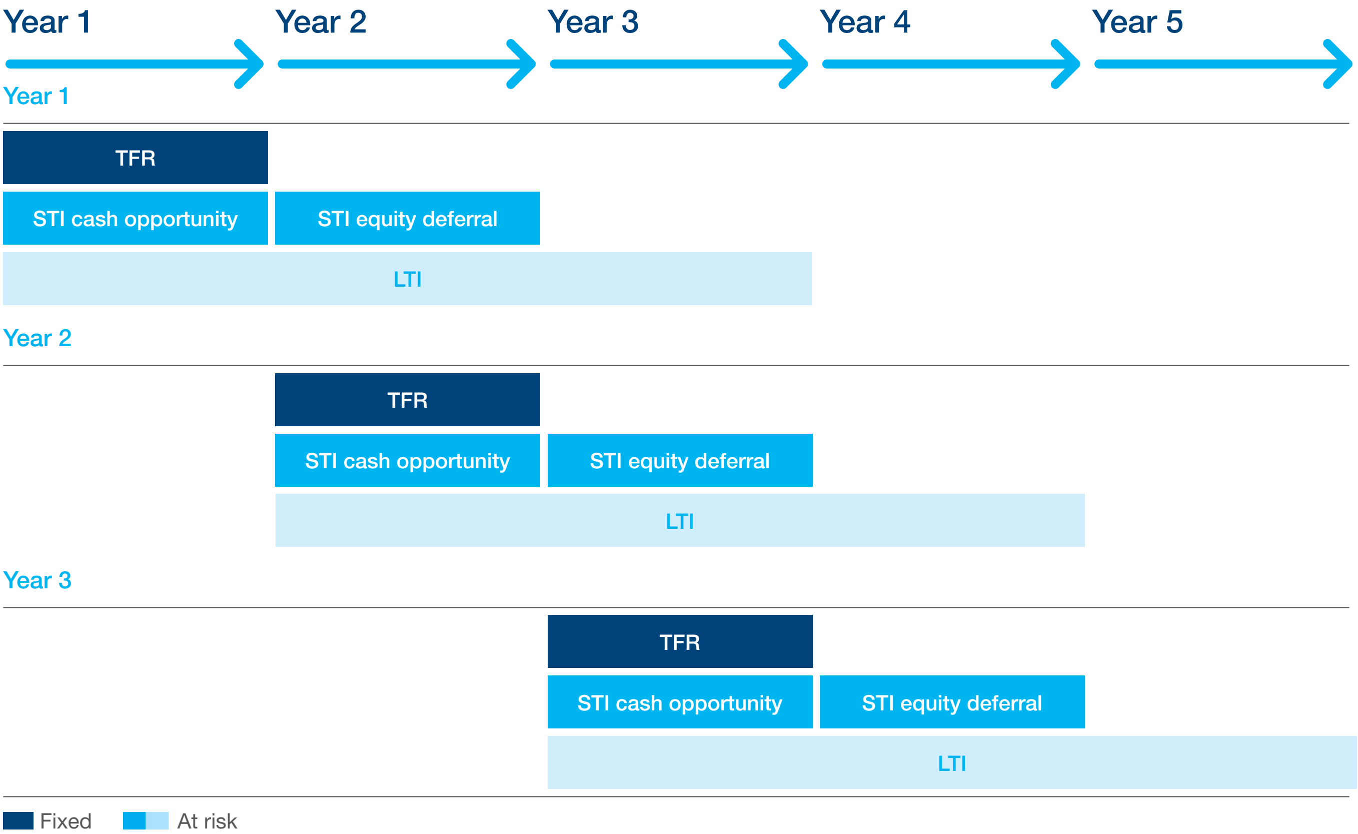
4.2 Remuneration mix and timing of receipt

4.2.1 Remuneration mix

Position	TFR (Cash)	STI (Cash and Equity)	LTI (Equity)
CEO and 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 (excluding CEO)

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, 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 and President and other executive KMP are approved by the Remuneration Committee and the Board.
Performance target	The key performance objectives of Nanosonics are currently directed to achieving sales and Profit Before Tax (PBT) targets 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. The actual STI awards for executive KMP in respect of the 2018 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; and > 50% of STI delivered as Nanosonics Performance Rights. Of the performance rights awarded to the CEO&P, 50% are deferred for one year and 50% are deferred for two years. In the case of other executive KMP, the Performance rights are deferred for one year. The equity component will be determined based on the volume weighted average price of Nanosonics' shares during the five days prior to and including the date of the announcement of the Company's 2018 full year results and the five days following the announcement of those results. As the STI amount awarded as equity has already been earned, there are no further performance requirements 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 executive's 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 2017 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 at the grant date, as follows: Performance Rights allocated = LTI $ value / Binominal Approximation Option Pricing value. Options allocated = LTI $ value / Black Scholes value.

REMUNERATION REPORT – AUDITED CONTINUED

Performance hurdles	Equity grants to the executive KMP are subject to Performance Conditions as summarised below.
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, 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 2017, 2016, and 2015 Long Term Incentive Schemes is set out below.

LTIS year	TSR-1	TSR-2	EPS	Total
2017	50%	50%	–	100%
2016	25%	25%	50%	100%
2015	50%	50%	–	100%

Details of the each of the components of the Performance Conditions associated with the 2017, 2016 and 2015 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 2017, 2016, and 2015, two TSR Comparator Groups were used, TRS-1 and TSR-2. Details of the TSR Comparator Groups are set out in Section 4.5.3.

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 to Vest
Below the 50th percentile	0%
50th to 75th percentile	30% to 100% (pro-rata)
At the 75th Percentile	100%

Straight line interpolation will apply to the incremental results.

The TSR Measurement periods for the 2017, 2016 and 2015 Long Term Incentive Schemes are summarised below.

LTIS year	Measurement Period
2017	24 August 2017 to the date of the release of Nanosonics' FY20 financial statements
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

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.

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

	2018	2017	2016	2015	2014	2013
Sales revenue ($'000)	**60,698**	67,507	42,796	22,214	21,492	14,899
Profit/(loss) before tax ($'000)	**5,583**	13,852	136	(5,465)	(2,636)	(5,735)
Net profit/(loss) after tax ($'000)	**5,751**	26,158	122	(5,460)	(2,605)	(5,768)
Pre-tax basic earnings per share (Pre-tax EPS) (cents)	**1.87**	4.66	0.05	nm [1]	nm [1]	nm [1]
Basic earnings per share (EPS) (cents)	**1.92**	8.79	0.04	(2.03)	(0.99)	(2.21)
Share price as at 30 June ($)	**3.16**	2.54	2.19	1.70	0.79	0.60
TSR percentile ranking [2]		85th/78th [3]	91st	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.
3. The measurement period for the 2013 LTIS tranche 3 and 4 awarded to Mr Kavanagh as part of his appointment as CEO&P was from 8 November 2013 to 24 August 2017 which resulted in a relative TSR percentile ranking of 85th. The measurement period for the other Executive KMP for the 2014 LTIS was from 27 January 2015 to 24 August 2017 which resulted in a relative TSR percentile ranking of 78th.

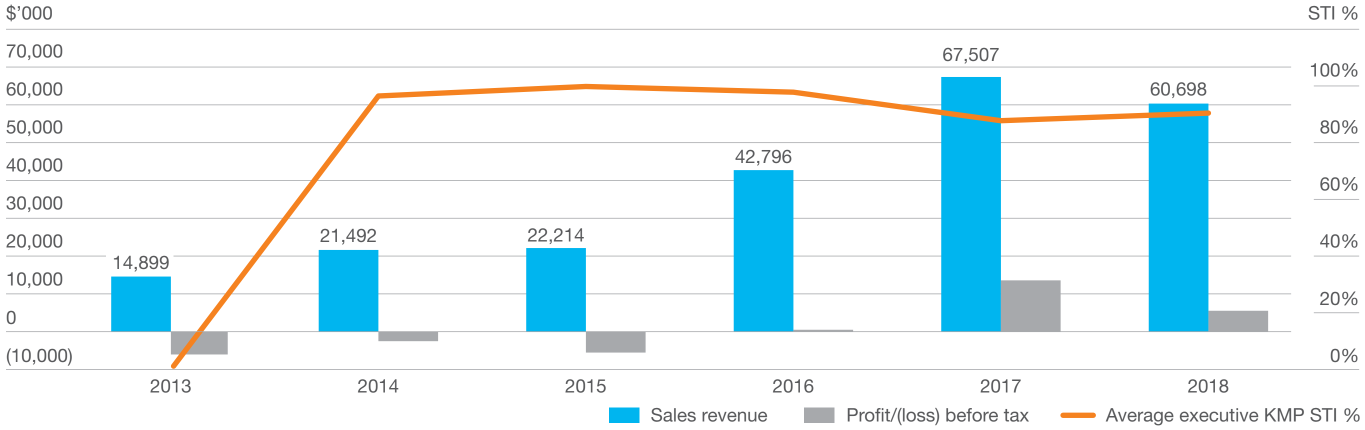
Further explanation of details on Nanosonics' performance for the 2018 Financial Year is provided in the CEO's report and the Regional highlights on pages 6 to 15 of this Annual Report.

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 as of 30 June 2018 for the 2018 Financial Year was 90.88% and details of the award to each

Executive KMP STI against sales revenue and profit/(loss) before tax



executive KMP are set out in the table below.

Executive KMP	Position	Maximum STI % of 2018 Base salary [1]	STI awarded as a % of potential [2]	Cash STI award in 2018($) [3]	Deferred equity STI award ($) [3]	% Forfeited
Michael Kavanagh	CEO/President, Managing Director	50%	91.00%	105,655	105,655	9.00%
Ron Weinberger [4]	President, Technology Development/Commercialisation	30%	—	—	—	100.00%
McGregor Grant	CFO/Company Secretary	30%	92.50%	42,574	42,574	7.50%
Gerard Putt	Chief Operations Officer	30%	87.50%	31,452	31,452	12.50%
Steven Farrugia	Chief Technology Officer	30%	92.50%	35,200	35,200	7.50%

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 determined by the Board on 30 July 2018 after the financial results for the 2018 Financial Year were known and performance reviews were completed and approved by the Board.
3. The equivalent number of Performance Rights or Options to be awarded in the following year will be determined as set out in Section 4.4.1.
4. Dr Weinberger's employment ceased on 20 February 2018 and his STI entitlement was forfeited in full on that date. The average STI payout rate to executive KMP excluded Dr Weinberger.

REMUNERATION REPORT – AUDITED CONTINUED

The annual STI awarded to each executive KMP was based on the achievement of Board-agreed financial objectives as well as specific individual objectives. The Board determined the actual STI payments in respect of the 2018 Financial Year. These 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 15 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. The mix of each of these companies in respect of the 2017, 2016 and 2015 Long Term Incentive Schemes is summarised in Section 4.4.2 and the specific details of each of these components are discussed below. The Board believes that the appropriate balance between these performance criteria represented a sound guide to medium and long term performance at the time the hurdles were set. However, the Board proposes to introduce changes to the LTI scheme in the future as set out in Section 4.8 below.

Relative Total Shareholder Return

The comparator groups of companies that have been used in in respect of the 2017, 2016 and 2015 Long Term Incentive Schemes are summarised below.

2017 LTIS Comparator Group 1 (TSR-1)

ANN	Ansell Limited
API	Australian Pharmaceutical Industries Limited
AXP	AirXpanders, Inc.
CAJ	Capitol Health Limited
CGS	CogState Limited
COH	Cochlear Limited
EHE	Estia Health Limited
ELX	Ellex Medical Lasers Limited
GMV	G Medical Holdings Innovations Limited
HSO	Healthscope Limited
IDX	Integral Diagnostics Limited
IPD	ImpediMed Limited
JHC	Japara Healthcare Limited
LHC	LifeHealthcare Group Limited
NVC	National Veterinary Care Limited
ONE	Oneview Healthcare plc
ONT	1300SMILES Limited
OSP	Osprey Medical Inc.
PGC	Paragon Care Limited
PME	Pro Medicus Limited
PSQ	Pacific Smiles Group Limited
PRY	Primary Health Care Limited
REG	Regis Healthcare Limited
RHC	Ramsay Health Care Limited
RVA	REVA Medical, Inc.
SIG	Sigma Healthcare Limited
SHL	Sonic Healthcare Limited
SOM	SomnoMed Limited
VRT	Virtus Health Limited

2017 LTIS Comparator Group 2 (TSR-2)

ACX	Aconex Limited
APT	Afterpay Touch Group Limited
APX	Appen Limited
ALU	Altium Limited
API	Australian Pharmaceutical Industries Limited
CL1	Class Limited
EHE	Estia Health Limited
GBT	GBST Holdings Limited
HSN	Hansen Technologies Limited
IPD	Impedimed Limited
IFM	Infomedia Limited
IRE	IRESS Limited
ISD	iSentia Group Limited
JHC	Japara Healthcare Limited
MYX	Mayne Pharma Group Limited
MSB	Mesoblast Limited
MVF	Monash IVF Group Limited
MYO	MYOB Group Limited
NTC	Netcomm Wireless Limited
NXT	Nextdc Limited
PRY	Primary Health Care Limited
REG	Regis Healthcare Limited
SIG	Sigma Pharmaceuticals Limited
SRX	Sirtex Medical Limited
SPL	Starpharma Holdings Limited
TNE	Technology One Limited
VRT	Virtus Health Limited
WTC	Wisetech Global Limited
XRO	Xero Limited

2016 LTIS Comparator Group 1 (TSR-1)

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

2016 LTIS Comparator Group 2 (TSR-2)

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

2015 LTIS Comparator Group 1 (TSR-1)

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

2015 LTIS Comparator Group 2 (TSR-2)

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

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 in the 2016 LTIS year was 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 2017 and 2018 is as follows.

