ANNUAL REPORT

2013

nanosonics

NANOSONICS LIMITED ABN 11 095 076 896

Contents

Company overview

Nanosonics (ASX: NAN) is an ASX-listed company that develops easy to use, environmentally friendly and quality-assured products for the infection control market.

Nanosonics is committed to preventing healthcare-acquired infections (HAIs), through its first product, trophon® EPR, which is commercially available in North America, Europe, Australia, New Zealand and a number of other markets.

trophon® EPR is the next generation in ultrasound probe disinfection. Nanosonics identified an unmet need in the market for fast, safe, eco-friendly probe disinfection. HAIs are infections acquired while receiving medical care, and are the fourth largest cause of fatalities in the United States each year. The Center for Disease Control and Prevention (CDC) estimates that as many as two million people suffer from HAIs annually in the U.S., resulting in around 100,000 deaths.

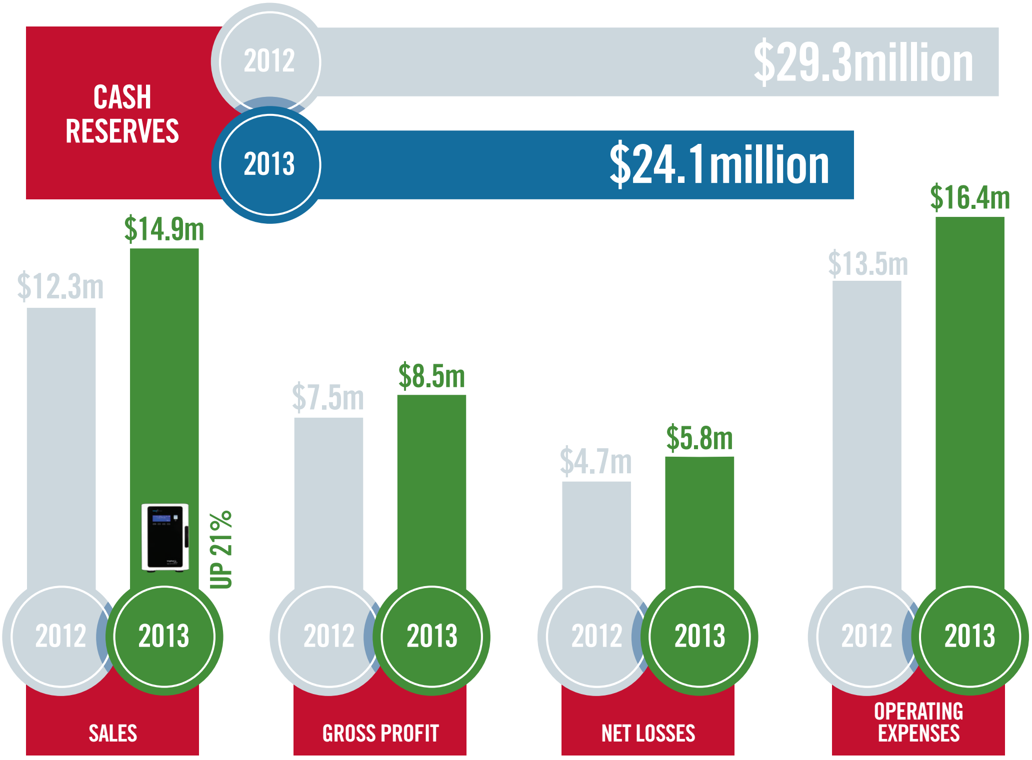
Nanosonics, with its unique and patented platform technology, NanoNebulant™, is well positioned to take a leading role in the healthcare disinfection and sterilisation arena and the Company is investing in expanding this platform into new product categories.

Nanosonics Ltd was founded in 2001 and headquartered in Sydney, Australia with offices in the USA (Nanosonics Inc) and Europe (Nanosonics Europe GmbH).

You can read more about Nanosonics and its products at www.nanosonics.com.au.

Financials at a glance

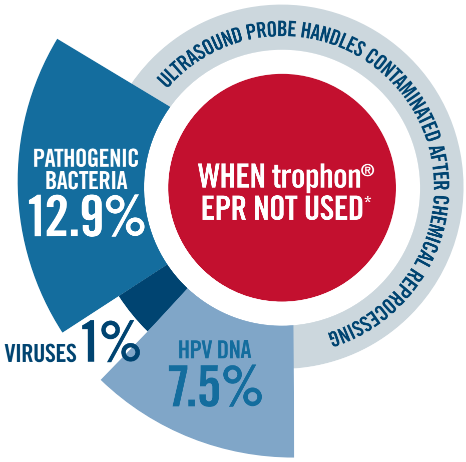
The year in numbers



	2013 $'000	2012 $'000	2011 $'000	2010 $'000	2009 $'000
Revenue					
Operating revenue	14,899	12,301	2,247	763	309
Less cost of sales	(6,428)	(4,799)	(981)	(284)	(121)
Gross profit	**8,471**	**7,502**	**1,266**	**479**	**188**
Other income					
Government grants received	1,498	150	–	161	150
Expenses					
Operating expenses (excluding depreciation and amortisation)	(15,335)	(12,634)	(13,229)	(8,827)	(9,867)
EBITDA	**(5,366)**	**(4,982)**	**(11,963)**	**(8,187)**	**(9,529)**
Depreciation and amortisation	(1,044)	(914)	(1,010)	(771)	(419)
EBIT	**(6,410)**	**(5,896)**	**(12,973)**	**(8,958)**	**(9,948)**
Interest income	1,192	586	1,052	785	1,194
Interest expense	(517)	–	–	–	–
Operating loss before tax	**(5,735)**	**(5,310)**	**(11,921)**	**(8,173)**	**(8,754)**
Net income tax benefit	**(33)**	631	707	–	–
Operating loss after tax	**(5,768)**	**(4,679)**	**(11,214)**	**(8,173)**	**(8,754)**
Cash assets					
Cash and cash equivalent assets on hand	**24,064**	**29,310**	**12,356**	**21,144**	**13,881**

The trophon® EPR

it is a more effective disinfection method…



it saves time…

and as a result is emerging as the new global standard of care.

* Clinical comparison of high level disinfection techniques for reprocessing trans-vaginal ultrasound probes, Dr Andrew Ngu, Senior Obstetrician and Gynaecologist East Melbourne Ultrasound Clinic, Melbourne, Australia presented to the World Federation for Ultrasound in Medicine and Biology (WFUMB) conference, Sao Paulo, Brazil from May 2 – 5

\# Radiology Consultants Associated, trophon® EPR High-Level Disinfection Platform Boosts Productivity and Reduces Costs at Radiology Consultants Associated, Whitepaper published by GE Healthcare, 2013

† Dr Blum, Oschner Medical Centre, Louisiana, delivered at the Radiological Society of North America (RSNA) Congress 2012

Nanosonics 2013 Highlights

BETTER, FASTER

INDEPENDENT RESEARCH PRESENTED AT RSNA SHOWS SIGNIFICANT WORKFLOW IMPROVEMENT AND SATISFACTION RATING OF trophon® EPR OVER TOXIC LIQUID CHEMISTRY PROCESSES.

WINS EXPORTER AWARD

NANOSONICS WINS EMERGING EXPORTER AWARD AT 2012 PREMIER'S NEW SOUTH WALES EXPORT AWARDS

UK, FRANCE & GERMANY

SENIOR SALES STAFF APPOINTED IN THE UK, FRANCE AND GERMANY

SPECIALISTS

TECHNICAL SALES SPECIALISTS BEGIN WORKING IN NORTH AMERICA TO SUPPORT GE HEALTHCARE SALES AND MARKETING EFFORTS

Q1

Q2

GROUND BREAKING

TOP TIER US MEDICAL FACILITY SCRIPPS HEALTH ENDORSES trophon® EPR AS "GROUND BREAKING" WHILE ROLLING OUT DEVICES ACROSS ITS NETWORK OF HOSPITAL CAMPUSES AND OUTPATIENT CLINICS

TOSHIBA

TOSHIBA SIGNED AS DISTRIBUTOR IN THE UK

>500

NANOSONICS DOUBLES NUMBER OF PROBES ASSESSED AND CERTIFIED FOR USE WITH trophon® EPR TO 500

trophon® SUPERIORITY

RESEARCH BY DR ANDREW NGU, PRESIDENT OF THE INTERNATIONAL SOCIETY OF ULTRASOUND IN OBSTETRICS AND GYNAECOLOGY, SHOWS SUPERIORITY OF trophon® EPR TO CURRENT METHODS

Q3

Q4

trophon® EPR: at the innovation forefront of infection control

trophon

trophon® EPR product suite

Simple, safe and cost effective, the trophon® EPR addresses an unmet need for disinfecting intra-cavity ultrasound probes at the point of care. The trophon® EPR is the world's first fully automated system for disinfecting ultrasound probes, and is compatible with more than 500 models and a dozen manufacturers.

The trophon® EPR stores all disinfection cycle data which can be downloaded on request or during a yearly maintenance service. trophon® EPR is a complete ultrasound probe disinfection system that is fast, easy to use, environmentally-friendly and quality-assured.

Nanosonics has built on the technology of the trophon® EPR by offering an expanded product suite based on customer feedback. The suite aligns trophon® EPR and Nanosonics with the needs of our customers – allowing them to more effectively provide and monitor high-level disinfection procedures. The trophon® EPR product suite expands Nanosonics' offering in the market and provides additional revenue streams from service contracts and consumables supply.

trophon® PRINTER

The trophon® Printer is a fast, easy-to-use traceability solution for quality system documentation requirements in hospitals and health clinics. The trophon® Printer provides complete and accurate documentation by printing up to four labels per cycle based on operator, site or procedure preferences.

trophon® WALL MOUNT AND CART

Attach the trophon® EPR to the wall for clinics or hospitals with space constraints or make the trophon® EPR mobile to ensure point of care use.

CHEMICAL INDICATORS

Each box of chemical indicators contains 300 indicator tabs which verify successful disinfection when the tab turns from red to yellow. Each box includes a colour assessment chart to cross check the probe has been successfully cleaned.

SONEX HL™/ NANONEBULANT™ CARTRIDGES

The trophon® EPR runs on cartridges, much like a printer. Changing cartridges is a quick, clean and easy process. Cartridges ensure there is no need for chemical mixing or neutralisation and each cartridge is made from recyclable plastic materials. Empty cartridges can be disposed as standard waste or under recognised disposal procedures.

Chairman's letter

Dear Shareholders,

On behalf of the Board I am pleased to present Nanosonics' 2013 Annual Report. The past year has seen continued achievements by Nanosonics in terms of increased revenue in trophon® EPR's second full year of international sales and the technology's emergence as the new standard for ultrasound probe disinfection. During the year the Company also forged new and deeper relationships with key distribution partners GE Healthcare and Toshiba in the UK – two of the world's leading healthcare technology companies.

Solid revenue growth was driven by sales of trophon® EPR units into the Company's major North American market. Leading US healthcare facilities are adopting trophon® EPR to obtain the increasingly recognised efficiency gains, but also as part of a broader push to raise the bar on infection control standards. It is pleasing to see several of these customers becoming advocates for trophon® EPR as Nanosonics moves towards taking on a market leading role, and as healthcare systems globally follow suit in the fight against hospital acquired infections.

During the year we made a significant investment in a direct sales force in North America and Europe, which had a tangible impact on our results in terms of increasing sales and engagement with key opinion leaders and potential customers. As we enter the new financial year, we were pleased to report that our efforts in North America led to the recent joint announcement with GE Ventures and GE Healthcare, confirming that GEHC would expand its promotion of trophon® EPR and establish a dedicated trophon® EPR sales organisation to cover the North American market in collaboration with the current GE Healthcare Ultrasound sales team. In addition to the new sales force, an investment is being made available by GE Ventures to fund a fully integrated expanded marketing program to support the acceleration of sales of trophon® EPR in North America and establish it as the Standard of Care for quality assured ultrasound probe disinfection.

This investment follows the adoption by a growing number of luminary customers across the US and Canada as healthcare providers become increasingly aware of the benefits of trophon® EPR. This new, non-dilutive sales and marketing investment further supports GE's move in June 2012 to make a strategic $7.5m investment in Nanosonics via its healthymagination fund.

In April this year, Nanosonics signed a non-exclusive sales agreement with Toshiba in the United Kingdom. The UK is another market where the issue of hospital acquired infection is attracting increasing government and community scrutiny, which is creating a more favourable environment for Nanosonics and leading to safer disinfection practices for patients. Where healthcare regulators have imposed new guidelines for ultrasound probe disinfection, trophon® EPR is the only product in market that is compliant.

This year we almost doubled the number of ultrasound probes which have been tested and certified as compatible with trophon® EPR providing further testament to trophon® EPR's growing endorsement from major ultrasound manufacturers. Feedback from manufacturers also indicated compatibility with trophon® EPR is increasingly a factor affecting ultrasound machine purchasing decisions by healthcare facilities, underscoring the emergence of Nanosonics' lead product as the new gold standard for ultrasound probe reprocessing. Another signal of the Company's increasingly global outlook was Nanosonics' win in the Emerging Exporter Award category at the 2012 Premier's New South Wales Export Awards.

Nanosonics continues to show growth in its home market, Australia, and as our base matures we are seeing the high margin consumables form a greater part of our revenue mix. This annuity revenue stream provides further evidence of the value of Nanosonics' business model.