Year	Pre-tax EPS
2018	**1.87 cents**
2017	4.66 cents

Vesting outcome of 2014 LTIS

The performance conditions associated with the 2014 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 2014 LTIS was required to be at or above the 75% percentile and revenue was required to be at or above $49.5 million in 2017. Following the release of the Company's 2017 financial statements Nanosonics' relative TSR ranking was determined to be in the 85th percentile in respect of the hurdle set for the CEO&P and in the 78th percentile for the other Executive KMP and for the year ended 30 June 2017 Nanosonics' sales were $67.5 million. Accordingly, 100% of the performance rights granted under the 2014 LTIS vested during the 2018 Financial Year.

REMUNERATION REPORT – AUDITED CONTINUED

4.6 Executive remuneration

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

		Fixed Remuneration				Variable Remuneration					Proportion of Total Remuneration
		Short-term	Long-term		Total	Short-term	Equity Compensation	Total			
	Year	Salary and fees	Superannuation	Other long term benefits		Cash bonus [2,4]	Options and performance rights [5,6]		Termination Benefits	Total	Performance Related %
Michael Kavanagh [1]	**2018**	**469,285**	**20,049**	**64,704**	**554,038**	**116,105**	**449,008**	**565,113**	**—**	**1,119,151**	**50%**
	2017	465,743	19,616	54,084	539,443	111,961	446,663	558,624	—	1,098,067	51%
Ron Weinberger [2/6]	**2018**	**208,982**	**15,037**	**7,646**	**231,665**	**—**	**138,051**	**138,051**	**238,000**	**607,716**	**23%**
	2017	286,142	19,616	34,254	340,012	41,309	178,125	219,434	—	559,446	39%
McGregor Grant	**2018**	**306,277**	**20,049**	**66,520**	**392,845**	**46,026**	**150,636**	**196,661**	**—**	**589,507**	**33%**
	2017	311,492	19,616	30,744	361,852	43,782	150,636	194,418	—	556,270	35%
Gerard Putt	**2018**	**241,393**	**20,049**	**61,153**	**322,595**	**35,945**	**124,992**	**160,936**	**—**	**483,531**	**33%**
	2017	231,224	19,616	28,664	279,504	35,341	122,889	158,230	—	437,734	36%
Steven Farrugia [3]	**2018**	**253,691**	**20,049**	**23,216**	**296,955**	**38,054**	**87,270**	**125,323**	**—**	**422,278**	**30%**
	2017	192,697	16,583	16,484	225,764	33,053	31,777	64,830	—	290,594	22%
Total	**2018**	**1,479,628**	**95,232**	**223,238**	**1,798,098**	**236,129**	**949,956**	**1,186,085**	**238,000**	**3,222,184**	**37%**
	2017	1,487,298	95,047	164,230	1,746,575	265,446	930,090	1,195,536	—	2,942,111	41%

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. These performance rights vested in 2017 and 2018, respectively.
2. Dr Weinberger's employment ended on 20 February 2018 and the remuneration only includes amounts up until that date. Dr Weinberger's FY18 STI incentive was forfeited in full on 20 February 2018.
3. Dr Farrugia joined the Company on 5 September 2016.
4. The cash bonus is for the performance during the respective financial year based on the criteria set out in Section 4.4.1. 2018 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.
5. 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.
6. FY18 includes $45,012 in respect of LTI awards made to Dr. Weinberger pro rata to his service since the grant date. The vesting of these awards are subject to the original performance conditions being satisfied and Board discretion.

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		Termination payment [2]	Past at-risk remuneration received	Actual remuneration received during year	Future at risk remuneration received during year	
	Year	Fixed remuneration [4]	Incentives [5]		Value of Performance Rights [6/7]		STI (deferred as equity) [8]	LTI (Equity) granted [2/8]
Michael Kavanagh [1]	**2018**	**530,400**	**111,961**	**—**	**1,942,399**	**2,584,760**	**127,892**	**397,868**
	2017	520,000	112,923	—	2,448,375	3,081,298	113,047	332,044
Ron Weinberger [2]	**2018**	**224,019**	**41,309**	**322,845**	**288,761**	**876,934**	**46,181**	**16,926**
	2017	338,916	45,338		497,408	881,662	45,387	105,943
McGregor Grant	**2018**	**351,767**	**43,782**	**—**	**215,890**	**611,439**	**48,945**	**98,569**
	2017	344,830	46,888	—	376,745	768,463	46,940	110,111
Gerard Putt	**2018**	**276,589**	**35,341**	**—**	**179,672**	**491,602**	**39,509**	**78,459**
	2017	267,878	38,333	—	310,080	616,291	38,375	87,623
Steven Farrugia [3]	**2018**	**294,311**	**33,053**	**—**	**—**	**327,364**	**36,949**	**78,803**
	2017	212,280	—	—	—	212,280	—	89,797
Total	**2018**	**1,677,086**	**265,446**	**322,845**	**2,626,722**	**4,892,099**	**299,475**	**670,624**
	2017	1,683,904	243,482	—	3,632,608	5,559,994	243,749	725,517

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 Weinberger's employment ended on 20 February 2018. Actual termination payment received included accrued annual leave and long service leave entitlements. The future at risk LTI granted to Dr Weinberger during the period was reduced by $86,793 for the fair value of the performance rights and options that were forfeited on 20 February 2018.
3. Dr Farrugia joined the Company on 5 September 2016. No "sign on bonus" was paid.

4. Includes base salary, superannuation, and other cash benefits received during the year (excludes annual leave and long service leave accrual).
5. STI received as cash in respect of the previous Financial Year.
6. Intrinsic value at vesting date of performance rights and options issued in previous periods that vested during the year.
7. Includes 2017 deferred STI and 2014 LTIS which vested at 100% following the achievement of the performance hurdles.
8. 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, 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 out 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.

4.8 Changes to remuneration framework for the Financial Year commencing 1 July 2018 (2019 Financial Year)

The Board has undertaken an extensive review of the current remuneration framework with a view to drive performance and strengthen the alignment between management and shareholder objectives.

As a result of this review, the Board has identified opportunities to improve the structure and improve alignment between remuneration strategy, company performance and shareholder returns. An integrated package of proposed changes are being proposed for the 2019 Financial Year. These proposed changes and the rationale for them are summarised below:

Proposed change	Rationale for proposed change
For STI – Introduce 4 clear, common corporate objectives and up to 4 individual KPIs	Drive alignment by requiring all employees to share 4 common corporate objectives, which may be weighted differently depending on the relevance of each corporate objective to the individual's role. These KPIs are financial or operational in nature. Each employee will also have 4 individual KPIs which will be financial, operational, cultural or customer centred. This approach is intended to drive deep alignment to the key performance measures and cultural requirements of the Company.

REMUNERATION REPORT – AUDITED CONTINUED

For STI – Introduce opportunity to reward for outperformance	Introduce an opportunity to reward executives for overachievement against corporate and personal objectives to encourage outperformance and ensure alignment with shareholder objectives. The Company is proposing to introduce opportunities for reward in relation to each of the 4 corporate objectives as follows: a 'Threshold' of 90%, where if not achieved, individuals will not receive any benefit at all; a 'Target', where, if achieved, individuals will receive 100%; and 'Over Achievement' or stretch targets where, if achieved, individuals will receive up to 120%. Each participant in the STI program will also have an opportunity to outperform against their individual KPIs, to a maximum of 125%, if the participant has overachieved on all of their individual KPIs. Where both the Company and each participant overachieves on both the corporate objectives and individual KPIs, the participant may be entitled to receive up to a maximum of 150% of the STI benefit (i.e. 120% x 125%). Where overachievement occurs, the Board considers that the STI program will be self-funding and that any additional cost to the business will be more than offset by the tangible benefits derived from overachieving the targets set.
For STI – Shares will be held for an additional one-year lock-up period.	As described in Section 4.4.1, 50% of any STI award is deferred over the two years for the CEO&P and one year for all other recipients. To encourage share ownership and to align shareholder and employee experience, it is proposed that 50% of STI will continue to be deferred as performance rights which will vest after one year. However, the resulting shares must then be held as restricted shares for a further year to align shareholder and employee experience (i.e. all recipients of STI, including the CEO&P, will wait 2 years to receive the deferred portion of their STI).
For LTI – Use of an accretive Profit Before Tax gate and an absolute TSR hurdle	Nanosonics does not have many similar companies with which it can directly compare its performance. As a result the Board now considers that relative TSR is not the most effective measure of company performance and does not provide employees with a clear line of sight. Absolute TSR, with an appropriate PBT gate, are performance measures that are considered to be company specific and more relevant. They also offer direct line of sight for employees and alignment with shareholders' objectives. By adopting an Absolute TSR hurdle, the Company aims to deliver positive shareholder returns regardless of market dynamics, consistent with shareholder expectations.

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), and the Deferred Employee Share Plan (DESP) are being phased out and replaced by the NOEP. Details of securities issued during the 2018 Financial Year and the number of outstanding securities as at the date of this report are set out below.

Plan name	Type of instruments	Details
Nanosonics Omnibus Equity Plan (NOEP)	Performance Rights Options	Since the NOEP was approved, 1,336,761 options and 1,344,252 performance rights have been issued to the Plan. 1,152,573 options and 1,064,702 performance rights remain outstanding as at the date of this report of which 21,779 performance rights are exercisable.
Nanosonics Deferred Employee Share Plan (DESP)	Ordinary shares	The purpose of the plan is to 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 1,104,858 unrestricted shares held in trust for employees. No new shares were issued under the plan.
Nanosonics Employee Share Option Plan (ESOP)	Performance Rights	No new options were granted under the ESOP. As at the date of this report, 966,542 performance rights remain outstanding.

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 2018 of the performance rights and options granted as remuneration to each Executive KMP are set out below:

						Performance Rights							Options				Total
KMP	Description	Grant Date	Vesting Date	Expiry Date	Exercise Price $	Number granted	Number vested during the year	% vested during the year	Number vested to date	Number lapsed/ forfeited during the year	% lapsed/ forfeited	Balance at year end	Number granted	Number lapsed/ forfeited during the year	% lapsed/ forfeited	Balance at year end	Intrinsic value of PR and options at year end ($)
Michael Kavanagh	2017 LTIS Tranche 1	3 Nov 17	31 Aug 20	31 Aug 23	—	12,867	—	0%	—	—	0%	12,867	—	—	0%	—	40,660
	2017 LTIS Tranche 2	3 Nov 17	31 Aug 20	31 Aug 23	—	12,866	—	0%	—	—	0%	12,866	—	—	0%	—	40,657
	2017 LTIS Tranche 1	3 Nov 17	31 Aug 20	31 Aug 23	2.38	—	—	0%	—	—	0%	—	170,212	—	0%	170,212	132,765
	2017 LTIS Tranche 2	3 Nov 17	31 Aug 20	31 Aug 23	2.38	—	—	0%	—	—	0%	—	170,212	—	0%	170,212	132,765
	2017 Deferred STI	3 Nov 17	31 Aug 18	31 Aug 21	—	45,513	—	0%	—	—	0%	45,513	—	—	0%	—	143,821
	2016 LTIS Tranche 1	05 Jan 17	31 Aug 19	31 Aug 22	—	10,535	—	0%	—	—	0%	10,535	—	—	0%	—	33,291
	2016 LTIS Tranche 2	05 Jan 17	31 Aug 19	31 Aug 22	—	10,534	—	0%	—	—	0%	10,534	—	—	0%	—	33,287
	2016 LTIS Tranche 3	05 Jan 17	31 Aug 19	31 Aug 22	—	21,069	—	0%	—	—	0%	21,069	—	—	0%	—	66,578
	2016 LTIS Tranche 1	05 Jan 17	31 Aug 19	31 Aug 22	2.85	—	—	0%	—	—	0%	—	52,827	—	0%	52,827	16,376
	2016 LTIS Tranche 2	05 Jan 17	31 Aug 19	31 Aug 22	2.85	—	—	0%	—	—	0%	—	52,826	—	0%	52,826	16,376
	2016 LTIS Tranche 3	05 Jan 17	31 Aug 19	31 Aug 22	2.85	—	—	0%	—	—	0%	—	105,653	—	0%	105,653	32,752
	2016 Deferred STI	05 Jan 17	01 Sep 17	01 Sep 20	—	36,823	36,823	100%	36,823	—	0%	—	—	—	0%	—	—
	2015 LTIS Tranche 1	04 Jan 16	31 Aug 18	31 Aug 21[3]	—	103,441	—	0%	—	—	0%	103,441	—	—	0%	—	326,874
	2015 LTIS Tranche 2	04 Jan 16	31 Aug 18	31 Aug 21[3]	—	103,441	—	0%	—	—	0%	103,441	—	—	0%	—	326,874
	2013 LTIS Tranche 3	08 Nov 13	31 Aug 17	30 Sep 17	—	375,000	375,000	100%	375,000	—	0%	—	—	—	0%	—	—
	2013 LTIS Tranche 4	08 Nov 13	31 Aug 17	30 Sep 17	—	375,000	375,000	100%	375,000	—	0%	—	—	—	0%	—	—
	Total					**1,107,089**	**786,823**	**71%**	**786,823**	**—**	**0%**	**320,266**	**551,730**	**—**	**0%**	**551,730**	**1,343,076**
Ron Weinberger[2]	2017 LTIS Tranche 1	09 Feb 18	31 Aug 20	31 Aug 23	—	4,106	—	0%	—	3,436	84%	670	—	—	0%	—	2,117
	2017 LTIS Tranche 2	09 Feb 18	31 Aug 20	31 Aug 23	—	4,105	—	0%	—	3,435	84%	670	—	—	0%	—	2,117
	2017 LTIS Tranche 1	09 Feb 18	31 Aug 20	31 Aug 23	2.38	—	—	0%	—	—	0%	—	54,312	45,449	84%	8,863	6,913
	2017 LTIS Tranche 2	09 Feb 18	31 Aug 20	31 Aug 23	2.38	—	—	0%	—	—	0%	—	54,311	45,448	84%	8,863	6,913
	2017 Deferred STI	11 Jan 18	31 Aug 18	31 Aug 21		16,793	—	0%	—	—	0%	16,793	—	—	0%	—	53,066
	2016 LTIS Tranche 1	05 Jan 17	31 Aug 19	31 Aug 22	—	3,361	—	0%	—	1,680	50%	1,681	—	—	0%	—	5,312
	2016 LTIS Tranche 2	05 Jan 17	31 Aug 19	31 Aug 22	—	3,361	—	0%	—	1,680	50%	1,681	—	—	0%	—	5,312
	2016 LTIS Tranche 3	05 Jan 17	31 Aug 19	31 Aug 22	—	6,723	—	0%	—	3,362	50%	3,361	—	—	0%	—	10,621
	2016 LTIS Tranche 1	05 Jan 17	31 Aug 19	31 Aug 22	2.85	—	—	0%	—	—	0%	—	16,855	8,427	50%	8,428	2,613
	2016 LTIS Tranche 2	05 Jan 17	31 Aug 19	31 Aug 22	2.85	—	—	0%	—	—	0%	—	16,854	8,427	50%	8,427	2,612
	2016 LTIS Tranche 3	05 Jan 17	31 Aug 19	31 Aug 22	2.85	—	—	0%	—	—	0%	—	33,710	16,855	50%	16,855	5,225
	2016 Deferred STI	05 Jan 17	01 Sep 17	01 Sep 20	—	14,784	14,784	100%	14,784	—	0%	—	—	—	0%	—	—
	2015 LTIS Tranche 1	04 Jan 16	31 Aug 18	31 Aug 21[3]	—	35,496	—	0%	—	—	0%	35,496	—	—	0%	—	112,167
	2015 LTIS Tranche 2	04 Jan 16	31 Aug 18	31 Aug 21[3]	—	35,496	—	0%	—	—	0%	35,496	—	—	0%	—	112,167
	2014 LTIS Tranche 1	11 Mar 15	31 Aug 17	30 Sep 17	—	50,276	50,276	100%	50,276	—	0%	—	—	—	0%	—	—
	2014 LTIS Tranche 2	11 Mar 15	31 Aug 17	30 Sep 17	—	50,275	50,275	100%	50,275	—	0%	—	—	—	0%	—	—
	Total					**224,776**	**115,335**	**51%**	**115,335**	**13,593**	**6%**	**95,848**	**176,042**	**124,606**	**71%**	**51,436**	**327,156**

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						Performance Rights							Options				
KMP	Description	Grant Date	Vesting Date	Expiry Date	Exercise Price $	Number granted	Number vested during the year	% vested during the year	Number vested to date	Number lapsed/ forfeited during the year	% lapsed/ forfeited	Balance at year end	Number granted	Number lapsed/ forfeited during the year	% lapsed/ forfeited	Balance at year end	Total Intrinsic value of PR and options at year end ($)
McGregor Grant	2017 LTIS Tranche 1	09 Feb 18	31 Aug 20	31 Aug 23	—	8,363	—	0%	—	—	0%	8,363	—	—	0%	—	26,427
	2017 LTIS Tranche 2	09 Feb 18	31 Aug 20	31 Aug 23	—	8,363	—	0%	—	—	0%	8,363	—	—	0%	—	26,427
	2017 LTIS Tranche 1	09 Feb 18	31 Aug 20	31 Aug 23	2.38	—	—	0%	—	—	0%	—	41,488	—	0%	41,488	32,361
	2017 LTIS Tranche 2	09 Feb 18	31 Aug 20	31 Aug 23	2.38	—	—	0%	—	—	0%	—	41,488	—	0%	41,488	32,361
	2017 Deferred STI	11 Jan 18	31 Aug 18	31 Aug 21	—	17,798	—	0%	—	—	0%	17,798	—	—	0%	—	56,242
	2016 LTIS Tranche 1	05 Jan 17	31 Aug 19	31 Aug 22	—	2,568	—	0%	—	—	0%	2,568	—	—	0%	—	8,115
	2016 LTIS Tranche 2	05 Jan 17	31 Aug 19	31 Aug 22	—	2,567	—	0%	—	—	0%	2,567	—	—	0%	—	8,112
	2016 LTIS Tranche 3	05 Jan 17	31 Aug 19	31 Aug 22	—	5,135	—	0%	—	—	0%	5,135	—	—	0%	—	16,227
	2016 LTIS Tranche 1	05 Jan 17	31 Aug 19	31 Aug 22	2.85		—	0%	—	—	0%	—	20,028	—	0%	20,028	6,209
	2016 LTIS Tranche 2	05 Jan 17	31 Aug 19	31 Aug 22	2.85	—	—	0%	—	—	0%	—	20,028	—	0%	20,028	6,209
	2016 LTIS Tranche 3	05 Jan 17	31 Aug 19	31 Aug 22	2.85	—	—	0%	—	—	0%	—	40,056	—	0%	40,056	12,417
	2016 Deferred STI	05 Jan 17	01 Sep 17	01 Sep 20	—	15,290	15,290	100%	15,290	—	0%	—	—	—	0%	—	—
	2015 LTIS Tranche 1	04 Jan 16	31 Aug 18	31 Aug 21 [3]	—	36,154	—	0%	—	—	0%	36,154	—	—	0%	—	114,247
	2015 LTIS Tranche 2	04 Jan 16	31 Aug 18	31 Aug 21 [3]	—	36,154	—	0%	—	—	0%	36,154	—	—	0%	—	114,247
	2014 LTIS Tranche 1	11 Mar 15	31 Aug 17	30 Sep 17	—	36,041	36,041	100%	36,041	—	0%	—	—	—	0%	—	—
	2014 LTIS Tranche 2	11 Mar 15	31 Aug 17	30 Sep 17	—	36,041	36,041	100%	36,041	—	0%	—	—	—	0%	—	—
	Total					**204,474**	**87,372**	**43%**	**87,372**	**—**	**0%**	**117,102**	**163,088**	**—**	**0%**	**163,088**	**459,598**
Gerard Putt	2017 LTIS Tranche 1	09 Feb 18	31 Aug 20	31 Aug 23	—	8,631	—	0%	—	—	0%	8,631	—	—	0%	—	27,274
	2017 LTIS Tranche 2	09 Feb 18	31 Aug 20	31 Aug 23	—	8,630	—	0%	—	—	0%	8,630	—	—	0%	—	27,271
	2017 LTIS Tranche 1	09 Feb 18	31 Aug 20	31 Aug 23	2.38	—	—	0%	—	—	0%	—	28,544	—	0%	28,544	22,264
	2017 LTIS Tranche 2	09 Feb 18	31 Aug 20	31 Aug 23	2.38	—	—	0%	—	—	0%	—	28,543	—	0%	28,543	22,264
	2017 Deferred STI	11 Jan 18	31 Aug 18	31 Aug 21	—	14,367	—	0%	—	—	0%	14,367	—	—	0%	—	45,400
	2016 LTIS Tranche 1	05 Jan 17	31 Aug 19	31 Aug 22	—	2,043	—	0%	—	—	0%	2,043	—	—	0%	—	6,456
	2016 LTIS Tranche 2	05 Jan 17	31 Aug 19	31 Aug 22	—	2,043	—	0%	—	—	0%	2,043	—	—	0%	—	6,456
	2016 LTIS Tranche 3	05 Jan 17	31 Aug 19	31 Aug 22	—	4,087	—	0%	—	—	0%	4,087	—	—	0%	—	12,915
	2016 LTIS Tranche 1	05 Jan 17	31 Aug 19	31 Aug 22	2.85	—	—	0%	—	—	0%	—	15,937	—	0%	15,937	4,940
	2016 LTIS Tranche 2	05 Jan 17	31 Aug 19	31 Aug 22	2.85	—	—	0%	—	—	0%	—	15,937	—	0%	15,937	4,940
	2016 LTIS Tranche 3	05 Jan 17	31 Aug 19	31 Aug 22	2.85	—	—	0%	—	—	0%	—	31,875	—	0%	31,875	9,881
	2016 Deferred STI	05 Jan 17	01 Sep 17	01 Sep 20	—	12,500	12,500	100%	12,500	—	0%	—	—	—	0%	—	—
	2015 LTIS Tranche 1	04 Jan 16	31 Aug 18	31 Aug 21 [3]	—	29,632	—	0%	—	—	0%	29,632	—	—	0%	—	93,637
	2015 LTIS Tranche 2	04 Jan 16	31 Aug 18	31 Aug 21 [3]	—	29,633	—	0%	—	—	0%	29,633	—	—	0%	—	93,640
	2014 LTIS Tranche 1	11 Mar 15	31 Aug 17	30 Sep 17	—	29,739	29,739	100%	29,739	—	0%	—	—	—	0%	—	—
	2014 LTIS Tranche 2	11 Mar 15	31 Aug 17	30 Sep 17	—	29,739	29,739	100%	29,739	—	0%	—	—	—	0%	—	—
	Total					**171,044**	**71,978**	**42%**	**71,978**	**—**	**0%**	**99,066**	**120,836**	**—**	**0%**	**120,836**	**377,339**
Steven Farrugia	2017 LTIS Tranche 1	09 Feb 18	31 Aug 20	31 Aug 23	—	6,686	—	0%	—	—	0%	6,686	—	—	0%	—	21,128
	2017 LTIS Tranche 2	09 Feb 18	31 Aug 20	31 Aug 23	—	6,686	—	0%	—	—	0%	6,686	—	—	0%	—	21,128
	2017 LTIS Tranche 1	09 Feb 18	31 Aug 20	31 Aug 23	2.38	—	—	0%	—	—	0%	—	33,169	—	0%	33,169	25,872
	2017 LTIS Tranche 2	09 Feb 18	31 Aug 20	31 Aug 23	2.38	—	—	0%	—	—	0%	—	33,168	—	0%	33,168	25,871
	2017 Deferred STI	11 Jan 18	31 Aug 18	31 Aug 21	—	13,436	—	0%	—	—	0%	13,436	—	—	0%	—	42,458
	2016 LTIS Tranche 1	05 Jan 17	31 Aug 19	31 Aug 22	—	1,369	—	0%	—	—	0%	1,369	—	—	0%	—	4,326
	2016 LTIS Tranche 2	05 Jan 17	31 Aug 19	31 Aug 22	—	1,368	—	0%	—	—	0%	1,368	—	—	0%	—	4,323
	2016 LTIS Tranche 3	05 Jan 17	31 Aug 19	31 Aug 22	—	2,737	—	0%	—	—	0%	2,737	—	—	0%	—	8,649
	2016 LTIS Tranche 1	05 Jan 17	31 Aug 19	31 Aug 22	2.85	—	—	0%	—	—	0%	—	18,299	—	0%	18,299	5,673
	2016 LTIS Tranche 2	05 Jan 17	31 Aug 19	31 Aug 22	2.85	—	—	0%	—	—	0%	—	18,299	—	0%	18,299	5,673
	2016 LTIS Tranche 3	05 Jan 17	31 Aug 19	31 Aug 22	2.85	—	—	0%	—	—	0%	—	36,599	—	0%	36,599	11,346
	Total					**32,282**	**—**	**0%**	**—**	**—**	**0%**	**32,282**	**139,534**	**—**	**0%**	**139,534**	**176,445**

1. The performance conditions associated with the 2014 LTIS were fully met. Accordingly, these performance rights vested on 31 August 2017.
2. Dr Weinberger's employment ceased on 20 February 2018. The Board exercised its discretion to ensure that the unvested proportion of Dr Weinberger's performance rights and options (pro rated based on time served) did not lapse when his employment ceased. The Board will consider and determine, on the relevant Vesting Date of the awards, whether to exercise its discretion, under the rules of the relevant plans, to allow each award to vest on a pro rata basis (based on the portion of the vesting period that Dr Weinberger was employed by the Company) subject to the terms of the award, including the performance hurdles, and any other relevant matters.
3. Expiry date changed from 30 August 2018 to 31 August 2021 following the shareholders' approval at the 2017 Annual General Meeting on 3 November 2017.