As we recently announced, Nanosonics' non-executive director Michael Kavanagh will take on the position of CEO and President from 21 October, 2013. Dr Ron Weinberger will take on a newly created role of President Technology Development / Commercialisation. Both positions will serve on the Board of Directors of Nanosonics.

Michael brings to the role more than 20 years of international commercial experience in the healthcare market, having held local, regional and global roles in Medical Device and Pharmaceutical industries – including as Senior Vice President of Global Marketing for Cochlear Ltd. Michael joined Nanosonics as a non-executive director in July 2012.

These appointments will lead Nanosonics through its next phase of growth and reflect the strategic importance of our expansion initiatives. Ron will partner closely with Michael and the Board in leveraging his extensive experience and knowledge of our technology and the global infection control marketplace. The Board and I would like to acknowledge Ron for the major contribution he has made to Nanosonics to date, and look forward to his continuing contribution to our growth and success.

The significant achievements by Nanosonics during the year have contributed to growing momentum for the Company and rising value for our shareholders. Nanosonics has a strong balance sheet, and is ideally positioned to establish a leadership position in a global market potentially worth in excess of $1 billion in annual sales.

The achievements of the past year are real validation of our strong business model and that the growth strategies are being put in place.

The Company also remains committed to generating a strong and exciting R&D pipeline to underpin the growth of the business in the years to come.

I would like to thank my fellow Board members for their continued efforts in supporting our success and on behalf of the Board and shareholders, take the opportunity to acknowledge the efforts and commitment of the entire Nanosonics team as led by Managing Director and CEO Dr Ron Weinberger.

Nanosonics' objective for the coming year remains clear: leverage further growth in our key markets and deliver continued successes for our shareholders by leveraging our human capital, intellectual property, distribution partnerships and market momentum. These are exciting times with the Company's lead product well positioned to establish Nanosonics as a global leader in advanced microbial control technologies.

Mr Maurie Stang
Chairman
Sydney

18 September 2013

Review of operations

Financial Year 2013 has been one of continued growth and maturation for Nanosonics, highlighted by a number of achievements, including:

- Increased sales driven mainly by sales to our key North American market;
- Sales growth in the US strongly supported by Nanosonics' US sales team;
- Hiring of a highly experienced team to drive sales in the key European markets;
- Forging new and deeper relationships with our major distribution partners;
- A significant increase in the number of ultrasound probes that are certified for use with our technology, and broadened our patent portfolio;
- Progress towards regulatory approval in new markets including Japan, South Korea and Mexico;
- Continued and growing awareness of our technology, with healthcare facilities and regulators who are increasingly alert to the issue of healthcare acquired infection (HAIs); and
- Growing evidence of risks associated with TGA/FDA approved liquid disinfection procedures.

During the year, Nanosonics made further progress towards the goal of establishing trophon® EPR as the new global standard for ultrasound probe disinfection. Considerable concern regarding ultrasound disinfection has been identified in Europe where deaths have occurred due to poor reprocessing practice. This concern is now being considered by the European Parliament where a bill will be presented to make high level disinfection mandatory.

The Company has maintained a strong balance sheet and remains well positioned to progress the international roll-out, support and development of our technology. These factors have combined to support rising adoption and sales of trophon® EPR units and consumables into healthcare facilities, and a growing appreciation of Nanosonics' business case and near-term prospects among investors.

Sales growth in key markets

We have seen strong growth in sales of trophon® EPR units and consumables into the North American market which has been the main driver of our overall revenue growth. Within North America a number of luminary sites, including Scripps Clinic, Mayo Clinic, Massachusetts General Hospital and John Hopkins, have been early adopters of trophon® EPR, purchasing multiple units. This acceptance from leading healthcare providers, which regard trophon® EPR as essential to demonstrating commitment to the highest standards of patient safety, is helping to accelerate market penetration in the US. Scripps Clinics, a highly respected facility in the key US market, has also provided a strong endorsement of our technology (see case study on Page 16). As we see these leading facilities introduce trophon® EPR, as part of their efforts to remain on the cutting edge of infection control, we will continue to see growth in the awareness and adoption of our technology.

Europe is an area of focus for the Company over the coming year. The signing of Toshiba as a distributor in the UK is already driving additional activity and the appointment of Nanosonics sales staff in Europe over the past year has seen further engagement with customers and distribution partners in the key European markets.

"OUR NEW PARTNERSHIP WITH TOSHIBA ENSURES NANOSONICS' TECHNOLOGY NOW ENJOYS THE BACKING FROM TWO OF THE WORLD'S LEADING ULTRASOUND MANUFACTURERS."

Sales and marketing investment by GE Healthcare

In August this year, we announced that our exclusive North American partner, GE Healthcare, will build on its earlier commitment to help establish trophon® EPR as the accepted technology for ultrasound probe reprocessing in North America. This arrangement signals a new level of commitment by GE and includes the establishment of a dedicated GE Healthcare trophon® EPR sales organisation to cover the North American market in collaboration with the current GE Healthcare Ultrasound sales team. GE Ventures will also make a non-dilutive investment to fund a fully integrated marketing program to accelerate the North American growth strategy. This investment is a strong endorsement of our technology and follows the adoption of trophon® EPR by a number of luminary customers across the USA and Canada. We look forward to seeing continued increases in trophon® EPR sales into this key market as a result of these changes that are now being introduced.

New distribution partner in the UK and growing sales

In April 2013, the Company announced it had signed Toshiba Medical Systems as a non-exclusive distributor of trophon® EPR in the United Kingdom. Nanosonics remains able to sell trophon® EPR into the UK directly. However, the arrival of Toshiba as a leading distributor has significantly strengthened our position in this important market. Toshiba's sales team is now actively promoting and selling trophon® EPR across the UK and we are already seeing tangible results. Since signing the distribution agreement, Toshiba has initiated numerous trials of trophon® EPR and, as a result, the 600-bed Nottinghamshire-based Kings Mill Hospital recently purchased six trophon® EPR units for its highly-regarded ultrasound department. Feedback from the site has been excellent and the facility has signalled an intention to install additional units. The signs are positive for significant growth in this key market.

Our new partnership with Toshiba ensures Nanosonics' technology now enjoys the backing from two of the world's leading ultrasound manufacturers. These major ultrasound manufacturers also provide important third-party validation for our technology, and leveraging the strength of their brand and sales force assists in driving market penetration for trophon® EPR.

More probes compatible with trophon® EPR

Our efforts to boost market penetration also extended to an increase in the range of probes approved for use with trophon® EPR. This has enabled more healthcare facilities to adopt trophon® EPR without the concern of whether their probe is certified for use with the device. As announced in April, the number of trophon® EPR-approved probes almost doubled (up 92%) within six months, and trophon® EPR is now certified for use with over 500 probes from 11 ultrasound system manufacturers. This comprises 219 probes from ultrasound probe manufacturers Esaote, Hitachi-Aloka, Ultrasonix, Mindray and Zonare, and is in addition to the already extensive list of approved probes from GE, Philips, Siemens, Sonosite, Toshiba, BK Medical, and Prosonic. While the Company set out to address a potential barrier to trophon® EPR adoption by healthcare facilities, it is also important to note the role of ultrasound device manufacturers in this push. Nanosonics has received an increasing number of inquiries from manufacturers who are actively seeking out trophon® EPR probe certification for a broader array of machines (and machines in development), knowing this is emerging as a factor in healthcare facility purchasing decisions. As a result, in an increasing number of instances these global ultrasound probe manufacturers are becoming indirect sales advocates for trophon® EPR. All of this augurs well for trophon® EPR emerging as the new gold-standard for high level disinfection of ultrasound probes.

New clinical evidence quantifies benefits of trophon® EPR in the fight against infection

Conventional manual and liquid-based ultrasound probe disinfection practices have changed little in 20-plus years. What is changing is the view of health authorities as to the appropriateness of this as a means to provide high-level disinfection of ultrasound probes with sufficient rigor to address HAI risk. A recent study conducted in Australia assessed the ability of liquid-based, manual disinfection processes to fully address the risk of pathogens remaining on the probe handle. According to most manufacturers advice, the handle cannot be fully submerged in disinfecting liquid. Almost all (96%) of samples collected from 51 manually decontaminated probes showed signs of bacteria on the handle after disinfection, and so posed a risk of HAI transmission. Swabs were also taken from handles of 42 probes decontaminated using the trophon® EPR unit and all were completely free of bacteria on the handle. More recent work presented at ISUOG has indicated that some of these organisms are pathogenic, such as MRSA. These are the first studies to show that FDA and TGA approved processes can still place patients and operators at risk. This supports the growing data of viral pathogens that may still reside on ultrasound probes post disinfection processing. This is important data that underscores not only the superior performance of our technology compared to the conventional liquid-based disinfection, but also the approach being taken by health authorities.

There is also growing scrutiny over the environmental impact of disinfection practices, with the liquid-based approach resulting in hazardous chemical waste in need of disposal. Again here we are seeing increasing recognition of the advantages offered by Nanosonics' technology, with its disinfection processes resulting only in water and oxygen as by-products. The Company is included in the Australian Clean Tech index - an index of companies that also deliver environmental benefits – with Nanosonics ranked inside the top 20 on market capitalisation.

New products enhance the trophon® EPR customer experience

Research and development remains an important part of Nanosonics' business and enables us to develop solutions which enhance the trophon® EPR customer experience. Our time in the field working with customers has enabled us to identify a number of need areas to which we've responded with new products and innovations which meet customer needs, enhance the overall value proposition for trophon® EPR and provide additional revenue streams.

Over the past year we have also augmented the "Traceability Solutions Pack" with new software known as trophon® Connect, which works alongside the printer released last year. This will enable disinfection cycle records as logged by a trophon® EPR unit to be downloaded to a computer. The trophon® EPR already automatically logs the required data which eliminates the need for manual record keeping of disinfection cycles. With trophon® Connect, we will be taking this to the next level as users will be able to download their disinfection cycle records from the unit and to their computer, for either storage or printing out. Many of our existing customers have requested this type of functionality while other facilities have indicating they are waiting for trophon® Connect before they move to adopt trophon® EPR, so we expect this to generate new sales. Trophon® Connect will be launched and rolled out in the first half of 2014.

Nanosonics has recently developed a trophon® EPR validation kit which has been developed specifically for select European markets where each newly installed trophon® EPR unit must pass a validation test, to demonstrate that it is operating correctly. In the UK this includes showing that a disinfected probe is free of disinfectant (hydrogen peroxide) residue. The test must be done before a trophon® EPR unit can enter routine use in a healthcare facility and must be repeated periodically as part of ongoing servicing. The trophon® EPR validation kit includes all equipment and consumables necessary for a technician to conduct an on-site and guideline-compliant validation test and will soon provide an additional revenue stream for the Company.

> “THE trophon® EPR IS GROUND-BREAKING, AND GIVES AN ULTRASOUND DEPARTMENT ITS FIRST TECHNOLOGY-DRIVEN DISINFECTION PROCESS.”
>
> CANDACE GOLDSTEIN, CLINICAL EDUCATOR, SCRIPPS

Manufacturing

Over the past year we have continued our development as a world class manufacturer of a medical product. We have consolidated our supplier base and strengthened supplier relationships to improve visibility and involvement in materials supply. We continue to develop the capabilities of our production team and continuously improve our processes, quality and yields. Our sales forecast, production planning, purchasing and order fulfilment are now formalised into our Integrated Business Planning processes which, along with the successful implementation of the Manufacturing Resource Planning (MRP) functionality of our ERP system, provide improved control for the anticipated increase in volumes and complexity.

Outlook

The Company is well positioned for growth and working towards profitability is a focus for 2014. Priorities include:

- Significantly increase market penetration in North America and Europe;
- Maximise penetration in our home markets of Australia and New Zealand;
- Expand into new Asian markets;
- Enhance the range of trophon® EPR accessories; and
- Identify the next product opportunity that leverages our platform technology.

R. Weinberger

Dr Ron Weinberger
Managing Director and CEO
Sydney

18 September 2013


trophon
NanoNebulant

Intellectual property

Nanosonics has protected its platform technologies. These provide significant competitive advantage and protects future revenues and product ranges in all major markets. Nanosonics' platform technology is protected by a combination of patents, trademarks, confidentiality agreements, copyright and trade secrets.

Our intellectual property portfolio continues to underpin our products and technologies, with existing patents progressing through the applicable patent offices. An acceleration of research and development into new products will continue and this will constitute the research and development team's focus in the coming year.

Nanosonics' current patent portfolio consists of 16 patent families, 3 of which have been added during the year. Each patent family provides Nanosonics with a fundamental competitive advantage to protect the Company's inventions.