Other than as specified above in relation to Dr Weinberger, there were no other 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:

	Number of shares	Amount paid per share ($)	Total amount paid ($)	Intrinsic value [1] ($)
Michael Kavanagh	786,823	—	—	1,942,399
Ron Weinberger	115,335	—	—	288,761
McGregor Grant	87,372	—	—	215,890
Gerard Putt	71,978	—	—	179,672
Steven Farrugia	—	—	—	—
Total	**1,061,508**	**—**	**—**	**2,626,722**

1. The intrinsic value of the shares is calculated as the market price of the shares of the 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. No performance rights or options as at 30 June 2018 have vested or are exercisable.

	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] 1	Number	Value ($) [2]	Number	Value ($) [2]	Number [3]	Value ($) [1]
Performance rights										
Michael Kavanagh	1,035,843	1,075,680	71,246	181,931	786,823	1,942,399	—	—	320,266	559,114
Ron Weinberger [3]	199,772	326,384	25,004	61,371	115,335	288,761	13,593	39,012	95,848	51,436
McGregor Grant	169,950	277,109	34,524	79,888	87,372	215,890	—	—	117,102	199,392
Gerard Putt	138,141	226,961	31,628	71,442	71,978	179,672	—	—	97,791	168,715
Steven Farrugia	5,474	15,136	26,808	61,687	—	—	—	—	32,282	76,823
Total	**1,549,180**	**1,921,269**	**189,210**	**456,319**	**1,061,508**	**2,626,722**	**13,593**	**39,012**	**663,289**	**1,055,480**
Options										
Michael Kavanagh	211,306	215,532	340,424	343,828	—	—	—	—	551,730	559,360
Ron Weinberger	67,419	68,767	108,623	88,528	—	—	124,606	45,214	51,436	48,831
McGregor Grant	80,112	81,714	82,976	67,625	—	—	—	—	163,088	149,340
Gerard Putt	65,024	65,024	57,087	46,526	—	—	—	—	122,111	111,550
Steven Farrugia	73,197	74,661	66,337	54,065	—	—	—	—	139,534	128,726
Total	**497,058**	**505,699**	**655,447**	**600,572**	**—**	**—**	**124,606**	**45,214**	**1,027,899**	**997,807**

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 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. Balance at end of year includes the ending balance for Dr Weinberger on his cessation of employment on 20 February 2018.

5.2.4 Variation of Terms of 2015 LTIS

At the 2017 Annual General Meeting held on 3 November 2017, the Company's shareholders approved a change to the terms of the 2015 LTIS, which provided for vesting on 31 August 2018, by removing the "deemed" exercise provisions and extending the expiry date for exercise of vested Performance Rights from 30 September 2018 to 31 August 2021. All other terms and conditions of 2015 LTIS remained the same. The share price at the date of variation was $2.81 per share. The variation did not impact the fair value of the performance rights.

REMUNERATION REPORT – AUDITED CONTINUED

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 2018, including those granted during the period:

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 ($)
Performance Rights												
NOEP	2017 LTIS Tranche 1 – CEO	Relative TSR performance and service	—	3 Nov 17	31 Aug 20	31 Aug 23	2.81	Monte Carlo	35.00%	0%	1.90%	2.16
NOEP	2017 LTIS Tranche 2 – CEO	Relative TSR performance and service	—	3 Nov 17	31 Aug 20	31 Aug 23	2.81	Monte Carlo	35.00%	0%	1.90%	2.04
NOEP	2017 LTIS Tranche 1 – Others	Relative TSR performance and service	—	9 Feb 18	31 Aug 20	31 Aug 23	2.67	Monte Carlo	34.00%	0%	2.10%	1.95
NOEP	2017 LTIS Tranche 2 – Others	Relative TSR performance and service	—	9 Feb 18	31 Aug 20	31 Aug 23	2.67	Monte Carlo	34.00%	0%	2.10%	1.75
NOEP	2017 Deferred STI – CEO	Service	—	3 Nov 17	31 Aug 18	31 Aug 21	2.81	Black-Scholes	31.00%	0%	1.70%	2.81
NOEP	2017 Deferred STI – Others	Relative TSR performance and service	—	11 Jan 18	31 Aug 18	31 Aug 21	2.75	Black-Scholes	30.00%	0%	1.70%	2.75
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 Deferred STI	Service	—	5 Jan 17	1 Sep 17	1 Sep 20	3.07	Black-Scholes	35.80%	0%	2.00%	3.07
ESOP	2015 LTIS Tranche 1	Relative TSR performance and service	—	4 Jan 16	31 Aug 18	31 Aug 21 [1]	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	31 Aug 21 [1]	1.67	Monte Carlo	37.50%	0%	2.00%	1.06

1. Expiry date has been varied from 30 September 2018 to 31 August 2021 following the shareholders' approval at the 2017 Annual General Meeting on 3 November 2017. Refer to section 5.2.4 for further information.

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 ($)
Options												
NOEP	2017 LTIS Tranche 1 – CEO	Relative TSR performance and service	2.38	3 Nov 17	31 Aug 20	31 Aug 23	2.81	Monte Carlo	35.00%	0%	2.10%	1.00
NOEP	2017 LTIS Tranche 2 – CEO	Relative TSR performance and service	2.38	3 Nov 17	31 Aug 20	31 Aug 23	2.81	Monte Carlo	35.00%	0%	2.10%	1.02
NOEP	2017 LTIS Tranche 1 – Others	Relative TSR performance and service	2.38	9 Feb 18	31 Aug 20	31 Aug 23	2.67	Monte Carlo	35.00%	0%	2.30%	0.84
NOEP	2017 LTIS Tranche 2 – Others	Relative TSR performance and service	2.38	9 Feb 18	31 Aug 20	31 Aug 23	2.67	Monte Carlo	35.00%	0%	2.30%	0.79
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

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 this information has been provided for each director (as required under the *Corporations Act*) and all other Executive KMP.

Equity interests as at 30 June 2018	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	20,320,157 [4]	—	64,211,696
Richard England	13,000	—	41,080
David Fisher	503,940	—	1,592,450
Steven Sargent	107,000	—	338,120
Marie McDonald	19,600	—	61,936
Executive Director			
Michael Kavanagh	1,328,363	871,996	5,540,703
Other Executive KMP			
McGregor Grant	587,372	280,190	2,315,694
Gerard Putt	79,248 [4]	219,902	627,762
Steven Farrugia	—	171,816	176,445

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 2018 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 2018 less the applicable exercise price times the number of and performance rights and options.
4. Includes shares held by a close family member.

REMUNERATION REPORT – AUDITED CONTINUED

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]	20,320,157	—
Richard England	13,000	—
David Fisher	503,940	—
Steven Sargent	107,000	—
Marie McDonald	19,600	—
Executive Director		
Michael Kavanagh	1,328,363	871,996
Other Executive KMP		
McGregor Grant	587,372	280,190
Gerard Putt [2]	79,248	219,902
Steven Farrugia	—	171,816

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.

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	On-market purchase of shares during the year	Sale of shares during the year	Balance at end of the year [2]
Non-Executive Directors					
Maurie Stang [1]	22,679,701	—	—	(2,359,544)	20,320,157
Richard England	128,301	—	—	(115,301)	13,000
David Fisher	503,940	—	—	—	503,940
Steven Sargent	66,000	—	41,000	—	107,000
Marie McDonald	19,600	—	—	—	19,600
Executive Director					
Michael Kavanagh	1,018,540	786,823	—	477,000	1,328,363
Other Executive KMP					
Ron Weinberger [2]	220,013	115,335	—	(251,471)	83,877
McGregor Grant	595,000	87,372	—	(95,000)	587,372
Gerard Putt [1]	189,270	71,978	—	(182,000)	79,248
Steven Farrugia	—	—	—	—	—

1. Includes shares held by a close family member.
2. Balance at end of the year includes balance for Dr. Weinberger on his cessation of employment on 20 February 2018.

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. Increased to $620,000 p.a. inclusive of superannuation effective 1 July 2018.
Short-term Incentive	50% of Base Salary.
Long-term Incentive	60% of Base Salary. LTI arrangements in respect of 2015, 2016 and 2017 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.
Resignation	On resignation, unless the Board determines otherwise: > All unvested STI or LTI benefits are forfeited and a prorated portion of the unvested STI are paid to the period up to the date of termination. > 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 LTI benefits are forfeited and a prorated portion of the unvested STI are paid to the period up to the date of termination. > 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 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 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. The treatment of any vested but unexercised STI or LTI benefits will be at the discretion of the Board.
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.

REMUNERATION REPORT – AUDITED CONTINUED

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: > 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 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 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. The treatment of any vested but unexercised STI or LTI benefits will be at the discretion of the Board.
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 2018 (2017: 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 2017 and 2018 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.

The following transactions occurred with entities controlled by Related Parties:

Related Party	Related entity	Transactions
Maurie Stang	Gryphon Capital Pty Ltd	Director fees; reimbursement of costs incurred on behalf of Nanosonics
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 below transactions exclude director fees which are disclosed in section 3.3.

	2018 **$**	2017 $
Sale of products and services to Related Parties	**2,409,140**	2,055,438
Interest charged	**—**	1,115
Purchases of goods and services from Related Parties	**2,715**	9,285
Reimbursement of costs incurred on behalf of Nanosonics	**10,520**	—

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

	2018 **$**	2017 $
Current trade receivables (supply of goods and services)	**643,725**	791,582
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 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.

DIRECTORS' REPORT CONTINUED

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* 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 as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate of the Company or jointly sharing risks and rewards.

During the year, the auditor of the Group, Ernst & Young provided certain other services in addition to its statutory duties. These activities were conducted in accordance with the Company's Auditor Independence Policy, and in the Company's view did not compromise their independence.

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 partners of Ernst & Young or UHY Haines Norton

There are no officers of the Company who are former audit partners of either Ernst & Young or UHY Haines Norton.

Auditor's independence declaration

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

Auditor

The previous auditor, UHY Haines Norton, resigned effective from the conclusion of the AGM meeting on 3 November 2017. Ernst & Young was appointed auditor effective from 3 November 2017 and continues in office as auditor in accordance with section 327 of the *Corporations Act*.

Corporate Governance

The Company's Corporate Governance Statement and the 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 15) and the Information on the directors, company secretaries and the executive team (on pages 20 to 23), is made on 20 August 2018 and signed in accordance with a resolution of directors, pursuant to section 298(2) of the *Corporations Act*.

Richard England
Director, Sydney

20 August 2018

FINANCIAL STATEMENTS

AUDITOR'S INDEPENDENCE DECLARATION

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
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Auditor's Independence Declaration to the Directors of Nanosonics Limited

As lead auditor for the audit of Nanosonics Limited for the financial year ended 30 June 2018, 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 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 financial year.

Ernst & Young

Ernst & Young

Gamini Martinus

Gamini Martinus
Partner
20 August 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Continuing operations			
Sales revenue	2.2	**60,698**	67,507
Cost of sales		**(15,407)**	(17,352)
Gross profit		**45,291**	50,155
Selling and general expenses		**(22,955)**	(19,540)
Administration expenses		**(9,734)**	(8,008)
Research and development expenses		**(9,882)**	(9,486)
Other income	2.4	**93**	9
Other gains/(losses) – net	2.5	**1,549**	(264)
Results from operating activities		**4,362**	12,866
Finance income-interest		**1,279**	1,063
Finance expense-borrowing costs		**(58)**	(77)
Net finance income		**1,221**	986
Operating income before income tax		**5,583**	13,852
Income tax benefit	3.1	**168**	12,306
Net income after income tax benefit attributable to owners of the parent entity		**5,751**	26,158
Other comprehensive (loss)/income			
Items that may be classified subsequently to profit or loss			
Exchange difference on foreign currency translation		**(974)**	501
Effective portion of changes in fair value of cash flow hedges		**(129)**	—
Income tax on items of other comprehensive income		**38**	—
Total other comprehensive (loss)/income		**(1,065)**	501
Total comprehensive income for the period attributable to owners of the parent entity		**4,686**	26,659

Earnings per share information:		**Cents**	**Cents**
Basic earnings per share	2.6(iii)	**1.92**	8.79
Diluted earnings per share	2.6(iii)	**1.91**	8.70

The notes on pages 57 to 84 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	2018 $'000	2017 $'000
Assets			
Current assets			
Cash and cash equivalents	5.1	**69,433**	62,989
Trade and other receivables	5.2	**8,613**	8,923
Inventories	6.1	**8,936**	7,728
Derivative financial instruments	5.3	**158**	338
Prepayments and other current assets		**1,370**	1,379
Total current assets		**88,510**	81,357
Non-current assets			
Property, plant and equipment	6.2	**5,268**	3,464
Intangible assets	6.3	**563**	281
Net deferred tax assets	3.2	**14,808**	14,134
Other non-current assets		**32**	20
Total non-current assets		**20,671**	17,899
Total assets		**109,181**	99,256
Liabilities			
Current liabilities			
Trade and other payables	5.4	**4,371**	3,727
Income taxes payable		**46**	53
Deferred revenue		**2,932**	1,697
Employee benefit liabilities	4.2	**3,006**	2,748
Provisions	6.4	**505**	534
Borrowings	5.5	**424**	404
Derivative financial instruments	5.3	**684**	—
Total current liabilities		**11,968**	9,163
Non-current liabilities			
Trade and other payables	5.4	**195**	236
Deferred revenue		**1,678**	1,235
Employee benefit liabilities	4.2	**440**	355
Provisions	6.4	**75**	70
Borrowings	5.5	**522**	946
Total non-current liabilities		**2,910**	2,842
Total liabilities		**14,878**	12,005
Net assets		**94,303**	87,251
Equity			
Contributed equity	8.1(a)	**112,713**	112,713
Reserves		**13,061**	11,760
Accumulated losses		**(31,471)**	(37,222)
Total equity		**94,303**	87,251

The notes on pages 57 to 84 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

		Reserves					
	Contributed equity	Share-based payments	Foreign currency translation	Hedging	Total reserves	Accumulated losses	Total equity
Note 8.1(a)	$'000	$'000	$'000	$'000	$'000	$'000	$'000
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
Profit for the period	**—**	**—**	**—**	**—**	**—**	**5,751**	**5,751**
Other comprehensive (loss)/income	**—**	**—**	**(974)**	**(129)**	**(1,103)**	**—**	**(1,103)**
Income tax on items of other comprehensive (loss)/income	**—**	**—**	**—**	**38**	**38**	**—**	**38**
Total comprehensive (loss)/income	**—**	**—**	**(974)**	**(91)**	**(1,065)**	**5,751**	**4,686**
Transactions with owners in their capacity as owners							
Share-based payments	**—**	**2,187**	**—**	**—**	**2,187**	**—**	**2,187**
On-market share purchase	**—**	**(99)**	**—**	**—**	**(99)**	**—**	**(99)**
Income tax on share-based payments	**—**	**278**	**—**	**—**	**278**	**—**	**278**
At 30 June 2018	**112,713**	**13,386**	**(234)**	**(91)**	**13,061**	**(31,471)**	**94,303**

The notes on pages 57 to 84 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**63,618**	67,816
Payments to suppliers and employees (inclusive of GST)		**(55,685)**	(52,443)
Interest received		**1,224**	1,005
Income taxes (paid)/refund received		**(148)**	10
Net cash provided by operating activities	5.1(ii)	**9,009**	16,388
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,314)**	(1,065)
Purchase of intangible assets		**(507)**	(201)
Proceeds from disposal of property, plant and equipment		**8**	21
Net cash (used in) investing activities		**(2,813)**	(1,245)
Cash flows from financing activities			
Repayments of borrowings		**(404)**	(395)
Interest paid on borrowings		**(58)**	(77)
Proceeds from exercise of options		**—**	15
Purchase of shares on exercise of performance rights		**(99)**	—
Net cash (used in) financing activities		**(561)**	(457)
Net increase in cash and cash equivalents		**5,635**	14,686
Cash and cash equivalents at the beginning of the financial year		**62,989**	48,841
Effects of exchange rate changes on cash and cash equivalents		**809**	(538)
Cash and cash equivalents at the end of year	5.1(i)	**69,433**	62,989

The notes on pages 57 to 84 form an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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 2018, 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 on pages 6 to 9, the Regional highlights on pages 10 to 15 of this Annual Report and in the Directors' report on page 24.

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 20 August 2018.

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. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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 AASB/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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 General accounting policies (continued)

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 6.1	Inventories
Note 6.4	Provisions
Note 7	Financial risk management

g) 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 consolidated 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.

h) 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, the consolidated profit is the total reportable profit 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 49.3% (2017: 65.7%) of external revenue. The next most significant customer accounts for 4.6% of external revenue (2017: 3.3%).

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.

	2018 $'000	2017 $'000
North America	**54,406**	62,305
Europe	**2,983**	1,673
Asia Pacific	**3,309**	3,529
Total revenue	**60,698**	67,507

The analysis of non-current assets by geopraphical location is detailed below.

	2018 $'000	2017 $'000
North America	**2,733**	273
Europe	**518**	103
Asia Pacific	**17,420**	17,523
Total non-current assets	**20,671**	17,899

2. Performance for the year (continued)

2.2 Sales revenue

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.

ii) Rendering 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 contract period.

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.

The accounting policy for foreign exchange gains arising from hedges of forecast sales transactions is set out in Note 5.3.

Sales revenue for the period includes:

	2018 $'000	2017 $'000
Sale of goods before hedging	**55,856**	64,691
Foreign exchange gains on hedged sales	**49**	-
Revenue from sale of goods	**55,905**	64,691
Rendering of services	**4,793**	2,816
Total sales revenue	**60,698**	67,507

2.3 Individually significant items

The profit from ordinary activities before income tax includes:

	2018 $'000	2017 $'000
Depreciation, amortisation and impairment	**1,499**	1,274
Rental expenses relating to operating leases	**996**	882
Inventories provision/write off	**592**	611

2.4 Other income

Other income is recognised when the amount can be reliably measured, it is possible that future economic benefits will flow to the entity and there are no continuing unfulfilled obligations.

	2018 $'000	2017 $'000
Other income	**93**	9
Total other income	**93**	9

Net gains on derivative financial instruments were previously disclosed under other income. These are now classified under Other gains/losses – net for improved comparability of information. Refer to Note 2.5.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. Performance for the year (continued)

2.5 Other gains/losses – net

Foreign exchange gain/loss is recognised in accordance with the accounting policy at Note 1.2(e). Gain or loss on derivative financial instruments is recognised in accordance with the accounting policy at Note 5.3.

	2018 $'000	2017 $'000
Realised gain on derivative financial instruments	**187**	433
Unrealised (loss)/gain on derivative financial instruments	**(397)**	338
Net foreign exchange gain/(loss)	**1,757**	(1,032)
Net gain/(loss) on foreign currency forward contracts and options	**1,547**	(261)
Gain/(loss) on disposal of fixed assets	**2**	(3)
Total other gains/(losses)-net	**1,549**	(264)

During the period, gains/losses arising from foreign exchange rate changes, derivative financial instruments, and disposal of fixed assets were reclassified to other gains/losses-net in the statement of profit or loss to provide improved comparability of information. Previously, foreign exchange gains were included in other income and foreign exchange losses were included in operating expenses.

2.6 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.

iii) Earnings per share information	2018 Cents	2017 Cents
a) Basic earnings per share		
Basic earnings attributable to the ordinary equity holders of the company	**1.92**	8.79
b) Diluted earnings per share		
Diluted earnings attributable to the ordinary equity holders of the company	**1.91**	8.70
c) Earnings used in calculating earnings per share	**$'000**	$'000
Net earnings after income tax expense attributable to shareholders	**5,751**	26,158
	Number of Shares	Number of Shares
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	**298,974,730**	297,422,292
Adjustments for calculation of diluted earnings per share:		
Performance rights and options unvested	**2,728,009**	3,294,862
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**301,702,739**	300,717,154

2.7 Dividends

No dividends were proposed, declared or paid during the financial year and to the date of this report (2017: 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 the 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.

3. Income taxes (continued)

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 (expense)/benefit for the period are:

	2018 $'000	2017 $'000
Tax expense recognised in profit or loss		
Current tax		
Current tax expense for the period	**(5,582)**	(8,487)
Deferred tax		
Recognition of deferred tax assets (net) including origination and reversal of temporary differences	**5,834**	20,858
	252	12,371
Adjustment relating to prior periods	**(84)**	(65)
Income tax benefit reported in the statement of profit or loss	**168**	12,306
Tax expense relating to items in other comprehensive (loss)/ income		
Deferred tax benefit recognised directly in other comprehensive (loss)/income relating to derivative financial instruments	**38**	—
Tax expense relating to items in equity		
Current tax benefit on share-based payments	**508**	1,138
Deferred tax (expense)/benefit on share-based payments	**(230)**	636
Tax benefit charged to equity	**278**	1,774

The Group first recorded previously unrecognised deferred tax assets in relation to the Australian entities in 2017 based on its assessment of operations. Based on an updated assessment of the operations of the Group for the year ended 30 June 2018, it has been determined that taxable profits will continue to be generated by the Australian entities against which its tax credits and deductible temporary differences will be utilised. In addition, it has been determined that it is probable that taxable profits will be generated by the US subsidiary against which carried forward tax losses and deductible temporary differences will be utilised. As a result, previously unrecognised deferred tax assets for the US entity were recognised in 2018. Accordingly, the net deferred tax assets of the Group as at 30 June 2018 amounted to $14,808,000 (2017: 14,134,000) as detailed in note 3.2.

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

	2018 $'000	2017 $'000
Operating profit from ordinary activities	**5,583**	13,852
The prima facie income tax expense applicable to the operating profit is calculated at the Australian tax rate of 30% (2017: 30%)	**(1,675)**	(4,156)
Increase in income tax expense due to:		
Non-deductible expenses	**(289)**	(645)
Derecognition of deferred tax assets in foreign jurisdictions	**(794)**	(666)
Effect of tax rate in foreign jurisdictions	**(535)**	(371)
Research and development expenses	**(2,964)**	(2,846)
Decrease in income tax expense due to:		
Other deductible expenses	**2,038**	57
Utilisation and initial recognition of deferred tax assets in Australia	**—**	20,552
Utilisation and initial recognition of deferred tax assets related to the US subsidiary	**2,437**	—
Utilisation of R&D tax credits in Australia	**1,981**	—
Utilisation of unrecognised deferred tax assets in other foreign jurisdictions	**53**	446
Adjustment relating to prior periods	**(84)**	(65)
Income tax benefit	**168**	12,306

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. Income taxes (continued)

3.2 Deferred taxes

Deferred income tax is calculated 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 credits only if it is probable that future taxable amounts will be available to utilise these temporary difference, losses and credits, 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 in 2017 and the deferred tax asset on losses of the USA subsidiary in 2018 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 2018, the net deferred tax assets recognised in the statement of financial position comprises:

	2018 $'000	2017 $'000
Deferred tax assets		
Non-refundable R&D tax credits	**9,915**	8,092
Tax losses in Australia	**—**	2,277
Tax losses in USA	**1,102**	—
Share-based payments	**1,073**	1,401
Employee benefits liabilities	**857**	695
Patent costs	**605**	593
Provisions for warranties and make good	**174**	184
Provision for impairment	**14**	11
Share issue costs	**61**	120
Deferred revenue	**1,091**	172
Inventory provision	**358**	217
Deferred rent	**73**	79
Unrealised foreign exchange losses	**—**	283
Derivative financial instruments	**158**	—
Others	**356**	236
Total deferred tax assets	**15,837**	**14,360**
Deferred tax liabilities		
Accrued interest and other income	**(117)**	(104)
Derivative financial instruments	**—**	(101)
Prepayments	**(7)**	(7)
Property, plant and equipment	**(12)**	(14)
Unrealised foreign exchange gains	**(893)**	—
Total deferred tax liabilities	**(1,029)**	(226)
Net deferred tax assets	**14,808**	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 2018, the Group has unrecognised deferred tax assets in relation to its subsidiaries. Unrecognised deferred tax assets include:

	2018 $'000	2017 $'000
Estimated tax losses carried forward (a)	**1,628**	3,439
Non-refundable R&D tax credits (b)	**—**	—
	1,628	3,439

3. Income taxes (continued)

	2018 $'000	2017 $'000
a) Estimated unrecognised tax losses carried forward:		
Unrecognised tax losses brought forward at the beginning of the period	**11,284**	57,489
Adjustment in respect of unrecognised tax losses carried forward relating to prior periods [1]	**(679)**	(15,664)
Carried forward tax losses utilised	**(2,237)**	(26,011)
Tax losses for the period related to non-Australian entities	**3,649**	3,059
Recognition of deferred tax assets on Australian tax losses	**–**	(7,589)
Recognition of deferred tax assets on USA tax losses	**(4,171)**	–
Estimated unrecognised tax losses carried forward at the end of the period	**7,846**	11,284
Potential tax benefit at 20.7% effective tax rate (2017: 30.5%)	**1,628**	3,439
b) Estimated unrecognised non-refundable R&D tax credits:		
Non-refundable R&D tax credits brought forward at the beginning of the period	**–**	–
Adjustment in respect of non-refundable R&D tax credits carried forward relating to prior periods [1]	**–**	11,097
Credits that arose during the period	**–**	9,488
Credits that were utilised during the period	**–**	–
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 resulting to an adjustment for the year ended 30 June 2017.