Patent family	Description	Status (all regions)	Priority date*
Improved Disinfection	Aerosol disinfection using liquid disinfectant combined with a surfactant	Granted or awaiting/ undergoing national examination[a]	23 June 1998
Quaternary Ammonium Compound Liquid Disinfectant	A method of high level disinfecting using a liquid incorporating greater than 1% w/w quaternary ammonium compound	Granted or awaiting/ undergoing national examination[a]	9 July 2004
Space Disinfection	A method for disinfecting a space using a concentrated aerosol or with controlled humidity	Granted or awaiting/ undergoing national examination[a]	4 August 2005
Improved Aerosol	An ultra-fine mist to disinfect and sterilise, including the process of vapour removal and controlled humidity	Granted or awaiting/ undergoing national examination[a]	4 August 2005
Membrane Sterilisation	Enclosing an article in a chamber featuring a semi-permeable membrane and introducing a biocide for sufficient time such to sterilise or disinfect the article	Granted or awaiting/ undergoing national examination[a]	4 August 2005
Membrane Concentrator	An aerosol and vapour biocide concentrator incorporating a semi-permeable membrane	Granted or awaiting/ undergoing national examination[a]	4 August 2005
Membrane Vapour Concentrator	A vapour biocide concentrator incorporating a semi-permeable membrane	Granted or awaiting/ undergoing national examination[a]	2 February 2007
Sub-cycle Based Disinfection System	A method for fast disinfection and rapid removal of residual sterilant	Allowed or awaiting/ undergoing national examination	30 June 2008
Aerosol Sensor	A method and apparatus for the measurement of aerosol for the purposes of certifying sterilisation	Awaiting/undergoing national examination	30 June 2008
Safe Chemical Delivery System	A method and apparatus for the safe handling of chemical consumables	Allowed or awaiting/ undergoing national examination	30 June 2008
Nebuliser Manifold	A manifold for improving aerosol properties and flow in a chamber	Awaiting/undergoing national examination	15 August 2008
Disinfection Product and Process	Self-neutralising aerosols	Awaiting/undergoing national examination	22 May 2009
Liquid Level Sensor	Sensor for detecting liquid peroxy chemicals	PCT awaiting examination	24 June 2011
Disinfectant	Peroxyacetic acid/peroxide/carbonate disinfectants	Provisional Filed	14 December 2012
Synergistic Disinfection Enhancement	Peroxyacetic acid/surfactant compositions	Provisional Filed	14 December 2012
Test method	Simple test for residual peroxide	Provisional Filed	13 May 2013
Design family			
Bottle	Non-refillable bottle for safe delivery of consumables	Registered	1 June 2009

[a] Certain national applications not of interest have now been abandoned. *Patents expire 20 years after filing date or priority date.

Case Studies

Canada's Radiology Consultants Associated (RCA) quantifies the trophon® EPR advantages

Conventional liquid-based disinfection of ultrasound probes "just didn't compute for us any longer", said the head of Canada's Radiology Consultants Associated (RCA) group following the introduction of trophon® EPR.

The community expected the "latest and greatest technology to maximize imaging quality along with patient care and safety", said RCA chief executive Feisal Keshavjee, and that "in the case of high-level disinfection, means trophon® EPR".

The RCA, based in Calgary, has installed 51 trophon® EPR units across its network of clinics which conduct around 13,500 ultrasound examinations per year. It moved as more stringent probe disinfection guidelines were being introduced that would further elongate the time needed for liquid-based disinfection of probes.

"If the number of ultrasound scans we can do in a day is cut down by lengthening the probe cleaning process, the clinic not only loses revenue but access to care by patients in the community is also impacted," Mr Keshavjee said.

"… Here we are, with a new CAD$150,000 ultrasound machine and CAD$15,000 probes to go with it that we're cleaning with 1960s glutaraldehyde soaking technology – this just didn't compute for us any longer."

An analysis of the RCA's practices before and after the introduction of trophon® EPR identified significant cost savings, and probe disinfection cycle times reduced from 30 minutes for the liquid-based manual disinfection to 10 minutes, on average, using trophon® EPR.

Staff satisfaction also improved as did patient throughput, with one site able to re-purpose a dedicated cleaning room as an additional examination room.

Leading US provider, Scripps Clinic, endorses trophon® EPR

trophon® EPR was hailed as "groundbreaking" following its introduction to multiple sites by a major US healthcare organisation.

Scripps Health, a $2.6 billion private and nonprofit integrated health system operating in San Diego, California has purchased 21 trophon® EPR units for use across its network of community-based clinics and another 10 for use in its acute care hospitals.

"As the clinical educator for a multi-site clinic system, I am continually looking for ways to improve work flow, reduce potential exposures to our staff of sonographers, and upgrade our disinfection process in the interest of providing the best patient care," said Candace Goldstein from Scripps Clinic, a part of Scripps Health.

"The trophon® EPR is ground-breaking, and gives an ultrasound department its first technology-driven disinfection process."

Eric Rosenberg, Manager of the Scripps' Gooding Imaging Center in San Diego, said Scripps Health sought to be on the cutting edge of infection control and "we have selected the trophon® EPR device to achieve this goal".

"As a result of our conversion, thus far we have improved efficiency of the cleaning process, created more standardization and eliminated non-value added variation, reduced chances for human error, and improved safety by reducing exposure to harsh chemicals previously used during the manual cleaning process," Mr Rosenberg said.

"Scripps is focused on remaining a leader in making improvements in healthcare through the use of innovative technology."

Australian study shows only trophon® EPR removes 100% of bacteria from probe handles

Conventional liquid-based probe disinfection creates “a safe haven for bacteria on the handle”, a leading Australian obstetrician has concluded after studying the improved disinfection offered by trophon® EPR.

Dr Andrew Ngu, Senior Obstetrician and Gynaecologist at the East Melbourne Ultrasound Clinic, took swabs from probe handles which had undergone disinfection using either the conventional liquid-based process or trophon® EPR.

Only trophon® EPR had a 100% strike rate for eliminating bacteria on probe handles.

“The inability to fully submerge these probes in the liquid disinfectant creates a safe haven for bacteria on the handle,” said Dr Ngu, who is also president elect of the International Society of Ultrasound in Obstetrics and Gynecology (ISUOG).

“We found large quantities of bacteria on most handles when probes were reprocessed this way, and this was not an entirely unexpected result.”

“While it is important to note these probes are used with a protective sheath, and the handle does not enter the body, the presence of bacteria on a medical device does pose a risk of cross infection for patients.”

Almost all (96%) of swabs collected from probes involved in the liquid disinfection process indicated bacteria remaining on the handle. All samples taken after automated reprocessing with trophon® EPR showed no growth indicating complete disinfection of the probe handle.

Dr Ngu presented his research at the World Federation for Ultrasound in Medicine and Biology (WFUMB) conference, in Sao Paulo, Brazil in May 2013.

Independent cost benefit analysis presented at RSNA conference

trophon® EPR use saves time and “pays for itself”, according to research presented at the RSNA (Radiological Society of North America) 2012 conference in November.

The study, conducted by doctors at Oschner Medical Center in Louisiana, found probe decontamination using trophon® EPR took less than half the time than was needed for the conventional liquid-based cleaning (14 vs 32 mins).

The time saving amounted to, on average, 7.5 hours per week per trophon® EPR unit. The cost of the trophon® EPR system and weekly maintenance also “pays for itself” if 1.5 more ultrasound procedures were performed per week, the researchers also concluded.

Information on the directors, company secretaries and senior management

Maurie Stang

Non-Executive Chairman

Mr Stang has been Non-Executive Chairman since March 2007 and a member of the Board since November 2000.

Mr Stang is a member of the Audit and Financial Risk Management Committee, the Governance and Nomination Committee and the Remuneration Committee.

Skills, experience and expertise

Mr Stang has more than two decades of experience building and managing companies in the healthcare and biotechnology industry in Australia and internationally. He has strong business development and marketing skills, which resulted in the successful commercialisation of intellectual property across global markets.

Other current and former directorships in last 3 years

Current: Non-Executive Chairman of Aeris Environmental Ltd (ASX: AEI) since 2002.

Related parties

Details of transactions in the financial year ended 30 June 2013 between the Group and entities which are considered to be director-related parties are set out in the Directors' and key management personnel disclosures note to the financial statements.

Ron Weinberger BSc (Hons), PhD

Managing Director and Chief Executive Officer (until 20 October 2013)

Dr Weinberger joined the Company in August 2004 and was appointed as Executive Director in July 2008.

Dr Weinberger was appointed Managing Director and Chief Executive Officer in December 2011. Dr Weinberger will assume a new role, President of Technology Development / Commercialisation from 21 October 2013. He will remain as an executive director of the Company.

Skills, experience and expertise

Dr Weinberger has over two decades of experience in the medical research and biotechnology arena. He is an intellectual property expert and entrepreneur in the development of novel technologies. Dr Weinberger is co-inventor of several of Nanosonics' key technology patents which underpin the Company's platform technology. Dr Weinberger has extensive experience across all aspects of the business having driven key strategies during its growth phase.

Other current and former directorships in last 3 years

No ASX listed companies.

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

Non-Executive Director

Dr Fisher has been a member of the Board since 30 July 2001.

Dr Fisher is a member of the Remuneration Committee and he is a member of the Audit and Financial Risk Management Committee and the Governance and Nomination Committee.

Skills, experience and expertise

Dr Fisher is founding partner of Brandon Capital Partners, a leading Australian venture capital provider.

He has over two decades of extensive operating experience in the biotechnology and healthcare industry in Australia and overseas. Dr Fisher was CEO of Peptech Limited (now part of Cephalon Inc. (Nasdaq:CEPH)). During this period Peptech grew from a start up to having R&D operations in Australia, the UK, the US and manufacturing operations in Denmark. Prior to Peptech, Dr Fisher spent 10 years with Pharmacia AB (now part of Pfizer, Inc), including five years at their head office in Sweden.

Other current and former directorships in last 3 years

Current: Director of Aeris Environmental Ltd (ASX: AEI) since May 2011.

Information on the directors, company secretaries and senior management (continued)

Richard England FCA, MAICD

Non-Executive Director

Mr England was appointed as director on 5 February 2010. Mr England is Chairman of the Audit and Financial Risk Management and the Governance and Nomination Committees and is a member of the Remuneration Committee.

Skills, experience and expertise

Mr England is a Chartered Accountant and professional non-executive director. He has over 30 years' experience in accounting and financial services, as well as considerable experience with early-stage biotech and medical device companies.

Other current and former directorships in last 3 years

Current: Chairman of Ruralco Holdings Limited (ASX:RHL), appointed Chairman in 2002 with a period as Deputy Chairman between June 2006 and February 2007; Chairman of Chandler Macleod Group Limited (ASX:CMG), appointed a director February 2008 and Chairman since May 2008; and director of Macquarie Atlas Roads Limited (ASX:MQA) since June 2010.

Former: Director of Healthscope Limited from October 1996 to October 2010.

Michael Kavanagh BSc, MBA (Advanced)

Non-Executive Director (until 20 October 2013)

Mr Kavanagh joined the Board as a non-executive director on 30 July 2012. He was appointed CEO and President to take effect from 21 October 2013. Mr Kavanagh is Chairman of the Remuneration Committee.

Skills, experience and expertise

Mr Kavanagh is a highly experienced executive with international experience, having worked for more than 20 years in the area of healthcare marketing. He is currently Senior Vice President of Global Marketing for the major medical device company, Cochlear Limited, a position he's held for more than 10 years.

Other current and former directorships in last 3 years

Mr Kavanagh has no other current and former directorships in the last 3 years.

McGregor Grant BEc, CA, GAICD

Chief Financial Officer and Company Secretary

Mr Grant joined Nanosonics in April 2011 and is responsible for the overall financial management of the Company and, together with Dr Weinberger, has joint responsibility for investor relations. Mr Grant has over 16 years of commercial experience in a number of senior roles in the medical device and healthcare industries located in Australia and the United States. Previously Mr Grant worked for Coopers & Lybrand (now PWC) in Australia and Europe.

Gerard Putt BSc (Hons)

Chief Operations Officer

Mr Putt joined Nanosonics full time in 2011 as Head of Manufacturing after serving on the Nanosonics Advisory Board, progressing to Chief Operations Officer in 2012. Mr Putt has considerable experience in the medical device industry, including 12 years as a leader of development, engineering and production teams at ResMed. As Head of Manufacturing at ResMed, Mr Putt acquired particular experience in the implementation of new products into manufacturing and rapid scaling of production to international market needs. Mr Putt has a strong background in medical device GMP, project management, engineering and entrepreneurial roles in medical, retail and building.

Michael Potas BE (E&C)

Head of Research, Design and Development

Mr Potas has over 17 years of experience in the development and commercialisation of new products and technologies. Since joining Nanosonics in 2006, Mr Potas has been instrumental in the research, design & development of the trophon® EPR & associated core intellectual property. He has previously initiated and operated multiple technology start-up businesses and established new technology R&D collaborations with global industry leaders. In addition to his research and development responsibilities, Mr Potas contributes at the Nanosonics executive level based on his substantial previous experience in business development, sales, marketing, and customer support within rapidly growing organisations.

Information on the directors, company secretaries and senior management (continued)

Ronald J Bacskai BSME, MBA (Hons)

President and CEO – Nanosonics Inc.

Mr Bacskai joined Nanosonics in 2010 and is responsible for leading Nanosonics' operations in the United States. Mr Bacskai is an experienced executive having worked in multiple industries with a broad technical, marketing and sales, and technology commercialization background.

Mr Bacskai has significant experience as president, CEO and board member of several public and private organizations as well as serving on the advisory board of a specialty environmental firm.

Vincent Wang BSc, MSc, MBA

Head of Global Services

Mr Wang has over 12 years' experience in developing service strategy, establishing and managing customer support and technical service function in global medical device business. Before joining Nanosonics in May 2011, Mr Wang had worked for Sonova Hearing Healthcare Group and Cochlear Ltd as Service Operations Manager, Technical Services Manager and Operations Manager, respectively.

Robert Waring BEc. (Sydney), CA, FCIS, FFin, FAICD

Company Secretary

Mr Waring was appointed Company Secretary in October 2010. Mr Waring was Company Secretary of Nanosonics at the time of the Company's IPO in May 2007. He has over 40 years' experience in financial and corporate roles, including over 20 years in company secretarial roles for ASX-listed companies and over 15 years as a director of ASX-listed companies. He is a director of Oakhill Hamilton Pty Ltd, which provides secretarial and corporate advisory services to a range of listed and unlisted companies.

Jianhe Chen MD, MSc

Quality Assurance Manager

Dr Chen has been with the Company since July 2009. She has over 11 years' experience in quality assurance and regulatory affairs in globalised medical device and pharmaceutical companies. In addition to broad skills and knowledge obtained from 6 years of clinical experience and 12 years of medical research, she specialised in establishing, developing and maintaining the quality management systems, and played senior leadership roles in various companies in the past 12 years.

Kirste Courtney BA

Human Resources Manager

Mrs Courtney joined Nanosonics in 2008 and has over 15 years of human resources experience having worked in a variety of industry sectors including chartered accounting, media, logistics and banking.

Ruth Cremin MSc

Regulatory Affairs Manager

Ms Cremin joined Nanosonics in July 2011 with extensive regulatory affairs experience. She worked at Cochlear as a Senior Regulatory Affairs Specialist for the Asia Pacific region. Prior to that, Ms Cremin worked in both Regulatory and Quality roles at Pfizer Australia and Bio-Medical Research Ltd in Galway, Ireland.

Directors' report

Your directors submit their report together with the Consolidated Financial Report of the Group, being Nanosonics Limited and its subsidiaries, for the year ended 30 June 2013.

Principal activities

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

- research, development and commercialisation of infection control and decontamination products and related technologies;
- and manufacturing and distribution of the trophon® EPR ultrasound probe disinfector and its associated consumables and accessories.

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

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

Results of operations

Revenue from sales for the year amounted to $14,899,000 (2012: $12,301,000) and other income amounted to $2,690,000 (2012: $736,000). The net operating loss after income tax amounted to $5,768,000 (2012: $4,679,000). Cash and cash equivalents at 30 June 2013 amounted to $24,064,000 (2012: $29,310,000) which include the net proceeds from the issuance of shares of $536,000 (2012:$15,394,000) and in 2012, the net proceeds from the issuance of convertible notes of $7,400,000. Other information on the operations of the Group and its business strategies and prospects is discussed in the Review of operations on pages 10 to 13 of this report.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the year 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 2013. No dividends were proposed, declared or paid during the financial year (2012: Nil).

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

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2013 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 included in the Review of operations on pages 10 to 13. 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.

Directors and committees of the Board

During the year and to the date of this report, the Board and committees of the Board of Nanosonics Limited comprised the following members:

Board of directors Nanosonics Limited

Maurie Stang, Non-Executive Chairman
David Fisher, Non-Executive Director
Richard England, Non-Executive Director
Michael Kavanagh, Non-Executive Director
Ron Weinberger, Managing Director and CEO

Audit and Financial Risk Management Committee

Richard England, Chairman
David Fisher
Maurie Stang

Governance and Nomination Committee

Richard England, Chairman
David Fisher
Maurie Stang

Remuneration Committee

Michael Kavanagh, Chairman
Richard England
David Fisher
Maurie Stang

Environmental regulation

The Group is subject to meeting statutory environmental regulations. To demonstrate its commitment to meeting these regulations, the Group has put in place an Environmental Management System, which was certified to ISO14001 in August 2013.

Information on directors

The Information on the directors, company secretaries and senior management is a part of the Directors' report and can be found on pages 18 to 23 of this report.

Retirement, resignation, appointment and continuation in office of directors and secretaries

(a) Directors

In accordance with the Constitution:

- Mr Stang retires as a director at the next annual general meeting and, being eligible, offers himself for re-election.
- Mr Fisher retires as a director at the next annual general meeting and, being eligible, offers himself for election.

(b) Company secretaries

Mr Robert Waring was appointed as a company secretary on 1 October 2010 and continues in office at the date of this report.

Mr McGregor Grant was appointed as a company secretary on 28 April 2011 and continues in office at the date of this report.

Meetings of directors

The number of directors' meetings, including meetings of the committees, held during the year ended 30 June 2013, and numbers of meetings attended by each of the directors were as follows:

	Full meetings of directors		Meetings of committees: Audit		Meetings of committees: Governance and Nomination		Meetings of committees: Remuneration	
	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended	Held[1]	Attended
Maurie Stang	11	11	3	3	1	1	3	3
Richard England	11	10	3	3	1	1	3	3
David Fisher	11	10	3	3	1	1	3	3
Ron Weinberger	11	11						
Michael Kavanagh	10	9					2	2

[1] Number of meetings held above represents the number of meetings that a director is eligible to attend.

Loans to directors and executives

During the financial year and to the date of this report, the Group made no loans to directors and other key management personnel and none were outstanding as at 30 June 2013 (2012: Nil).

Share-based payments

Shares issued under the DESP and options granted under ESOP and GSOP during the year are detailed below. These were part of the Company's short-term and long-term incentive plans and also in recognition of the achievements of the Company's personnel and contractors related to global commercialisation of its first product, the trophon® EPR ultrasound probe disinfector.

Shares issued

During the year ended 30 June 2013, the Company issued a total of 2,005,800 (2012: 29,492,333) new ordinary shares in Nanosonics Limited as detailed below. To the date of this report, the Company issued a total of 2,839,545 new ordinary shares as detailed below. No amount was unpaid on any of the shares so issued.

Shares issued	Number of shares issued
Share purchase plan	718,196
Share options exercised under Share Option Plans	1,287,604
Total new shares issued during the year	**2,005,800**
Share options exercised under Share Option Plans post balance date	833,745
Total new shares issued and to the date of this report	**2,839,545**

As at 30 June 2013 there were 261,988,718 (2012: 259,982,918) ordinary shares in Nanosonics Limited on issue. At the date of this report, there were 262,822,463 shares on issue. Further information on issued shares is provided in the Contributed equity and the Share-based compensation notes to the financial statements.

Share options granted

During the financial year and to the date of this report, the Company granted, for no consideration, 3,736,899 (2012: 852,442) unquoted options over unissued ordinary shares in Nanosonics Limited. Further information on the grants is provided below, in the Remuneration report on page 37 and in the Share-based compensation note to the financial statements.

Share options granted	Number of options granted
Employee Share Option Plan (ESOP)	2,487,891
General Share Option Plan (GSOP)	536,038
Total new options granted during the year	**3,023,929**
Employee Share Option Plan (ESOP) granted after 30 June 2013	712,970
Total options granted to the date of this report	**3,736,899**

Shares under option

At the date of this report, there were 5,267,285 unissued ordinary shares of Nanosonics Limited under option as detailed below. As at 30 June 2013, there were 5,418,625 (2012: 3,758,269) unissued ordinary shares of Nanosonics Limited under option. Further information on the options is provided in the Share-based compensation note to the financial statements.

Share option plan	Number of shares under option
Employee Share Option Plan (ESOP)	4,603,625
General Share Option Plan (GSOP)	815,000
Total shares under option at 30 June 2013	**5,418,625**
Share options exercised under Share Option Plans after 30 June 2013	(833,745)
Share options lapsed under Share Option Plans after 30 June 2013	(30,565)
Employee Share Option Plan (ESOP) granted after 30 June 2013	712,970
Total shares under option to the date of this report	**5,267,285**

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.

Interests of directors

The relevant interest of each director in the shares and share options of the companies within the consolidated Group at the date of this report, as notified by the directors to the Australian Securities Exchange in accordance with section 205G(1) of the *Corporations Act 2001*, are set out below. All shares and options are in the parent entity, Nanosonics Limited.

	Ordinary shares	Options over ordinary shares
Maurie Stang	28,402,424	–
Richard England	78,301	50,000
David Fisher	812,705	–
Michael Kavanagh	150,000	–
Ron Weinberger	29,881	1,458,726

Indemnifying officers or auditor

During the financial year, the Company paid insurance premiums to insure the directors and secretary and key management personnel 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 willful breach of duty by the officers or the improper use by the officers of their positions or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

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

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

Proceedings on behalf of the Company

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

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

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) and where noted ($'000) under the option available to the Company under ASIC CO 98/100. The Company is an entity to which the class order 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 Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

a. all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor and
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.

Details of the amounts paid or payable for audit and non-audit services provided by the auditor of the Group, its related practices and non-related audit firms are set out in the Auditor's remuneration note to the financial statements.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 47 of this report.

Auditor

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

This report, which includes the Review of operations (on pages 10 to 13), the Information on the directors, company secretaries and senior management (on pages 18 to 23) and the Remuneration report (on pages 37 to 45) is made and signed in accordance with a resolution of directors on 18 September 2013.

Richard England

Richard England
Director
Sydney

18 September 2013

Corporate governance statement

The Board of directors of Nanosonics Limited is responsible for the corporate governance of the Company and of the Group, consisting of the Company and its subsidiaries. The Board regularly reviews the policies and practices applied by the Group to ensure they meet the interests of shareholders and other key stakeholders, both for the present and as the Group progresses its business plans and grows in operational complexity.

This statement sets out Nanosonics Limited's Corporate Governance framework. Nanosonics Limited is committed to ensuring all its directors, officers, employees, advisors, contractors and consultants align with its integrity, objectivity, corporate governance and ethical standards.

Compliance

The Company supports the ASX Listing Rules and the Corporate Governance Principles and Recommendations with 2010 Amendments (2nd Edition) issued by the Australian Securities Exchange, as well as other prominent guidance on good governance.

The Group has followed the ASX Corporate Governance Principles and Recommendations, with certain exceptions as noted below.

Further information is available in the Company's various Charters and Policies, mentioned below, copies of which are available on the Company's website at www.nanosonics.com.au.

This Corporate Governance Statement was approved by the Board and a copy is available on the Company's website.

Management and oversight

Role of the Chairman

The Chairman is responsible for leading the Board, its meetings and directors, so that all directors are able to contribute effectively, all matters are properly considered and there is clear decision-making. The Chairman has ultimate responsibility for corporate governance.

Role of the Board

Under the leadership of the Chairman, the role of the Board is to provide strategic guidance to the Company and to provide effective oversight of its management for the benefit of all stakeholders.

The Board acts on behalf of shareholders and is accountable to the shareholders for the overall strategy, governance and performance of the Company. The Board retains ultimate authority over the management of the Group; however day-to-day management of the Group's affairs and the implementation of its strategies are formally delegated by the Board to the Managing Director and CEO and senior executives. The respective roles and responsibilities of the Board and senior executives, and how they are separate, are set out in detail in the Group's Corporate Governance Charter. The Board meets regularly in accordance with an agreed schedule and special meetings are held as required.

Roles of senior executives

The Company sets responsibilities and performance expectations for all senior executives, including executive directors, as described in Information on directors, company secretaries and senior management and in the Remuneration report in the Company's Annual Report.

Committees of the Board

The Board is assisted by committees, which are responsible for aspects of the operation of the Group and which act by examining relevant matters and making recommendations to the Board. The Board may establish additional committees to assist it in carrying out its responsibilities. The Board may also delegate specified responsibilities to ad-hoc committees. The directors must be satisfied that the members of a committee are competent and will exercise their delegated functions in accordance with directors' duties. General requirements of board committees are:

- a committee is expected to meet as often as necessary to fulfil its obligations;
- a committee is authorised to seek the information and advice it needs, at the cost of the Company, to assist it in the performance of its obligations;
- a committee does not have executive powers in respect of its findings and recommendations;
- a committee is intended to have an independent director appointed as its Chairman; and
- the membership and performance of each committee is assessed at least once every year by that committee and by the Board.

Currently there are three committees of the Board: the Governance and Nomination Committee, the Audit and Financial Risk Management Committee and the Remuneration Committee. Summaries of the roles and responsibilities of each of the current committees are provided in this Corporate Governance Statement. Details of directors' attendances at meetings of the committees are shown in the Directors' report contained in the Company's Annual Report.

Structure of the Board

The current Board consists of four non-executive directors and one managing director. The role of the Chairman is separate from that of the Chief Executive Officer.

- Mr Maurie Stang is non-executive Chairman: appointed a director 14 November 2000, re-elected 11 November 2011.
- Dr David Fisher is an independent non-executive director: appointed 30 July 2001, re-elected 11 November 2011.
- Mr Richard England is an independent non-executive director: appointed 5 February 2010, re-elected 9 November 2012.
- Mr Michael Kavanagh is an independent non-executive director: appointed 30 July 2012 (until October 2013 when he becomes CEO and President), re-elected 9 November 2012.
- Dr Ron Weinberger is the Chief Executive Officer (CEO): appointed as an executive director 2 July 2008, re-elected 3 November 2010, appointed Managing Director and CEO 19 December 2011 (until October 2013 when he becomes President of Technology Development / Commercialisation).

Details of each director, including their qualifications and experience, are set out in the Information on the directors, company secretaries and senior management of the annual report and on the Company's website.

Directors' independence

Directors' independence is assessed according to the provisions set out in the Company's Corporate Governance Charter and in the ASX Corporate Governance Principles and Recommendations. Accordingly:

- Mr Stang is not considered to be an independent director as: he is a founder of the Company; he held executive office in the Company until March 2007; he is a major shareholder of the Company and he is a director and/or shareholder of companies with which the Company had significant transactions during the year (refer to the Directors and Key Management Personnel disclosures note to the financial statements section of the Annual Report.
- Dr Weinberger is not considered to be an independent director as he is an executive of the Company.
- Dr Fisher is considered to be an independent director, except that he served as interim executive director for the period 14 December 2007 to 16 June 2008. For the period 9 May 2011 to 29 March 2013 Dr Fisher served as Managing Director of Aeris Environmental Ltd where Mr Stang is the Non-Executive Chairman.
- Mr England is considered to be an independent director.
- Mr Kavanagh is considered to be an independent director.