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:

	2018 $'000	2017 $'000
Salaries and wages	**22,093**	18,311
Termination benefits	**544**	226
Superannuation and social security contribution	**2,204**	1,772
Workers compensation costs	**154**	121
Payroll tax	**985**	959
Insurance premiums	**828**	583
Other employee benefits and staffing costs	**3,149**	2,570
Share based payments	**2,187**	2,139
	32,144	26,681
The above staffing costs have been broken down into:		
Cost of Sales	**4,514**	4,122
Selling and general expenses	**15,026**	12,486
Administration expenses	**5,757**	4,388
Research and development expenses	**6,847**	5,685
	32,144	26,681

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. Employee benefits (continued)

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

	2018			2017		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Provision for annual leave	**1,471**	**—**	**1,471**	1,182	—	1,182
Provision for long service leave	**200**	**440**	**640**	302	355	657
Provision for bonuses	**1,335**	**—**	**1,335**	1,264	—	1,264
Total employee benefit liabilities	**3,006**	**440**	**3,446**	2,748	355	3,103

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 NOEP 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, 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 are in the process of being phased out and replaced by the NOEP.

4. Employee benefits (continued)

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 (2017: nil share options issued).

The GSOP, designed to provide incentive, recognition and reward for non-employees, usually consultants and contractors, who create long-term value for the Company, was phased out in the year ended 30 June 2017.

Employee share plans

The Company's employee share plan, being the Deferred Employee Share Plan (DESP) was 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.

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:

	NOEP				ESOP				GSOP		All Plans	
	2018		2017		**2018**		2017		2017		**2018**	2017
Number of performance rights and options	**Number of options and rights**	**WAEP ($)**	Number of options and rights	WAEP ($)	**Number of options and rights**	**WAEP ($)**	Number of options and rights	WAEP ($)	Number of options and rights	WAEP ($)	**Number of options and rights**	Number of options and rights
Unexpired options as at 1 July	**1,070,230**	**1.32**	—	—	**2,452,292**	**—**	4,253,250	—	30,000	0.51	**3,522,522**	4,283,250
Granted during the year	**1,601,972**	**1.25**	1,079,041	1.31	**—**	**—**	—	—	—	—	**1,601,972**	1,079,041
Exercised during the year	**(201,843)**	**—**	—	—	**(1,461,033)**	**—**	(1,768,419)	—	(30,000)	0.51	**(1,662,876)**	(1,798,419)
Forfeited during the year	**(176,948)**	**1.77**	(8,811)	—	**(24,717)**	**—**	(32,539)	—	—	—	**(201,665)**	(41,350)
Unexpired options as at 30 June	**2,293,411**	**1.35**	1,070,230	1.32	**966,542**	**—**	2,452,292	—	—	—	**3,259,953**	3,522,522
Exercisable at 30 June	**21,779**	**—**	—	—	**—**	**—**	—	—	—	—	**21,779**	—

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. Employee benefits (continued)

1,662,876 performance rights and options were exercised in 2018. The weighted average market share price on the ASX based on the dates of the exercise was $2.49 (2017:$3.07). 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:

Option 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	Number vested and exercisable at end of year
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	—	11 Mar 15	1.36	30 Sep 17	355,512	—	(355,512)	—	—	—
ESOP	—	11 Mar 15	1.71	30 Sep 17	355,521	—	(355,521)	—	—	—
ESOP	—	04 Jan 16	1.46	31 Aug 21	495,623	—	—	(12,358)	483,265	—
ESOP	—	04 Jan 16	1.06	31 Aug 21	495,636	—	—	(12,359)	483,277	—
NOEP	—	05 Jan 17	2.59	31 Aug 22	86,752	—	—	(4,076)	82,676	—
NOEP	—	05 Jan 17	2.33	31 Aug 22	86,736	—	—	(4,074)	82,662	—
NOEP	—	05 Jan 17	3.07	31 Aug 22	173,507	—	—	(8,154)	165,353	—
NOEP	2.85	05 Jan 17	1.00	31 Aug 22	123,946	—	—	(8,427)	115,519	—
NOEP	2.85	05 Jan 17	0.98	31 Aug 22	123,944	—	—	(8,427)	115,517	—
NOEP	2.85	05 Jan 17	1.05	31 Aug 22	247,893	—	—	(16,855)	231,038	—
NOEP	—	05 Jan 17	3.07	01 Sep 20	227,452	—	(201,843)	(3,830)	21,779	21,779
NOEP	—	03 Nov 17	2.81	31 Aug 21	—	45,513	—	—	45,513	—
NOEP	—	11 Jan 18	2.75	31 Aug 21	—	261,577	—	(12,230)	249,347	—
NOEP	—	03 Nov 17	2.16	31 Aug 23	—	12,867	—	—	12,867	—
NOEP	—	09 Feb 18	1.95	31 Aug 23	—	214,094	—	(9,990)	204,104	—
NOEP	—	03 Nov 17	2.04	31 Aug 23	—	12,866	—	—	12,866	—
NOEP	—	09 Feb 18	1.75	31 Aug 23	—	214,077	—	(9,988)	204,089	—
NOEP	2.38	03 Nov 17	1.00	31 Aug 23	—	170,212	—	—	170,212	—
NOEP	2.38	09 Feb 18	0.84	31 Aug 23	—	250,279	—	(45,449)	204,830	—
NOEP	2.38	03 Nov 17	1.02	31 Aug 23	—	170,212	—	—	170,212	—
NOEP	2.38	09 Feb 18	0.79	31 Aug 23	—	250,275	—	(45,448)	204,827	—
Total					**3,522,522**	**1,601,972**	**(1,662,876)**	**(201,665)**	**3,259,953**	**21,779**

iv) Variation of Terms of 2015 LTIS

At the 2017 Annual General Meeting held on 3 November 2017, the Company's shareholders approved a change to the terms of the 2015 LTIS, which provided for vesting on 31 August 2018, by removing the "deemed" exercise provisions and extending the expiry date for exercise of vested Performance Rights from 30 September 2018 to 31 August 2021. All other terms and conditions of 2015 LTIS remained the same.

v) 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.

4. Employee benefits (continued)

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

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	2017 LTIS Tranche 1 – CEO	Relative TSR performance and service	—	3 Nov 17	31 Aug 20	31 Aug 23	2.81	Monte Carlo	35.00%	0.00%	1.90%	2.16
NOEP	2017 LTIS Tranche 2 – CEO	Relative TSR performance and service	—	3 Nov 17	31 Aug 20	31 Aug 23	2.81	Monte Carlo	35.00%	0.00%	1.90%	2.04
NOEP	2017 LTIS Tranche 1 – Others	Relative TSR performance and service	—	9 Feb 18	31 Aug 20	31 Aug 23	2.67	Monte Carlo	34.00%	0.00%	2.10%	1.95
NOEP	2017 LTIS Tranche 2 – Others	Relative TSR performance and service	—	9 Feb 18	31 Aug 20	31 Aug 23	2.67	Monte Carlo	34.00%	0.00%	2.10%	1.75
NOEP	2017 LTIS Tranche 1 – CEO	Relative TSR performance and service	2.38	3 Nov 17	31 Aug 20	31 Aug 23	2.81	Monte Carlo	35.00%	0.00%	2.10%	1.00
NOEP	2017 LTIS Tranche 2 – CEO	Relative TSR performance and service	2.38	3 Nov 17	31 Aug 20	31 Aug 23	2.81	Monte Carlo	35.00%	0.00%	2.10%	1.02
NOEP	2017 LTIS Tranche 1 – Others	Relative TSR performance and service	2.38	9 Feb 18	31 Aug 20	31 Aug 23	2.67	Monte Carlo	35.00%	0.00%	2.30%	0.84
NOEP	2017 LTIS Tranche 2 – Others	Relative TSR performance and service	2.38	9 Feb 18	31 Aug 20	31 Aug 23	2.67	Monte Carlo	35.00%	0.00%	2.30%	0.79
NOEP	2017 Deferred STI – CEO	Service	—	3 Nov 17	31 Aug 18	31 Aug 21	2.81	Black Scholes	31.00%	0.00%	1.70%	2.81
NOEP	2017 Deferred STI – Others	Relative TSR performance and service	—	11 Jan 18	31 Aug 18	31 Aug 21	2.75	Black Scholes	30.00%	0.00%	1.70%	2.75
Granted in prior periods and unexpired at report date:												
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%	0.00%	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%	0.00%	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%	0.00%	2.00%	3.07
NOEP	2016 Deferred STI	Service	—	5 Jan 17	1 Sep 17	1 Sep 20	3.07	Black Scholes	35.80%	0.00%	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%	0.00%	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%	0.00%	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%	0.00%	2.00%	1.05
ESOP	2015 LTIS Tranche 1	Relative TSR performance and service	—	4 Jan 16	31 Aug 18	31 Aug 21	1.67	Monte Carlo	37.50%	0.00%	2.00%	1.46
ESOP	2015 LTIS Tranche 2	Relative TSR performance and service	—	4 Jan 16	31 Aug 18	31 Aug 21	1.67	Monte Carlo	37.50%	0.00%	2.00%	1.06

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. Employee benefits (continued)

vi) 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 2,187,000 (2017: $2,139,000).

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 (2017: 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 Share Plan Trust.

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

	2018	2017
Employee shares on issue as at 1 July	**2,153,926**	1,010,585
Issued on exercise of performance rights and options during the year	**1,612,124**	1,798,419
On market purchase of shares on exercise of performance rights during the year	**36,823**	—
Withdrawn during the year	**(2,696,424)**	(655,078)
Employee shares on issue as at 30 June	**1,106,449**	2,153,926

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:

	2018 $'000	2017 $'000
Cash at bank and on hand	**13,812**	13,781
Deposit on call	**2,130**	2,526
Short term deposits	**53,491**	46,682
Total cash and cash equivalents	**69,433**	62,989

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.

5. Financial assets and financial liabilities (continued)

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

	2018 $'000	2017 $'000
Operating profit after income tax	**5,751**	26,158
Adjustment for:		
Depreciation and amortisation	**1,499**	1,274
Share based payments expense	**2,187**	2,139
Borrowing costs	**58**	77
(Gain)/loss on disposal of fixed assets	**(2)**	3
(Gain)/loss of foreign exchange movements	**(1,892)**	1,095
Changes in assets and liabilities		
(Increase)/decrease in financial instruments	**735**	(303)
(Increase)/decrease in trade and other receivables	**586**	(1,326)
(Increase)/decrease in inventories	**(1,963)**	(1,022)
(Increase)/decrease in other current assets	**33**	(358)
(Increase)/decrease in other non-current assets	**(10)**	(9)
Increase/(decrease) in trade and other payables	**539**	(874)
Increase/(decrease) in deferred revenue	**1,533**	1,261
Increase/(decrease) in employee benefit liabilities	**295**	677
Increase/(decrease) in provisions	**(24)**	(109)
(Increase)/decrease in net current tax assets/liabilities	**(8)**	65
(Increase)/decrease in net deferred tax assets	**(308)**	(12,360)
Net cash provided by operating activities	**9,009**	16,388

iii) Credit standby arrangements unused

	2018 $'000	**2017 $'000**
Facility limits:		
Borrowing facilities	2,115	2,115
Guarantee facility	475	475
Facility remaining available:		
Borrowing facilities	1,170	766
Guarantee facility	14	14

The terms of the borrowing facility can be found in Note 5.5.

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, otherwise 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.

	2018 $'000	2017 $'000
Trade receivables net of allowance for impairment loss	**7,525**	8,204
GST/VAT receivable	**658**	346
Interest and other receivables	**430**	373
Total trade and other receivables	**8,613**	8,923

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. Financial assets and financial liabilities (continued)

5.3 Derivative financial instruments

The Group uses derivative financial instruments (such as 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.

> If the forward exchange contract no longer meets the criteria for hedge accounting, expires, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs or when cash flows arising from the transactions are received.

> For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the statement of profit or loss in the same period the hedged transactions affect the profit or loss on the same line item as the hedged transactions.

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 2018, the Group holds derivative financial instrument current assets carried at fair value of $158,000 (2017: $338,000) and derivative financial instrument current liabilities carried at fair value of $684,000 (2017: $nil). The fair value of the effective portion of the cash flow hedges at 30 June 2018 amounted to $129,000 (2017: $nil). In the prior period, all foreign exchange contracts entered itno by the Group do not satisfy the requirements for hedge accounting (economic hedges).

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.

	2018			2017		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Trade payables	**1,836**	**—**	**1,836**	1,405	—	1,405
Lease straight-lining liability	**48**	**195**	**243**	28	236	264
Other payables	**2,487**	**—**	**2,487**	2,294	—	2,294
Total trade and other payables	**4,371**	**195**	**4,566**	3,727	236	3,963

5. Financial assets and financial liabilities (continued)

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.

	2018 $'000	2017 $'000
Finance leases – secured		
Current	**424**	404
Non-current	**522**	946
	946	1,350

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 liability at the end of the year is as follows:

	2018		2017	
	Minimum payments $000	**Present value of payments $000**	Minimum payments $000	Present value of payments $000
Within one year	**461**	**424**	461	404
After one year but not more than 5 years	**538**	**522**	1,000	946
Total minimum lease payments	**999**	**946**	1,461	1,350
Less future finance charges	**53**	**—**	111	—
Present value of minimum lease payments	**946**	**946**	1,350	1,350

	2018 $'000	**2017 $'000**
Finance lease liability at the beginning of the year	**1,350**	1,745
Interest charged	**58**	77
Repayment of borrowings	**(404)**	(395)
Interest paid	**(58)**	(77)
Finance lease liability at the end of year	**946**	1,350

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.