The Board is considering opportunities to appoint additional suitably qualified and experienced independent directors.

At the time when the Company has appointed other independent directors, the Board will also consider its opportunities to appoint an independent chairman.

Governance and Nomination Committee

The members of the Governance and Nomination Committee are: Mr Richard England (Chairman), Dr David Fisher, and Mr Maurie Stang. The Committee comprises a majority of independent directors and is chaired by an independent director.

The role of the Governance and Nomination Committee, as set out in detail in its Charter, is to provide advice and assistance to the Board by assessing the competencies, performance, composition and succession plans of the Board. If necessary, the Committee makes recommendations to the Board for the appointment and removal of directors. The Committee also evaluates the time required of non-executive directors to perform their duties.

Selection and appointment of directors

The Governance and Nomination Committee is responsible for the identification and selection of suitable candidates for appointment as a director. The Committee assesses potential directors against the following selection criteria:

- integrity;
- skills, experience and qualifications;
- availability;
- communication capabilities; and
- community standing.

After assessment, candidates are recommended by the Committee to the Board.

Induction, education and access of directors

Every new director receives an appointment letter accompanied by:

- Director's Deed of Access;
- Director's Handbook (containing Company policies and charters); and
- Induction training.

Directors and the Board have the right, in connection with their duties and responsibilities, to obtain independent professional advice at the Company's expense. Subject to prior approval from within the Board, which will not unreasonably be withheld, a director may have direct access to any employee or contractor of the Group and seek any information from any employee in order to perform his or her responsibilities.

Board performance evaluation

The Board requires that each director has the appropriate competencies to fulfil their role and that they perform effectively in their respective role and on the Board. The Governance and Nomination Committee is responsible for recommending a framework for the assessment and evaluation of the performance of each director individually, of each committee and of the Board as a whole.

- Board and Directors
  The Board continuously reviews its own performance and mix of skills to ensure that they allow the Board to maximise its effectiveness and contribution to the Company.
- Committees
  The performance of each of the Board's committees is assessed annually by the chairman of the committee and by the chairman of the Board to ensure that the committees and the Board as a whole work effectively. The Board receives the meeting minutes and an update from the chairman of each of the Board's committees on an ongoing basis, setting out the committee's achievements based on their duties. The Board reviews and approves the charters of each of the committees annually.

Executive performance evaluation

The Nanosonics Performance and Development Program requires individual appraisals by a director at least annually for all senior executives, including executive directors but excluding the CEO, who is assessed with the rest of the Board. In accordance with that program, individual appraisals of the performance of all senior executives were undertaken by the CEO during the year.

Ethical and responsible decision making

Code of conduct & ethics

All directors, officers, employees, advisors, consultants and contractors of the Group are expected to act with integrity and objectivity and to maintain the highest possible ethical standards which have been formalised and set out in the Company's Code of Conduct and Ethics. The Code of Conduct & Ethics can be found on the Company's website.

Securities trading policy

The Company has a Securities Trading Policy, which applies to all Designated Persons, comprising its directors, officers, employees, advisors, consultants and contractors and such other persons as the Board nominates. Designated Persons may only deal in the Company's securities in terms of that policy. Securities trading "black-out" periods are notified to all Designated Persons. The Company periodically reviews share trading reports and its share register to ensure compliance with the policy.

Whistleblower policy

The Company recognises its responsibilities to conduct its business in accordance with both Australian and internationally accepted practices and procedures. As part of this, the Company is committed to maintaining a culture where all directors, staff, contractors and consultants to the Company are encouraged to raise concerns about poor and/or unacceptable practices and misconduct.

The Company has a Whistleblower Policy to provide a process through which staff, contractors and consultants to the Company can express serious concerns and report misconduct.

Directors' interests and related party transactions

Directors' declarations of interests or conflicts of interest are recorded in the minutes of Board meetings and included in the register of directors' interests. The register of directors' interests is formally tabled and reviewed at Board meetings on a quarterly basis.

A transaction with a related party requires the prior approval of a non-executive director who has no interest in the transaction. Approval for a transaction is given only if the director is satisfied that the Company has ascertained that the selected goods or services to be supplied are equivalent or superior to similar goods or services available elsewhere and that the terms and conditions of the transactions are 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. Management is required to provide written evidence of the comparative assessments undertaken to satisfy these selection criteria. Contractual agreements for related party transactions are reviewed by the director for compliance with the same selection criteria.

Integrity in financial reporting

Financial systems and compliance

The Managing Director and CEO and Chief Financial Officer have jointly confirmed to the Board that the declaration provided in this Annual Report in accordance with section 295A of the Corporations Act 2001 is founded upon sound systems of risk management and internal control and that the systems are operating effectively in all material respects in relation to financial reporting risks.

Audit and Financial Risk Management Committee

The members of the Audit and Financial Risk Management Committee are: Mr Richard England (Chairman), Dr David Fisher and Mr Maurie Stang. The Committee comprises only non-executive directors and has a majority of independent directors. The Committee Chairman is an independent director who is appropriately qualified and financially literate and who is not also Chairman of the Board.

The role of the Audit and Financial Risk Management Committee, as set out in detail in its Charter, is to provide advice and assistance to the Board in fulfilling the following obligations for the Company's:

- audit, accounting and financial reporting;
- legal and financial regulatory compliance; and
- adequacy of and compliance with financial risk management policies and procedures.

The Committee regularly reports to the Board on all matters relevant to the responsibilities of the Committee.

The Audit and Financial Risk Management Committee is responsible for reviewing the integrity of the Group's financial systems and reporting and for overseeing the appointment, compensation and independence of the Company's external auditor.

Selection and appointment of external auditors

The Audit and Financial Risk Management Committee is responsible for selecting and recommending the appointment of the external auditor. The Committee considers a number of criteria in appointing the external auditor, such as audit approach, governance processes, key personnel and cost. The Committee then provides the Board with its recommendation.

External audit

It is the external auditor's role to provide an independent opinion that the Company's financial reports are true and fair and comply with the Australian Accounting Standards and the *Corporations Act 2001*. The external auditor performs an independent audit in accordance with the International Audit Standards. All services provided by the external Auditor must be in accordance with the principles that the external Auditor should not:

- have a conflict of interest in the Company;
- audit its own work; or
- function as a part of management or as an employee of the Company.

Rotation of external audit partners

In line with current professional standards the Company requires the external auditor to rotate after 5 years and cannot return for a further 2 years. Key audit staff are required to rotate every 7 years.

Timely and balanced disclosure

The Board has adopted a Continuous Disclosure and Shareholder Communications Policy to ensure compliance with the disclosure requirements of the ASX Listing Rules and to ensure individual accountability at senior executive level for that compliance. In determining whether information should be disclosed, the Board takes into consideration the needs and interests of the Group's shareholders and other stakeholders in the context of the Board's obligations under the Corporations Act 2001 and the ASX Listing Rules. ASX announcements are prepared directly when the Board or executive management becomes aware of information required to be disclosed to the market. The announcements are vetted by the Board prior to their release to the market. Apart from the Company's authorised spokespersons, no employee or associated person may comment publicly on matters that are market sensitive or confidential to the Company.

The disclosure policy gives guidance as to the information that may need to be disclosed and how to deal with market analysts and the media. This policy clearly outlines who has the responsibility for approving public documents and acts as a spokesperson.

This policy is made known to all directors, officers, employees, advisors, consultants and contractors, who sign confidentiality agreements designed to prevent unauthorised disclosure of information.

The Board has approved, as part of the Continuous Disclosure and Shareholder Communications Policy, the Company's policy to promote effective communication with its shareholders. In addition to its disclosure obligations under the ASX Listing Rules, the Company communicates with its shareholders through:

- annual and half-yearly reports;
- shareholder updates sent by email or mail;
- media releases, public announcements and investor briefings; and
- annual general meetings.

Rights of shareholders

The Company recognises and respects the rights of shareholders and seeks to facilitate the effective exercise of those rights within the limitations of the continuous disclosure provisions of the ASX Listing Rules.

The Company encourages shareholder participation, particularly attendance at the general meetings of the Company. The Company complies with the ASX best practice guidelines for the content of notices of meeting. The external financial auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit of the Company and the preparation and content of the auditor's report.

Website and corporate information

It is Group policy that its corporate information is complete, timely and available on its website at www.nanosonics.com.au.

The corporate information, including reports and media releases, governance and shareholder information and at least three years of financial data, is available from its website and includes:

- Announcements to the ASX
- Constitution
- Corporate Governance Charter
- Audit and Financial Risk Management Committee Charter
- Code of Conduct and Ethics
- Governance and Nomination Committee Charter
- Securities Trading Policy
- Remuneration Committee Charter
- Whistleblower Protection Policy
- Terms and Conditions of Appointment for a Non-Executive Director
- Continuous Disclosure and Shareholder Communications Policy
- Profiles of directors and senior management
- Risk Management Policy
- Notices of Annual General Meetings
- Privacy Policy
- Diversity Policy
- Annual Reports
- Half-year Reports.

Engagement with shareholders

Shareholders and prospective shareholders are welcome, by prior appointment, to speak with executive managers responsible for investor relations and to view the Group's operations.

Risk management

The Company has a Risk Management Policy for the oversight and management of material business risks, which reflects the Group's risk profile and which describes the risk management processes applied. The Board is responsible for risk oversight and risk management and to ensure legal and regulatory compliance.

The Board requires the Group's executive management, led by the Managing Director and CEO, to design, implement and review an effective risk management and internal control system. Executive management is required to report via the Managing Director and CEO to the Board whether the Group's material business risks are being managed effectively.

In the period under review in the Annual Report, executive management regularly reported to the Board on the effectiveness of the Group's management of its material business risks.

The Annual Report includes reports on or references to the following risks: strategic planning, intellectual property protection, competition, manufacturing capacity, financial, systems and controls, human resources and the environment.

Diversity

Nanosonics believes that the pursuit of diversity in the workplace increases its ability to attract, retain and develop the best talent available, creates an engaged workforce, delivers the highest quality services to its customers, enhances individual work-life balance, encourages personal achievement, improves co-operation and assists in the optimisation of organisational performance. Diversity in the workplace mirrors the diversity of the broader community, encompassing age, gender, ethnicity, cultural and other personal factors. The Company respects the diversity of all employees, consultants and contractors, and cultivates an environment of fairness, respect and equal opportunity.

Set out below are the measurable gender and other diversity objectives established by the Board, in accordance with the Company's Diversity Policy (which can be found on the Company's website).

- Hiring: The Board will ensure that appropriate selection criteria, based on diverse skills, experience and perspectives, are used when recruiting new staff and directors. Job specifications, advertisements, application forms and contracts will not contain any direct or inferred discrimination.
- Training: All internal and external training opportunities will be based on merit, and Company and individual needs. The Board will consider senior management training and executive mentoring programmes to develop skills and experience to prepare employees for senior management and Board positions.
- Career Advancement: All decisions associated with career advancement, including promotions, transfers, and other assignments, will meet the Company's needs, and be determined on skill and merit.
- Work Environment: The Company will ensure that all officers, employees, consultants and contractors have access to a work environment that is free from harassment and unwanted conduct in relation to personal circumstances or characteristics. Directors,managers and supervisors will ensure that complainants or reports of sexual, racial or other harassment are treated seriously, confidentially and sympathetically by the Company.

As at 30 June 2013, woman represented 33% (2012: 34%) of the Group's workforce, 36% in key executive positions (2012: 45%) and 0% at Board level (2012: 0%).

During the year ended 30 June 2013 the Company has reviewed its progress against each of the diversity objectives set by the Board. The Company considers that it has successfully achieved the objectives that have been established, particularly in view of its size and stage of growth. The Board considers that the current objectives are appropriate for the forthcoming financial year and the Company will continue to take advantage of opportunities to improve gender representation across all levels of the organisation, as appropriate.

Fair and responsible remuneration

The Company's remuneration philosophy and policies are set out in the Remuneration report in the Annual Report. The Remuneration Committee oversees remuneration policies and strategies to ensure that performance is rewarded in a manner that is competitive and appropriate for the results delivered.

Remuneration Committee

The members of the Remuneration Committee are: Mr Michael Kavanagh (Chairman), Mr Richard England, Dr David Fisher and Mr Maurie Stang. The Committee is chaired by an independent director and has a majority of independent directors.

The role of the Remuneration Committee, as set out in detail in its Charter, is to provide advice and assistance to the Board in fulfilling its responsibilities in respect of remuneration policies, performance enhancement systems and fair and responsible rewards for individual performance. The Committee is responsible for advising the Board on remuneration issues and policies in the context of the Group's operations and markets and, with regard to the overriding goal that directors and senior executives are recruited, motivated and retained so as to pursue the long-term growth and success of the Group as well as ensuring a clear relationship between individual performance and remuneration structures, both short and long term.

The Remuneration Committee is authorised to seek the information and advice it needs, at the cost of the Company, to assist it in the performance of its obligations. Advisers to the Remuneration Committee are appointed by the Committee itself and report directly to the Committee.

The Company distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives. Non-executive directors' remuneration does not include any retirement benefits other than contributions to their nominated superannuation funds. The Company will not permit an executive director to have direct involvement in the determination of their own remuneration.