	2018 $'000	2017 $'000
Raw materials and stores	**3,861**	4,721
Work in progress	**386**	334
Finished goods	**4,689**	2,673
	8,936	7,728

Inventories recognised as an expense (cost of sales) during the year ended 30 June 2018 amounted to $12,531,000 (2017: $15,891,000).

Management has performed an assessment of inventories held for the year ended 30 June 2018 including the impact of the introduction of the second generation of trophon in the subsequent year and recognised write-downs during the year of $592,000 (2017: $611,000). The expense has been included in selling and general expenses in the profit and loss statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. Operating assets and liabilities (continued)

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 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	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. Operating assets and liabilities (continued)

	Leasehold improvements $'000	Plant and equipment $'000	Capital work in progress $'000	Total $'000
Year ended 30 June 2018				
Opening net book amount	1,644	1,157	663	3,464
Additions	60	2,875	139	3,074
Retirement and others	—	(6)		(6)
Transfers	—	650	(650)	—
Impairment	—	—	—	—
Depreciation charge	(404)	(870)	—	(1,274)
Foreign currency translation effect (net)	2	8	—	10
Closing net book amount at 30 June 2018	1,302	3,814	152	5,268
At 30 June 2018				
Cost or fair value	2,495	8,278	152	10,925
Impairment	—	(45)	—	(45)
Accumulated depreciation	(1,193)	(4,419)	—	(5,612)
Net book amount at 30 June 2018	1,302	3,814	152	5,268

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 recognised as intangible assets when it is probable that the patent or trademark will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. Otherwise, these are expensed as incurred.

iii) ERP system and computer software

The expenditure incurred on the Company's Enterprise Resource Planning (ERP) system and computer applications and the costs necessary for the implementation of the systems 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 systems.

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 applications 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 (2017: Nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. Operating assets and liabilities (continued)

Total property, plant and equipment at net book value

	Development Costs $'000	ERP and Computer Software $'000	Total $'000
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	201	1,464	1,665
Accumulated depreciation	(201)	(1,183)	(1,384)
Net book amount at 30 June 2017	—	281	281
Year ended 30 June 2018			
Opening net book amount	**—**	**281**	**281**
Additions	**—**	**507**	**507**
Amortisation	**—**	**(225)**	**(225)**
Foreign currency translation effect (net)	**—**	**—**	**—**
Closing net book amount at 30 June 2018	**—**	**563**	**563**
At 30 June 2018			
Cost or fair value	**201**	**1,977**	**2,178**
Accumulated depreciation	**(201)**	**(1,414)**	**(1,615)**
Net book amount at 30 June 2018	**—**	**563**	**563**

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.

6. Operating assets and liabilities (continued)

a) Provisions as at the reporting date follows:

	2018			2017		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Provision for warranty	**505**	**—**	**505**	534	—	534
Make good provision	**—**	**75**	**75**	—	70	70
Total provisions	**505**	**75**	**580**	534	70	604

b) Movements in provisions

	Provision for warranty $'000	**Make good provision $'000**	**Total $'000**
Carrying amount at start of year	534	70	604
Additional provision recognised	303	5	308
Amounts used during the year	(255)	—	(255)
Unused amount reversed during the year	(77)	—	(77)
Carrying amount at end of year	**505**	**75**	**580**

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:

	2018				2017			
	USD $'000	**GBP £'000**	**Euro € '000**	**CAD $'000**	USD $'000	GBP £'000	Euro € '000	CAD $'000
Cash and cash equivalents	**6,951**	**603**	**242**	**1,043**	8,380	315	137	67
Trade and other receivables	**4,098**	**450**	**360**	**335**	5,068	255	328	6
Trade and other payables	**(486)**	**(178)**	**(230)**	**(106)**	(597)	(122)	(146)	(26)
	10,563	**875**	**372**	**1,272**	12,851	448	319	47
Foreign currency forward contracts and options to buy/sell USD	**9,789**	**—**	**—**	**—**	10,186	—	—	—

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7. Financial risk management (continued)

Sensitivity

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

	Impact on post-tax profit		Impact on other components of equity	
	2018 '000	2017 '000	**2018 '000**	2017 '000
Change in USD rate				
Increase 5% (10%)	**1,410**	2,234	**(520)**	(1,216)
Decrease 5% (5%)	**(1,333)**	(1,344)	**470**	521
Change in GBP rate				
Increase 5% (9%)	**336**	293	**(399)**	(344)
Decrease 5% (3%)	**(304)**	(86)	**361**	101
Change in EUR rate				
Increase 5% (6%)	**90**	(1)	**(98)**	31
Decrease 5% (3%)	**(81)**	—	**88**	(14)
Change in CAD rate				
Increase 5%	**131**	27	**(118)**	(37)
Decrease 5%	**(118)**	(25)	**107**	35

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:				
2018	**Notes**	**Floating interest rate $'000**	**1 year or less $'000**	**Over 1 to 5 years $'000**	**More than 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Financial assets							
Cash and cash equivalents	5.1	**15,942**	**53,491**	—	—	—	**69,433**
Trade and other receivables	5.2	—	—	—	—	**8,613**	**8,613**
Derivative financial instruments	5.3	—	—	—	—	**158**	**158**
Total financial assets		**15,942**	**53,491**	—	—	**8,771**	**78,204**
Weighted average interest rate		**0.22%**	**2.63%**	—	—	—	—
Financial liabilities							
Trade and other payables	5.4	—	—	—	—	**4,566**	**4,566**
Borrowings	5.5	—	**424**	**522**	—	—	**946**
Derivative financial instruments	5.3	—	—	—	—	**684**	**684**
Total financial liabilities		—	**424**	**522**	—	**5,250**	**6,196**
Weighted average interest rate		—	**4.92%**	**4.92%**	—	—	—
Net financial assets/(liabilities)		**15,942**	**53,067**	**(522)**	—	**3,521**	**72,008**

7. Financial risk management (continued)

2017	Notes	Floating interest rate $'000	Fixed interest rate maturing in: 1 year or less $'000	Over 1 to 5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total $'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

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. For the year ended 30 June 2018, it is estimated that a general increase of 25 basis points in interest rates would have increased the Group's profit after tax and equity by $116,000 (2017: $98,000). A decrease of 25 basis points in interest rates would have had the equal but opposite effect on the Group's profit after tax and equity.

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:

	2018 $'000	2017 $'000
North America	**5,739**	6,437
Europe	**976**	655
Asia Pacific	**810**	1,112
	7,525	8,204

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

	2018 $'000	2017 $'000
Distributors	**2,270**	3,506
End-user customers	**5,255**	4,698
	7,525	8,204

As at 30 June 2018, GE Healthcare (worldwide) and Regional Healthcare Group Pty Ltd, combined, accounted for over 34% of the trade receivables (2017: GE Healthcare and Regional Healthcare Group Pty Ltd, combined, accounted for over 40% 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7. Financial risk management (continued)

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 and effective from 2018 with no more than 50% held at any one bank.

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 and from 2018 in Europe, 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.

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:

	2018 $'000	2017 $'000
External financial ratings at least 1A from Dun & Bradstreet	**2,057**	2,207
Covered by credit insurance	**3,267**	3,022
Other customers:		
Four or more years trading history with the Group	**708**	763
Less than four years of trading history with the Group	**385**	443
	6,417	6,435

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 2018, trade receivables with a nominal value of $9,000 (2017: $21,000) 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:

	2018 $'000	2017 $'000
At 1 July	**21**	9
Provision for impairment recognised during the year	**—**	12
Receivables written off during the year as uncollectible	**(6)**	—
Unused amount reversed	**(6)**	—
At 30 June	**9**	21

7. Financial risk management (continued)

Past due but not impaired

As at 30 June 2018, trade receivables of $1,108,000 (2017: $1,769,000) 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:

	2018 $'000	2017 $'000
Neither past due nor impaired	**6,417**	6,435
Past due but not impaired		
< 30 days	**787**	949
30-60 days	**240**	353
>60 days	**81**	467
	7,525	8,204

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 $53,491,000 2017: ($46,682,000) 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.

2018	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Trade and other payables	**4,323**	**48**	**195**	**—**	**4,566**
Borrowings	**115**	**346**	**538**	**—**	**999**
Derivative financial instruments	**288**	**396**	**—**	**—**	**684**
Total financial liabilities	**4,726**	**790**	**733**	**—**	**6,249**

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	115	346	1,000	—	1,461
Total financial liabilities	3,814	374	1,236	—	5,424

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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.

	Notes	Number of shares	$'000
Opening balance 1 July 2016		295,934,536	112,698
Exercise of performance rights and options – proceeds received		1,798,419	15
		297,732,955	112,713
Less: Transaction costs arising on share issues		—	—
Balance 30 June 2017		297,732,955	112,713
Exercise of performance rights and options – proceeds received		**1,612,124**	—
Less: Transaction costs arising on share issues		**—**	—
Balance 30 June 2018		**299,345,079**	**112,713**

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, as detailed in note 4.3, less any payments made to meet the company's obligations through the acquisition of shares on market, together with income taxes on such payments.

Foreign currency translation reserve

The foreign currency translation reserve records the exchange differences arising on translation of the financial statements of the foreign subsidiaries where the functional currency is different from the presentation currency of the reporting entity as detailed in Note 1.2 (e)(ii).

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to underlying transactions that have not yet occurred.

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:

	2018 $'000	2017 $'000
Within one year	**1,066**	949
Later than one year but not later than five years	**2,099**	2,644
Later than five years	**—**	—
	3,165	3,593

9. Other notes (continued)

Capital commitments

As at 30 June 2018, the Group had commitments to purchase plant and equipment of $399,000 (2017: $1,434,000). 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

	2018 $	2017 $
Director fees	**506,849**	481,733
Short-term employee benefits	**1,715,757**	1,752,744
Long-term benefits	**366,622**	305,042
Termination benefits	**238,000**	—
Share based payments	**949,956**	930,090
Total directors and key management personnel compensation	**3,777,184**	3,469,609
Total compensation includes total remuneration for executive and non-executive directors of the parent entity	**1,258,164**	1,305,556

Detailed remuneration disclosures are provided in the remuneration report on pages 28 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
		Reimbursement of costs incurred on behalf of Nanosonics
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

	2018 $	2017 $
Sale of products to Related Parties	**2,409,140**	2,055,438
Interest charged	**—**	1,115
Purchases of goods and services from Related Parties	**2,715**	9,285
Reimbursement of costs incurred on behalf of Nanosonics	**10,520**	—

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.

a) 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:

	2018 $	2017 $
Current trade receivables (supply of goods and services)	**643,725**	791,582
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 (2017: 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 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 2018 (2017: Nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. Other notes (continued)

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.

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 2018	2017
Nanosonics Europe GmbH	Provision of sales and customer support services to Nanosonics Limited 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 2018, 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

	2018 $'000	2017 $'000
Statement of financial position		
Current assets	**113,943**	99,087
Total assets	**131,359**	116,842
Current liabilities	**16,149**	10,809
Total liabilities	**17,186**	12,180
Shareholders' equity		
Share capital	**112,713**	112,713
Share-based payments reserve	**13,232**	10,866
Hedging reserve (net of tax)	**(91)**	—
Accumulated losses	**(11,681)**	(18,918)
Total equity	**114,173**	104,661
Profit for the year	**7,236**	27,859
Total comprehensive income	**7,145**	27,859

b) Guarantees entered into by the parent entity

For the periods ended 30 June 2018 and 2017, 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 2018 or 30 June 2017.

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

As at 30 June 2018, the parent entity had commitments to purchase plant and equipment of $399,000 (2017: $1,434,000). 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 is 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. Other notes (continued)

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:

	2018 $	2017 $
UHY Haines Norton		
Audit and review of financial reports	**9,485**	105,120
Total remuneration of UHY Haines Norton	**9,485**	105,120
Network firms of UHY Haines Norton		
Audit and review of financial reports	**23,074**	11,838
Tax compliance services	**6,567**	3,298
Total remuneration of network firms of UHY Haines Norton	**29,641**	15,136
Total auditors' remuneration	**39,126**	120,256
Ernst & Young Australia		
Audit and review of financial reports	**195,700**	–
Tax compliance and other services	**160,788**	–
Total auditors' remuneration	**356,488**	–

UHY Haines Norton resigned as auditors at the conclusion of the Annual General Meeting on 3 November 2017. Ernst & Young was appointed auditor of Nanosonics on 3 November 2017. All services provided by Ernst & Young to the Nanosonics Group have been disclosed from the appointment date.

Prior to Ernst & Young being appointed auditors on 3 November 2017, they had provided tax compliance and other services to Nanosonics in 2018, which amounted to $48,370 (2017: $147,636).

9.6 Changes in accounting policies

There have been no changes to accounting standards impacting the financial results of Nanosonics in the current financial year. During the year, the group adopted the amendments to AASB 107 Statement of Cash Flows, which resulted in additional disclosures as included in Note 5.5.

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 is effective for annual reporting periods beginning on or after 1 January 2018.

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 has performed an assessment of and concluded no material impact on the adoption of the standard.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. Other notes (continued)

AASB 15 *Revenue from Contracts with Customers*, which is effective for annual reporting periods beginning on or after 1 January 2018.

AASB 15 provides a single, principles-based five-step model to be applied to all sales contracts based on the transfer of control of goods and services to customers. AASB 15 requires separation of distinct performance obligations. Revenue is recognised when the performance obligations are satisfied and recognised at an amount that reflects the consideration the Group expects to be entitled to. The Group will apply the new accounting standard utilising the modified retrospective method.

Areas of impact

The expected areas of impact on the Group's accounting policy upon adoption of the new revenue standard are set out below:

> On the recognition of revenue for distinct performance obligations, the allocation of revenue to individual distinct performance obligations in multi-element arrangements may change. Revenue is required to be allocated to distinct performance obligations using a proportionate fair value method based on relative standalone selling prices or in certain circumstances, using the residual method;

> The timing of revenue recognition of the consideration for certain goods and services may change to align with the principal performance obligations associated with the sale of goods or services provided;

> The timing between consideration received and transfer of services to the customer may require revenue to be recognised to reflect the price that a customer would have paid for services provided when received;

> Incremental contract costs including commissions will be capitalised as contract fulfilment assets and released over the contract life.

The key areas of impact on the Group's financial statements are set out below based on the assessment undertaken by the Group:

> Certain service contracts have separately identifiable performance obligations that are either provided at a point in time or over time. Under the current accounting policy, these revenue from service contracts are recognised over the term of the contract. As a result of this change in timing of revenue recognition, the deferred revenue as at 1 July 2018 would be reduced by $296,000 and the opening retained earnings would increase by $296,000 (before tax).

> Certain service contracts have also been identified to include a financing component with some customers purchasing these contracts and the Group holding the payment greater than 12 months in advance of revenue recognition. This financing component would increase the deferred revenue at 1 July 2018 by $40,000 and reduce the opening retained earnings by $40,000 (before tax).

> The Group incurs incremental costs relating sales commissions which are currently expensed in the period they become paid or payable. These now be amortised over the contract period under the new accounting standard and will result in the recognition of contract assets of $301,000 for the year beginning 1 July 2018 and an increase in retained earnings of $301,000 (before tax).

A summary of the expected opening balance adjustments before tax as at 1 July 2018 are included below:

Financial statement line item	Opening balance adjustment before tax as at 1 July 2018
Contract assets	$301,000 increase
Deferred revenue	$256,000 decrease
Retained earnings	$557,000 increase

Transition

The impact of AASB 15 will first be presented for the half-year ending 31 December 2018. The Group will adopt the new accounting standard utilising the modified retrospective method. The cumulative effect of adopting the standard will be recorded as an adjustment to the opening balance of retained earnings.

AASB 16 *Leases*, which is effective for annual reporting periods beginning on or after 1 January 2019.

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 2018, the Group has non-cancellable operating lease commitments of $3,165,000 (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 2018 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

For the year ended 30 June 2018

1. In the directors’ opinion:
   a) the financial statements and notes set out on pages 51 to 84 are in accordance with the Corporations Act 2001, including:
      i) complying with Accounting Standards and the Corporations Regulations 2001;
      ii) giving a true and fair view of the Company’s and Group’s financial position as at 30 June 2018 and of their performance for the financial year ended on that date; and
   b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.2; and
   c) there are reasonable grounds to believe that the Company and its subsidiaries will be able to pay their debts as and when they become due and payable.
2. The directors have been given the declarations by the Managing Director and CEO and Chief Financial Officer required by section 295A of the Corporations Act 2001.
3. This declaration is made in accordance with a resolution of directors.

Richard England
Director

Sydney

20 August 2018

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 (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, 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:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

b) 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 judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Why significant	How our audit addressed the key audit matter
1. Revenue recognition	
As disclosed in note 2.2 of the financial report, revenue from sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the distributor or end customer. The Group has a number of different revenue streams and channels to market for its products. Judgement is involved in determining whether the criteria for revenue recognition have been met and that revenue is recognised in the correct period. On this basis this was considered a Key Audit Matter.	Our audit procedures included the following: • An assessment of the appropriateness of the Group's revenue recognition accounting policies relating to the requirements of Australian Accounting Standard AASB 118 Revenue. • We tested the key controls in place to ensure product sales and service revenue was appropriately recognised in accordance with Group's revenue recognition policy. • For a sample of transactions for product sales and service revenues we agreed the transaction to evidence of the sale and that it was recorded in the correct period. • Specifically, we selected a sample of shipments pre and post year end and agreed the detail to third party proof of delivery documentation to ensure the sales were recorded in the correct period. • We assessed the disclosures relating to revenue in the financial report.
2. Inventory obsolescence provision	
As disclosed in note 6.1 of the financial report, the Group records an inventory obsolescence provision for excess or obsolete inventory to ensure inventory is valued at the lower of cost and net realisable value.	Our audit procedures included the following: • We assessed whether the methodology to calculate the provision met the requirements of Australian Accounting Standard AASB 102 Inventories.

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Judgment is required in calculating the required provision in relation to matters such as forecast sales and projected consumption of raw material inventory related to trophon 1 parts, and the time period for which aged inventory is determined no longer useable or saleable.

This matter has been considered a Key Audit Matter due to the level of judgement required to estimate the provision.

- We assessed the key assumptions used to forecast the projected consumption of trophon 1 raw material inventory and the estimate of obsolete inventory.
- We agreed underlying data used in the obsolescence provision calculation to appropriate source documentation and evaluated the data by comparing forecasts and expected usage with historical data.
- We evaluated the adequacy of the disclosures relating to the inventory obsolescence provision, including those made with respect to judgements and estimates.

3. Deferred tax assets

As disclosed in note 3.2 of the financial report, the Group recorded a deferred tax asset of $14,808,000.

In assessing the recoverability of this deferred tax asset, judgements were made as to the quantum and timing of future taxable income and the extent to which carry forward income tax losses can be utilised.

This matter has been considered a Key Audit Matter due to the level of judgement required estimate the future taxable income.

Our audit procedures included the following:

- We assessed whether the approach used by the Group to determine the recoverability of tax losses met the requirements of Australian Accounting Standards.
- We assessed the basis for the Group's future taxable income forecast including considering the historical accuracy of previous forecasts.
- We assessed, with the involvement of our tax specialists, the application of relevant tax legislation to the usage of tax losses.
- We evaluated the adequacy of the disclosures relating the deferred tax asset, including those made with respect to judgements and estimates.

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Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report, 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, with the exception of the Remuneration Report and our related assurance opinion.

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 Group's ability to continue as a going concern, disclosing, as applicable, matters relating 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 have 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 judgment 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, design and perform audit procedures responsive to those risks, and obtain 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 our 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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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 to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year 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 Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 28 to 50 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Nanosonics Limited for the year ended 30 June 2018, 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.

Ernst & Young

Ernst & Young

Gamini Martinus

Gamini Martinus
Partner
Sydney
20 August 2018

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 7 August 2018.

A. Equity security holders

Twenty largest holders of quoted equity securities

Ordinary shares	Number of quoted shares held	Percentage
HSBC Custody Nominees (Australia) Limited	**67,387,277**	22.51%
J P Morgan Nominees Australia Limited	**35,171,201**	11.75%
Mr Maurie Stang [1]	**14,000,302**	4.68%
Citicorp Nominees Pty Limited	**13,449,255**	4.49%
UBS Nominees Pty Ltd	**23,400,375**	7.82%
Mr Bernard Stang [1]	**10,865,111**	3.63%
National Nominees Limited	**8,709,693**	2.91%
Mr Steve Kritzler	**8,489,737**	2.84%
BNP Paribas Nominees Pty Ltd <Agency Lending Drp A/C>	**7,450,407**	2.49%
BNP Paribas Noms Pty Ltd <DRP>	**3,199,649**	1.07%
Asia Union Investments Pty Ltd	**3,100,000**	1.04%
Dr Harry Hirschowitz	**2,139,090**	0.71%
Sandhurst Trustees Ltd <Endeavor Asset Mgmt Mda A/C>	**1,357,805**	0.45%
Australian Shareholder Nominees Pty Ltd	**1,273,983**	0.43%
Avanteos Investments Limited <2349414 Hofbauer A/C>	**1,200,000**	0.40%
Mr Michael Kavanagh	**1,328,363**	0.44%
AET SFS Pty Ltd <Nanosonics Desp A/C>	**1,104,858**	0.37%
Community Care Consulting Pty Ltd <Lim Family Super Fund A/C>	**920,000**	0.31%
Bennelong Resources Pty Limited <John Egan Super Fund A/C>	**815,000**	0.27%
Larinda Pty Ltd <BG Superannuation Fund A/C>	**800,000**	0.27%
Total top 20 holders	**206,162,106**	**68.88%**
Total all other holders	**93,182,973**	31.12%
Total shares on issue	**299,345,079**	**100%**

1 Excludes indirect holdings and 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	**966,542**	25
Performance rights and options under NOEP to take up unissued ordinary shares	**2,217,275**	112
Total performance rights and options on issue	**3,183,817**	**113**

1 There are 24 common holders in ESOP and NOEP.

B. Distribution of equity securities

Analysis of numbers of ordinary shares and options by size of holding:

	Quoted ordinary shares	Unquoted options
1 – 1,000	**3,989**	44
1,001 – 5,000	**5,185**	34
5,001 – 10,000	**1,594**	2
10,001 – 100,000	**1,531**	26
100,001 and over	**125**	7
Total Holders	**12,424**	**113**

There were 265 holders of less than a marketable parcel of 152 ordinary shares.

C. Substantial holders

Substantial holders in the Company are shown below:

	Number of ordinary shares	Percentage
FMR LLC	25,344,047	8.47%
JCP Investment Partners	21,622,248	7.22%
Mr Maurie Stang [1]	20,240,157	6.76%
Mr Bernard Stang [1]	17,809,556	5.95%

1 Include indirect holdings but exclude 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 share purchases

During the year, the Company purchased 36,823 shares at an average price of $2.68 per share for the purpose of satisfying the entitlement of the performance rights holder under the Nanosonics Omnibus Equity Plan.

F. On market share buy backs

The Company did not carry out any on market buy-backs of shares during the year.

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
CEO	Chief Executive Officer
CFO	Chief Financial Officer
IFRS	International Financial Reporting Standards
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
Company or Nanosonics	Nanosonics Limited ABN 11 095 076 896
Date of this report	20 August 2018
LTI	Long Term Incentives
LTIS	Long Term Incentive Scheme
DESP	Deferred Employee Share Plan
EESP	Exempt Employee Share Plan
EPS	Earnings Per Share
ERP	Enterprise Resource Planning
ESG	Environmental, Social and Governance
ESOP	Employee Share Option Plan
FCF	Free Cash Flow
FDA	Food and Drug Administration
Fiscal Year	Year to 30 June
FY	Financial year, eg. FY2018 is the financial year ended 30 June 2018
Group	Nanosonics Limited and its wholly owned subsidiary companies
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
NED	Non-executive Director
NHS	National Health System

OEM	Original Equipment Manufacturer
PBT	Profit before tax
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 2018
STI	Short Term Incentives
TEC	Total Employment Cost
TFR	Total Fixed Remuneration
TSR	Total Shareholder Return
TTR	Total Target Remuneration
trophon®	The brand representing Nanosonics' range of infection control solutions designed specifically for healthcare settings
trophon®2	The next generation trophon device with an enhanced design and new functionality including AcuTrace™ for audit-ready digital record keeping and capabilities to seamlessly connect trophon2 with hospital IT systems.
trophon® EPR	The brand of Nanosonics' device specifically designed to disinfect intracavity and surface ultrasound probes.
UK	United Kingdom
USA	United States of America
VAT	Value Added Tax
WAEP	Weighted Average Exercise Price

CORPORATE DIRECTORY AND INFORMATION FOR INVESTORS

Nanosonics Limited ABN 11 095 076 896 incorporated 14 November 2000

Directors

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

Company Secretary

McGregor Grant

Registered Office

14 Mars Road, Lane Cove
NSW 2066 Australia
Ph: +61 2 8063 1600

Share Register

Computershare Investor Services Pty Ltd
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Melbourne, VIC 3001 Australia

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

Investor/Media Relations

Buchan Consulting

Ph: +61 3 9866 4722
Ph: 1300 557 010 (within Australia)

McGregor Grant – Company Secretary

Ph: +61 2 8063 1600
Email: info@nanosonics.com.au

Auditor

Ernst & Young

200 George St
Sydney NSW 2000 Australia

Legal Advisors

Shelston IP

Level 21, 60 Margaret Street
Sydney NSW 2000 Australia

Baker & McKenzie

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

Dibbs Barker (until 30 April 2018)

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

Bankers

Australia

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

United Kingdom

HSBC Bank plc

Germany

Deutsche Bank AG

France

HSBC France

United States

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

Stock Exchange Listing

Nanosonics Limited shares are listed
on the Australian Securities Exchange

ASX code

NAN

Industry Group

Healthcare Equipment & Services

2017 Annual General Meeting

The 2018 AGM of Nanosonics Limited will be held:
At 11.00am on 9 November 2018
Thomas Keneally Room,
Sydney Harbour Marriott
30 Pitt Street, Sydney

Website Address

www.nanosonics.com.au