Details of the respective remuneration structures are set out in Part 1 of the Remuneration report in the Annual Report.

Remuneration report

The Remuneration report is a part of the Directors' report.

1. Remuneration principles

Details of Nanosonics Limited's remuneration policies and practices, together with details of the remuneration of directors and key management personnel (KMP), are set out below. For the purposes of this report, KMP are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly and include the five executives receiving the highest remuneration.

Remuneration report approval at 2012 AGM

The 2012 remuneration report was adopted at the 2012 AGM held on 9 November 2012.

1.1 Overview of remuneration policies

Remuneration philosophy

Nanosonics recognises that the quality and performance of directors, executives and staff are essential to achieving a competitive advantage and a sustainable future.

The Group's remuneration philosophy is to proactively attract, motivate and retain key talent in line with the following criteria:

- Business performance;
- Sustainable growth in shareholder wealth;
- Transparency of structures for earning rewards;
- Individual performance recognition;
- Labour market conditions; and
- Capacity to pay.

Remuneration Committee

The Remuneration Committee oversees remuneration policies and strategies to ensure that performance is rewarded in a manner that is competitive and appropriate for the results delivered.

The Remuneration Committee presently comprises four non-executive directors, Mr Michael Kavanagh (Chairman), Mr Richard England, Dr David Fisher, and Mr Maurie Stang. The Chairman of the Remuneration Committee is required to be an independent director who is not also Chairman of the Board.

The Remuneration Committee Charter, which is available from the Company's website, provides further information on the role of the committee.

Objective of the remuneration policy

In consultation with external remuneration specialists, the Remuneration Committee ensures that rewards align with the achievement of strategic corporate objectives and the creation of value for shareholders, in line with current market practice.

The remuneration structure provides a mix of fixed and variable pay. The structure of non-executive and executive compensation is separate and distinct.

1.2 Directors

Non-executive directors are paid an annual fee for their services on the Board and committees of the Board. The total annual fee payable to a non-executive director is determined on a total cost basis comprising cash, superannuation and securities. The aggregate amount of remuneration that may be paid to all non-executive directors and which may be divided among the non-executive directors in such a way as the directors may determine is a maximum of $500,000 as approved at a general meeting of the Company on 19 September 2006. Non-executive directors do not receive any performance-related remuneration, options or shares.

The remuneration of the Managing Director and CEO and any other director appointed to an executive office is fixed by the directors. Executive directors are eligible to participate in the Company's short-term incentive scheme and share-based compensation plans. Executive directors are not separately remunerated for their positions as directors.

Details of directors' remuneration are set out in Part 5 of this report.

1.3 Executives

Executive pay structures consist of fixed and variable components, incorporating short term incentives (STI) and long term incentives (LTI) as follows:

Remuneration component	Vehicle
Fixed remuneration	Base salary, superannuation, and non-monetary benefits
Variable remuneration (STI)	Paid partly in cash and partly as share options
Variable remuneration (LTI)	Awards made in the form of share options

Details of key management personnel remuneration are set out in Part 5 of this report.

Fixed remuneration

Fixed remuneration is part of the total employment cost (TEC) package which may be provided as a combination of cash and non-cash benefits, at the executive's discretion.

Executives are offered a competitive fixed component of base pay inclusive of superannuation contributions. Executive remuneration is reviewed annually by the Remuneration Committee. Part of this review includes an analysis of company and individual performance and external comparative remuneration benchmarking.

Short term incentive scheme

The Company has a short term incentive scheme whereby senior executives and staff can earn bonuses, comprising a mix of cash and share options, of up to 33.3% of their base salary, subject to the achievement of defined company performance objectives which are tied to financial performance of the Group and individual key performance indicators.

Long term incentive scheme

The Company has a long term incentive scheme whereby senior executives are awarded share options to align remuneration with the creation of shareholder value over the longer term. As such, LTI awards are only made to executives and other key employees who have an impact on the Company's performance against relevant long term performance measures.

During the year the Board carried out a review of the Company's remuneration strategy with the assistance of independent remuneration consultant, CRA Plan Managers Pty Ltd (CRA). The review incorporated benchmark assessment and analysis in respect of the three key components of remuneration being fixed remuneration, short term incentives (STI) and long term incentives (LTI). The recommendations provided by CRA were only used as a guide by the Board who applied their own judgment in determining the final remuneration decisions. For 2013, CRA received fees amounting to $6,008 (2012:$4,140) for the executive remuneration benchmark assessments and fees totaling $28,964 (2012: $44,397) for other services.

The committee is satisfied the advice received from CRA is free from undue influence from the KMP to whom the remuneration recommendations apply as CRA were engaged by and reported directly to the Remuneration Committee. CRA also confirmed in writing to the Chairman of the Remuneration Committee that the remuneration recommendations were made free from undue influence by the Group's KMP.

As a result of this review the Board made changes to the remuneration arrangements for the Managing Director and CEO and selected key management personnel, including the introduction of a long term incentive scheme, to be now considered on an annual basis.

At the 2012 AGM, shareholders approved the granting of 1,220,000 performance rights to the Managing Director and CEO, Dr Ron Weinberger. In August 2013, a further 712,970 performance rights were issued to selected KMPs and senior executives. The performance rights were issued by the Nanosonics Employee Share Option Plan (ESOP), which will vest in accordance with the rules of the ESOP and are subject to the performance and service vesting conditions described below.

Performance condition

Financial Year	Revenue and Net Profit after Tax (NPAT)	% of Performance Rights to Vest
30 June 2015	Revenue of $50M or more and NPAT of 12% of revenue or more	100%

Service condition

Continuous employment with Nanosonics Limited from the date of grant to the Vesting Date, being 31 August 2015. The performance rights granted to Dr Weinberger include additional service conditions as follows: 50% of any Nanosonics shares acquired by the DESP Trustee on behalf of Dr Weinberger will be available to Dr Weinberger on acquisition; and 50% of any Nanosonics shares acquired by the DESP Trustee on behalf of Dr Weinberger will be available to Dr Weinberger provided he remains with Nanosonics Limited until 31 August 2016. If Dr Weinberger does not satisfy these further service vesting conditions, the shares will be subject to forfeiture.

If the vesting conditions are satisfied, the performance rights will automatically vest, at no cost and no amount payable, and shares will be acquired either on-market or via a new issue of shares under the Nanosonics Deferred Employee Share Plan (DESP).

Any performance rights which fail to meet the performance condition or service condition above will lapse immediately: there will be no retesting.

2. Service agreements

On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment which summarises the Board policies and terms, including compensation, relevant to the office of director. A copy of the letter is available on the Company's website. Remuneration and other terms of employment for the Managing Director and CEO, CFO and KMP are formalised in employment agreements. Each of these agreements provides for the provision of performance-related cash bonuses and participation, when eligible, in the share-based compensation plans. Employment contracts for KMP may be terminated by either party with one month's notice, except in the case of the Managing Director and CEO and Chief Operations Officer, where the Company is required to give three months' notice of termination, and in the case of the CFO, where the Company is required to give four months' notice of termination.

3. Share-based compensation

The Company has three share-based compensation schemes designed to facilitate the provision of short-term and long-term incentives for executives and certain employees. The schemes are:

- Employee Share Option Plan ("ESOP")
- Exempt Employee Share Plan ("EESP")
- Deferred Employee Share Plan ("DESP")

3.1 Nanosonics Employee Share Option Plan

The establishment of the Nanosonics Employee Share Option Plan (ESOP) was approved by the directors on 2 April 2007.

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

Under the ESOP, participants are granted options for no consideration which vest in varying tranches from the date of issue. The exercise price of options is determined by the Board at the time of issue. Options vest and become exercisable at the end of each vesting period. The ESOP requires the holder to be an employee of the Company at the time vested options are exercised, except that they may be exercised up to 30 days after voluntary termination of employment or within a period as approved by the Board. When exercisable, each option is convertible into one ordinary share which ranks equally with any other share on issue in respect of dividends and voting rights.
The Company granted 2,487,891 ESOP options during the year (2012: 657,442 options).

3.2 Nanosonics Employee Share Plans

The Company has two employee share plans, being the Exempt Employee Share Plan ("EESP") and the Deferred Employee Share Plan ("DESP").

Adoption of the EESP and DESP was approved at a general meeting of shareholders on 3 November 2010 and the approval is for a period of 3 years. Shareholder approval was also granted on 3 November 2010 to enable the Company to grant financial assistance under both the EESP and the DESP in accordance with the *Corporations Act 2001*.

Nanosonics Exempt Employee Share Plan

The EESP enables eligible employees, including directors, to acquire up to $1,000 worth of Nanosonics shares each year on a tax-exempt basis in accordance with enabling tax legislation. As a contemporary company the Board believes allowing employees to acquire equity in the Company on tax-preferred terms should be encouraged. No shares have been issued under the EESP to the date of this report.

Nanosonics Deferred Employee Share Plan

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 and impending changes to legislation, not to pay tax for up to 10 years on the benefit in accordance with enabling tax legislation. The DESP is designed to allow the Company to meet contemporary executive equity incentive practices. No shares were granted under the DESP during the financial year (2012: Nil). However, shares issued on the exercise of share options granted to employees as part of their short term incentive has been included in the DESP.

Details of share-based compensation included in director and key management personnel remuneration are set out in Parts 7 and 8 of the Remuneration Report and in the Share-based compensation note to the financial statements.

4. Directors and key management personnel

All the directors and key management personnel named in this report held office throughout the year ended 30 June 2013, except for Michael Kavanagh, who was appointed non-executive director on 30 July 2012. On 28 August 2013 the Company announced that Michael Kavanagh was appointed as CEO and President effective 21 October 2013. At the same time, the Company announced that Dr Weinberger was appointed to the newly created office of President Technology Development / Commercialisation. Apart from these changes, there were no other changes to KMP after the reporting date and before the date the financial report was authorised for issue.

5. Remuneration of directors and key management personnel

Details of the nature and amount of each major element of the remuneration of each director of the Company, key management personnel and each of the five highest remunerated Company executives are set out below. No remuneration was paid by any other company in the Group. The aggregate remuneration for non-executive directors for the current financial year was within the aggregate amount of $500,000 approved at a general meeting of the Company on 19 September 2006.

Remuneration of directors and key management personnel

Non-executive directors	
Maurie Stang	**2013**
	2012
Richard England	**2013**
	2012
David Fisher	**2013**
	2012
Michael Kavanagh[7]	**2013**
	2012
Executive directors	
Ron Weinberger[1]	**2013**
	2012
Key management personnel	
McGregor Grant[2]	**2013**
	2012
Gerard Putt[3]	**2013**
	2012
Michael Potas	**2013**
	2012
Kirste Courtney[4]	**2013**
	2012
Vincent Wang[5]	**2013**
Jianhe Chen[6]	**2012**
Total	**2013**
Total	2012

Short-term benefits				Long-term benefits		Share-based payments				
Salary and fees $	Cash bonus $	Non-monetary benefits $	Other $	Superannuation $	Long service leave $	Options and rights[a] $	Shares $	Termination payments $	Total $	Performance related %
90,000	**–**	**–**	**–**	**8,100**	**–**	**–**	**–**	**–**	**98,100**	**–**
90,000	–	–	–	16,200	–	–	–	–	106,200	–
60,000	**–**	**–**	**–**	**5,400**	**–**	**879**	**–**	**–**	**66,279**	**–**
60,000	–	–	–	10,800	–	2,993	–	–	73,793	–
60,000	**–**	**–**	**–**	**5,400**	**–**	**–**	**–**	**–**	**65,400**	**–**
58,915	–	–	–	5,510	–	–	–	–	64,425	–
55,450	**–**	**–**	**–**	**4,991**	**–**	**–**	**–**	**–**	**60,441**	**–**
–	–	–	–	-	–	–	–	–	-	–
310,000	**32,901**	**42,886**	**3,100**	**16,470**	**14,193**	**125,877**	**–**	**–**	**545,427**	28%
303,065	29,550	29,034	–	16,441	16,286	31,161	–	–	425,537	10%
284,801	**29,751**	**–**	**527**	**16,470**	**–**	**173,075**	**–**	**–**	**504,624**	11%
251,577	–	–	356	16,662	–	237,113	–	–	505,708	–
229,577	**24,227**	**–**	**231**	**16,470**	**–**	**79,424**	**–**	**–**	**349,929**	13%
191,500	–	–	231	16,450	–	94,782	–	–	302,963	–
180,000	**18,591**	**–**	**–**	**15,956**	**7,252**	**23,386**	**–**	**–**	**245,185**	17%
152,385	16,296	–	–	14,958	11,723	9,274	–	–	204,636	12%
151,875	**16,928**	**–**	**–**	**15,174**	**–**	**26,127**	**–**	**–**	**210,104**	19%
141,623	17,118	–	–	14,929	–	19,273	–	–	192,943	19%
151,875	**16,928**	**–**	**–**	**15,174**	**–**	**18,245**	**–**	**–**	**202,222**	17%
121,803	**15,493**	**–**	**40**	**25,136**	**–**	**26,226**	**–**	**–**	**188,698**	12%
1,573,578	**139,326**	**42,886**	**3,858**	**119,605**	**21,445**	**447,013**	**–**	**–**	**2,347,711**	
1,370,868	78,457	29,034	627	137,086	28,009	420,822	–	–	2,064,903	

[1] On 9 November 2012 Dr Weinberger was granted 1,220,000 options which vest on 31 August 2015, subject to vesting conditions.

[2] Mr Grant joined the Company on 28 April 2011 as Chief Financial Officer and Company Secretary. As part of his employment contract, he was granted 1,000,000 options which vest in 4 tranches, subject to service conditions.

[3] Mr Putt was granted, 400,000 options which vest in 4 tranches subject to service conditions, as part of his employment contract on his appointment on 27 April 2011.

[4] Mrs Courtney is included as one of the five named Company or Group executives who received the highest remuneration in the current financial year.

[5] Mr Wang is included as one of the five named Company or Group executives who received the highest remuneration in the current financial year.

[6] Ms Chen was included as one of the five named Company or Group executives who received the highest remuneration in the previous financial year.

[7] Mr Kavanagh was appointed non-executive director on 30 July 2012.

[a] The value disclosed above is the proportion of the fair value of the options and shares allocated to the financial year. The ability to exercise the options and shares is subject to vesting conditions (i.e service conditions and/ or based on achievement of personal goals and specified performance criteria). The estimated value of options for the current financial year is calculated at the date of the grant using the Black-Scholes model. Further details of the options granted during the financial year are set out on pages 42 to 45 and the Share-based compensation note to the financial statements.

6. Fair value of share-based compensation

6.1 Shares

The issue price for shares granted during the year 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 during the year is taken to be the issue price. This amount is allocated to remuneration in the period the shares are granted, unless the shares have a vesting condition, in which case this amount is allocated to remuneration evenly over the vesting period and a share based payments reserve is created as part of shareholders' equity.

6.2 Options

The fair value of options granted during the year is the value calculated at grant date using a Black-Scholes option pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. A share based payments reserve is created as part of shareholders' equity. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account in both the current and prior periods. Comparative information is not restated as market conditions were already included in the valuation.

The value of options exercised during the year is calculated as the market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the options were exercised after deducting the price paid to exercise the options.

The value of options which lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using a Black-Scholes model with no adjustments for whether the performance criteria have or have not been achieved.

The following factors and assumptions were used in determining the fair value on grant date of options granted to directors, key management personnel and five highest remunerated Company executives which were unexpired on 30 June 2013:

Option type	Grant date	Expiry date	Share price at grant date	Exercise price	Estimated volatility	Risk free interest rate	Value of option
GSOP	Jan-10	5-Jan-14	$0.62	$0.55	71.04%	5.29%	$0.30
ESOP	Aug-10	19-Jul-14	$0.54	$0.56	74.87%	4.77%	$0.31
ESOP	May-11	28-Apr-16	$0.80	$0.85	73.62%	5.14%	$0.50
ESOP	Nov-12	30-Sep-15	$0.55	$0.00	45.46%	2.58%	$0.55
ESOP	Nov-12	1-Oct-13	$0.55	$0.00	39.91%	2.66%	$0.55
ESOP	Apr-13	1-Apr-14	$0.45	$0.00	35.35%	2.83%	$0.45

The following factors and assumptions were used in determining the fair value on grant date of options granted to directors, key management personnel and five highest remunerated Company executives which were granted after 30 June 2013 and to the date of this report:

Option type	Grant date	Expiry date	Share price at grant date	Exercise price	Estimated volatility	Risk free interest rate	Value of option
ESOP	Aug-13	30-Sept-15	$0.78	$0.00	45.49%	2.35%	$0.78

7. Share-based compensation granted as remuneration

7.1 Shares granted

No shares were granted during the year as long-term incentive remuneration under the Company's Deferred Employee Share Plan (DESP) to each director, each of the key management personnel and each of the five highest remunerated Company executives.

7.2 Options granted

The vesting profiles as at 30 June 2013 of options granted under the Company's Employee Share Option Plan (ESOP) and General Share Option Plan (GSOP) as long-term incentive remuneration to each director, each of the key management personnel and each of the five highest remunerated Company executives are detailed below.

	Option plan, exercise price	Number granted	Date granted	Expiry date	Number vested	Number exercised	Number lapsed/ forfeited	Number vesting in future financial years[1]		
								2014	2015	2016
Directors										
Richard England	GSOP@$0.55	50,000	Jan-10	05-Jan-14	50,000	–	–	–	–	–
Ron Weinberger	ESOP@$0.00*	38,726	Apr-13	01-Apr-14	–	–	–	38,726	–	–
	ESOP@$0.00[2]	1,220,000	Nov-12	30-Sep-15	–	–	–	–	–	1,220,000
	ESOP@$0.00*	29,881	Nov-12	01-Oct-13	–	–	–	29,881	–	–
	ESOP@$0.00*	30,970	Apr-12	01-Apr-13	30,970	30,970	–	–	–	–
	ESOP@$0.00*	20,689	Jan-12	01-Oct-12	20,689	20,689	–	–	–	–
	ESOP@$0.556	200,000	Jul-10	19-Jul-14	132,000	–	–	68,000	–	–
	ESOP@$0.75	175,000	Apr-07	17-May-11	175,000	175,000	–	–	–	–
	ESOP@$0.20	1,000,000	Apr-07	17-May-11	1,000,000	1,000,000	–	–	–	–
Key management personnel										
McGregor Grant	ESOP@$0.00*	35,578	Apr-13	01-Apr-14	–	–	–	35,578	–	–
	ESOP@$0.00*	26,478	Nov-12	01-Oct-13	–	–	–	26,478	–	–
	ESOP@$0.85	1,000,000	May-11	28-Apr-16	500,001	–	–	333,333	166,666	–
Gerard Putt	ESOP@$0.00*	29,357	Apr-13	01-Apr-14	–	–	–	29,357	–	–
	ESOP@$0.00*	21,189	Nov-12	01-Oct-13	–	–	–	21,189	–	–
	ESOP@$0.85	400,000	May-11	27-Apr-16	200,001	–	–	133,333	66,666	–
Michael Potas	ESOP@$0.00*	22,486	Apr-13	01-Apr-14	–	–	–	22,486	–	–
	ESOP@$0.00*	16,299	Nov-12	01-Oct-13	–	–	–	16,299	–	–
	ESOP@$0.00*	15,544	Apr-12	01-Apr-13	15,544	15,544	–	–	–	–
	ESOP@$0.00*	12,905	Jan-12	01-Oct-12	12,905	12,905	–	–	–	–
	ESOP@$0.345	75,000	Jun-09	26-Jun-13	75,000	75,000	–	–	–	–
	ESOP@$0.75	175,000	Apr-07	17-May-11	175,000	–	175,000	–	–	–

Remuneration report (continued)

	Option plan, exercise price	Number granted	Date granted	Expiry date	Number vested	Number exercised	Number lapsed/ forfeited	Number vesting in future financial years[1]		
								2014	2015	2016
Kirste Courtney	ESOP@$0.00*	18,973	Apr-13	01-Apr-14	–	–	–	18,973	–	–
	ESOP@$0.00*	16,299	Nov-12	01-Oct-13	–	–	–	16,299	–	–
	ESOP@$0.00*	15,484	Apr-12	01-Apr-13	15,484	15,484	–			–
	ESOP@$0.00*	14,379	Jan-12	01-Oct-12	14,379	14,379	–			–
	ESOP@$0.556	100,000	Aug-10	19-Jul-14	67,000	–	–	33,000	–	–
	ESOP@$0.345	75,000	Jun-09	26-Jun-13	75,000	75,000	–	–	–	–
	ESOP@$0.30	45,000	Nov-08	19-Nov-12	45,000	45,000	–	–	–	–
Vincent Wang	ESOP@$0.00*	18,973	Apr-13	01-Apr-14	–	–	–	18,973	–	–
	ESOP@$0.00*	16,299	Nov-12	01-Oct-13	–	–	–	16,299	–	–
	ESOP@$0.00*	10,987	Apr-12	01-Apr-13	10,987	10,987	–	–	–	–
Jianhe Chen[3]	ESOP@$0.00*	17,143	Apr-13	01-Apr-14	–	–	–	17,143	–	–
	ESOP@$0.00*	14,727	Nov-12	01-Oct-13	–	–	–	14,727	–	–
	ESOP@$0.00*	12,409	Apr-12	01-Apr-13	12,409	12,409	–	–	–	–
	ESOP@$0.00*	14,575	Jan-12	01-Oct-12	14,575	14,575	–	–	–	–
	ESOP@$0.556	200,000	Jul-10	19-Jul-14	132,000	–	–	68,000	–	–

[1] In terms of the rules of the DESP and ESOP, shares and options will vest only if the holder is an employee of the Group and/or if the performance condition is met on the vesting date. All options expire on the fourth anniversary of the grant date or a year after the vesting date of the last tranche of options with the exception of the zero-priced options issued under the option plans as short term incentives marked * which typically expire a month after the vesting date within a year from the grant date.

* Zero-priced options issued as part of short term incentive.

[2] These options are issued as long term incentive and vest on 31 August 2015 subject to performance conditions.

[3] Ms Jianhe Chen was included as one of the five named Company or Group executives who received the highest remuneration in the previous financial year.

8. Movements in share-based compensation

8.1 Shares

No shares were granted as incentive remuneration to each director of the Company, each of the other key management personnel and each of the five highest remunerated Company executives named during the year (2012: Nil).

8.2 Options

Details of the movement during the reporting period, by value, of options granted as long-term incentive remuneration to each director of the Company, each of the other key management personnel and each of the five highest remunerated Company executives named are detailed below.

		Value of options		
		Granted in year[1] $	Exercised in year $	Forfeited in year $
Directors				
Ron Weinberger	**2013**	**704,861**	**27,794**	**–**
	2012	51,659	–	–
Key management personnel				
McGregor Grant	**2013**	**30,573**	**–**	**–**
	2012	–	–	–
Gerard Putt	**2013**	**24,865**	**–**	**–**
	2012	–	–	–
Michael Potas	**2013**	**19,083**	**26,769**	**–**
	2012	15,412	–	–
Kirste Courtney	**2013**	**17,502**	**35,833**	**–**
	2012	16,237	–	–
Vincent Wang[2]	**2013**	**17,502**	**5,603**	**–**
	2012	14,782	–	–
Jianhe Chen[3]	**2012**	**–**	**–**	**–**
	2011	62,000	38,565	115,935

[1] The total value of options granted in the year is shown in the table above. This amount is assessed and allocated to remuneration over the vesting period taking into account the probability of achievement of vesting conditions.

[2] Mr Vincent Wang is included as one of the five named Company or Group executives who received the highest remuneration in the current year.

[3] Ms Jianhe Chen was included as one of the five named Company or Group executives who received the highest remuneration in the previous financial year but not in the current year.

Contents of the financial statements

For the year ended 30 June 2013

Auditor's independence declaration

UHY Haines Norton
Chartered Accountants

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

To the Directors of Nanosonics Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2013, there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Franco Giannuzzi
Partner

UHY Haines Norton
Chartered Accountants

Sydney

Date: 18 September 2013

UHY Haines Norton - ABN 85 140 758 156 NSWBN 98 133 826

Level 11, 1 York Street Sydney NSW 2000
GPO Box 4137 Sydney NSW 2001

t +61 2 9256 6600
f +61 2 9256 6611

e sydney@uhyhn.com.au
w www.uhyhn.com

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2013

	Notes	2013 $'000	2012 $'000
Continuing operations			
Sale of goods and services	5	14,899	12,301
Cost of sales		(6,428)	(4,799)
Gross profit		8,471	7,502
Other income			
Government grants	6	1,498	150
Interest income	6	1,192	586
Total other income		2,690	736
Operating expenses			
Staffing costs	7	9,177	7,745
Intellectual property		459	382
Quality & regulatory management		247	124
Business development		988	684
Premises, plant & equipment		1,567	1,370
External consultants & advisors		1,861	1,470
Other operating costs		2,080	1,773
Total operating expenses		16,379	13,548
Other expense			
Borrowing costs	22	517	–
Operating loss before income tax		(5,735)	(5,310)
Income tax (expense)/benefit	8	(33)	631
Net loss after income tax expense attributable to owners of the parent entity		(5,768)	(4,679)
Other comprehensive income **Items that may be reclassified subsequently to profit or loss:**			
Exchange difference on foreign currency translation		38	3
Income tax on items of other comprehensive income		–	–
Total items that may be reclassified subsequently to profit or loss:		38	3
Total other comprehensive income		38	3
Total comprehensive income for the period attributable to owners of the parent entity		(5,730)	(4,676)
(Loss) per share for losses attributable to ordinary shareholders of the company:		Cents	Cents
Basic (loss) per share	31	(2.2)	(2.0)
Diluted (loss) per share	31	(2.2)	(2.0)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 30 June 2013

	Notes	2013 $'000	2012 $'000
Current assets			
Cash and cash equivalents	9	**24,064**	29,310
Trade and other receivables	10	**4,199**	3,030
Inventories	11	**2,909**	2,398
Derivative financial instruments	12	**–**	31
Other current assets	13	**488**	205
Total current assets		**31,660**	34,974
Non-current assets			
Property, plant and equipment	15	**1,812**	1,468
Intangible assets	16	**37**	77
Other non-current assets	17	**144**	141
Total non-current assets		**1,993**	1,686
Total assets		**33,653**	36,660
Current liabilities			
Trade and other payables	18	**3,002**	2,374
Derivative financial instruments	12	**198**	–
Deferred revenue	19	**209**	91
Employees provisions	20	**783**	989
Borrowings	21	**6**	6
Total current liabilities		**4,198**	3,460
Non-current liabilities			
Employees provisions	20	**183**	143
Borrowings	21	**24**	30
Convertible notes	22	**7,541**	7,024
Total non-current liabilities		**7,748**	7,197
Total liabilities		**11,946**	10,657
Net assets		**21,707**	26,003
Equity			
Contributed equity	23	**74,068**	73,532
Option premium on convertible notes	22	**376**	376
Reserves	24	**2,700**	1,764
Accumulated loss		**(55,437)**	(49,669)
Total equity		**21,707**	26,003

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 30 June 2013

	Contributed equity	Option premium on convertible notes	Share-based payments reserve	Foreign currency translation reserve	Accumulated losses	Total equity
	Note 23 **$'000**	Note 22 **$'000**	Note 24 **$'000**	Note 24 **$'000**	**$'000**	**$'000**
At 30 June 2011	58,138	–	1,172	(14)	(44,990)	14,306
Loss for the period	–	–	–	–	(4,679)	(4,679)
Other comprehensive income	–	–	–	3	–	3
Total comprehensive income (loss)	–	–	–	3	(4,679)	(4,676)
Transactions with owners in their capacity as owners						
Shares issued	15,500	–	–	–	–	15,500
Convertible notes issued	–	381	–	–	–	381
Transaction costs	(188)	(5)	–	–	–	(193)
Share-based payment	82	–	603	–	–	685
At 30 June 2012	**73,532**	**376**	**1,775**	**(11)**	**(49,669)**	**26,003**
Loss for the period	**–**	**–**	**–**	**–**	**(5,768)**	**(5,768)**
Other comprehensive income	**–**	**–**	**–**	**38**	**–**	**38**
Total comprehensive income (loss)	**–**	**–**	**–**	**38**	**(5,768)**	**(5,730)**
Transactions with owners in their capacity as owners						
Shares issued	**381**	**–**	**–**	**–**	**–**	**381**
Transaction costs	**(48)**	**–**	**–**	**–**	**–**	**(48)**
Share-based payment	**203**	**–**	**898**	**–**	**–**	**1,101**
At 30 June 2013	**74,068**	**376**	**2,673**	**27**	**(55,437)**	**21,707**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 30 June 2013

	Notes	2013 $'000	2012 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**14,025**	10,741
Receipts from government grants (inclusive of refundable R&D tax offset)	6	**1,498**	150
Receipts from ATO for R&D tax concession		**–**	678
Payments to suppliers and employees (inclusive of GST)		**(21,086)**	(17,166)
Interest received		**1,096**	615
Income taxes paid		**(39)**	(47)
Net cash used in operating activities	**30**	**(4,506)**	(5,029)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,359)**	(844)
Net cash used in investing activities		**(1,359)**	(844)
Cash flow from financing activities			
Net proceeds from issue of shares and exercise of options		**536**	15,394
Net (repayments of) proceeds from borrowings		**(6)**	36
Net proceeds from issue of convertible notes		**–**	7,400
Net cash provided by financing activities		**530**	22,830
Net increase (decrease) in cash and cash equivalents		**(5,335)**	16,957
Cash and cash equivalents at the beginning of the financial year		**29,310**	12,356
Effects of exchange rate changes on cash and cash equivalents		**89**	(3)
Cash and cash equivalents at the end of year	9	**24,064**	29,310

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2013

1. Corporate information

The financial report on pages 48 to 93 covers Nanosonics Limited as a consolidated entity consisting of Nanosonics Limited (the Company) and its subsidiaries (the Group).

Nanosonics Limited is a company, limited by shares, incorporated and domiciled in Australia.

A description of the nature of the Group's operations and its principal activities is included in the Review of operations on pages 10 to 13 and in the Directors' report on page 24.

The financial report was authorised for issue in accordance with the resolution of the directors on 18 September 2013.

2. Summary of significant accounting policies

a. Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis and does not take into account changes in money values, except for derivative financial instruments, which have been measured at fair value.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest one thousand dollars ($'000) unless otherwise stated.

b. Compliance with IFRS

The financial report of Nanosonics Limited also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

c. New accounting standards and interpretations

1) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2012:

- AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income, effective 1 July 2012.

The adoption of the standards or interpretations is described below:

AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income*

This standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not. The adoption of the amendment is reflected in the statement of profit or loss and other comprehensive income and did not have any impact on the financial position or performance of the Group.

Improvements to AASBs

In May 2010, the AASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies and disclosures, but no impact on the financial position or performance of the Group.

- AASB 7 *Financial Instruments – Disclosures:* The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in Note 3 to the financial statements.
- AASB 101 *Presentation of Financial Statements:* The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in the Statement of Changes in Equity.
- AASB 127 *Consolidated and Separate Financial statements;* and
- AASB 134 *Interim Financial Statements*.

Other amendments resulting from Improvements to AASBs did not have any impact on the accounting policies, financial position or performance of the Group.

2) Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2013, are outlined below:

Standards to be applied by the Group effective 1 July 2013:

- AASB 10 *Consolidated Financial Statements*, effective 1 January 2013. AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation – Special Purpose Entities*. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

Consequential amendments were also made to other standards via AASB 2011-7

- AASB 11 *Joint Arrangements*, effective 1 January 2013
- AASB 12 *Disclosure of Interests in Other Entities*, effective 1 January 2013
- AASB 13 *Fair Value Measurement*, effective 1 January 2013. AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.
- AASB 119 *Employee Benefits*, effective 1 January 2013. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments

were also made to other standards via AASB 2011-10. The adoption of this standard by the Group will affect the current and noncurrent classification of provision for employee benefits.

- *Annual Improvements to IFRSs 2009–2011 Cycle*, effective 1 January 2013. This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have been adopted by the AASB for AASB 1, AASB 101, AASB 116, AASB 132 and AASB 134 via by ASB 2012-5 effective 1 January 2013.
- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*, effective 1 January 2013. This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.
- AASB 1053 *Application of Tiers of Australian Accounting Standards*, effective 1 July 2013. This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11 and – 1.
- AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments,* effective 1 January 2013. The transition guidance amendments to AASB 10 *'Consolidated Financial Statements'* and related Standards and interpretations clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.

Standards to be applied by the Group beyond 1 July 2013:

- AASB 9 *Financial Instruments*, effective 1 January 2013. AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 and AASB 2012-6 to reflect amendments to the accounting for financial liabilities and to defer the mandatory effective date to annual periods beginning on or after 1 January 2015. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

Unless otherwise stated above, the future adoption of the above standards is not expected to have a significant effect on the way the Group accounts for and presents its financial results.

d. Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Nanosonics Limited ('Company' or 'parent entity') as at 30 June each year and the results of all subsidiaries for the year then ended. Nanosonics Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

A list of controlled entities is contained in note 14 to the financial statements.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In prior years, for the subsidiary with non-coterminous year end, management accounts for the relevant period to the Group's reporting date have been consolidated. In the opinion of the directors, the expense of providing additional coterminous statutory accounts, together with consequential delay in producing the Group's financial statements would outweigh any benefit to shareholders. Effective 1 July 2012, all subsidiaries have the same reporting period as the parent company.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. 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.

Investments in subsidiaries are accounted for at cost in the separate financial statements of Nanosonics Limited less any impairment charge.

e. Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Managing Director and CEO, who is the Group's chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments.

f. Foreign currency

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Nanosonics Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing 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 income statement, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

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

(iii) Group companies

The functional currency of the overseas subsidiaries is as follows:

- Nanosonics Europe GMBH is Euro; and
- Nanosonics Inc. is US dollars.

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income 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.

g. Revenue recognition

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

(ii) Sale of services

Revenue from trophon® EPR maintenance and repairs are recognised as services are rendered. Revenue from service contracts are recognised as services are rendered over the service period, typically over one year. Unearned service revenue is deferred and recognised as liability in the Statement of Financial Position.

(iii) Interest income

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

h. Government grants

Grants from government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with the attached conditions.

i. Income tax and other taxes

The income tax expense or revenue for the period is the tax payable on 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, 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. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance 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 only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation

Nanosonics Limited and its wholly-owned Australian controlled entity are part of a tax consolidated group.

The head entity, Nanosonics Limited, and the controlled entity in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Nanosonics Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

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

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

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

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

j. Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as a lessee

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 statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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 charged to the income statement on a straight-line basis over the period of the lease.

Group as a lessor

Leases in which the Group does not transfer all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

k. Borrowing costs

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.

l. 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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

m. Trade receivables

Trade receivables, which generally have 30 to 60 day credit terms, are recognised at fair value less provision for impairment. The collectability of trade receivables is reviewed on an on-going basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. A provision for impairment of trade receivables account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment loss is recognised in the income statement with other expenses. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of profit or loss.

n. Inventories

Raw materials, starting components, consumable stores, work in progress and finished goods are stated at the lower of cost and net realisable value.

Costs of purchased inventory are determined to be actual costs on a batch basis, after including import duties, taxes (other than those subsequently recoverable by the entity), transport, handling and other costs directly attributable to the acquisition of the inventory, and after deducting rebates and discounts.

Costs of work in progress and finished goods comprise purchased materials at cost, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

o. Investments and other financial assets

Classification

Financial assets within the scope of AASB 139 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

The Group's financial assets include cash and short-term deposits, trade and other receivables, and derivative financial instruments.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. All of the Group's cash term investments are captured in this category. Cash term investments, which are highly liquid irrespective of their maturity dates, are classified as current assets, as they may not necessarily be held for their full term.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Receivables are disclosed in trade and other receivables (note 10) in the Statement of Financial Position.

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments.

Recognition and derecognition

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

Receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

At each balance date the Group assesses whether there is objective evidence that a financial asset is impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss previously recognised in profit or loss, is recognised in the income statement.

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

Notes to the financial statements (continued)

For the year ended 30 June 2013

p. Derivative financial instruments and hedge accounting

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

The fair values of 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 income 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 profit or loss.
- 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 profit or loss.

q. Convertible notes

Convertible notes are separated into liability and equity components based on the terms of the contract.

On issuance of the convertible note, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible note based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

r. Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation and/or accumulated impairment losses, if any. 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 assets is derecognised when it is replaced. All other repairs and maintenance are charged to the income 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 statement of profit or loss.

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. The assets' residual values, useful lives and depreciation methods are reviewed prospectively and adjusted if appropriate at least annually. Depreciation is expensed. The depreciation rates or useful lives used for each class of assets are as follows:

Depreciation of property, plant and equipment	2013	2012
Laboratory fit-out	6 years	6 years
Laboratory and manufacturing equipment	5 years	5 years
Office furniture and equipment	7 years	7 years
Computer equipment and software	3 years	3 years
Leasehold improvements	Lease term	Lease term
Service and demonstration equipment	2-3 years	2-3 years

s. 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. The expenditure capitalised comprises directly attributable costs, including costs of materials and services. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development expenditure which has a finite life is recorded as an intangible asset from the point at which the asset is ready for use and amortised on a straight-line basis over the period during which the related benefits are expected to be realised.

(ii) Patents and Trademarks

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

t. Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. Intangible assets are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets 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 assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and 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.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

u. 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 payment in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition.

v. Provisions

Provisions for legal claims, service warranties and other obligations 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 is 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.

Provision for warranties

Provision is made in respect of the Group's estimated liability on all products under warranty at balance 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. The provision is included in Current liabilities – trade and other payables in the Statement of Financial Position.

w. Employee benefits

Wages, salaries and annual leave and sick leave

Liabilities for employee benefits, including wages, salaries and non-monetary benefits, and accumulating annual and other leave, represent present obligations resulting from employees' services provided to reporting date. Employee benefits have been measured at the amounts expected to be paid when the liability is settled and are recognised in the provision for employee benefits. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

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 national government bonds with terms to maturity that match as closely as possible, the estimated future cash outflows.

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.

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.

Share-based compensation

Share-based compensation benefits are provided to employees via the Nanosonics share-based compensation plans. Information relating to the plans is set out in the Remuneration report on page 39 and in note 32 to the financial statements.

Share option plans

The assessed fair value on the date options are granted is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the 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 option. In valuing options, market conditions are taken into account in both the current and prior periods. Comparative information is not restated as market conditions were already included in the original valuation.

General Share Option Plan (GSOP)

The assessed fair values of options granted under the GSOP are expensed in full in the month in which they are granted with a corresponding increase in a share based payments reserve as part of shareholders' equity, except where the options are granted as part of a capital raising programme, in which case no cost is recognised.

Employee Share Option Plan (ESOP)

The fair value of options granted under ESOP is recognised as an employee benefit expense with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for share-based payment transactions 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 income statement expense or credit for a period represents the movement in cumulative expense recognised as the beginning and end of that period.

No expense is recognised for options that do not ultimately vest, except for option transaction for which vesting is 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.

The value of ESOP options exercised is calculated as the market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the options are exercised after deducting the price paid to exercise the options. The value so derived is transferred within shareholders' equity, from the share based payments reserve to accumulated profits/(losses).

The value of ESOP options which lapse represents the benefit forgone and is calculated at the date the option lapsed using a Black-Scholes model with no adjustments for whether the performance criteria have or have not been achieved. The value so derived is transferred within shareholders' equity, from the share based payments reserve to accumulated profits/(losses).

Deferred Employee Share Plan (DESP)

The issue price of DESP shares granted during the year 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 are granted. The fair value of DESP shares granted is taken to be the issue price.

The assessed fair values of DESP shares are expensed in full in the month in which they are granted with a corresponding increase in equity, except if they are granted with a vesting condition, in which case the fair value of 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 with vesting conditions expensed in any period is calculated as that portion of the fair value applicable to the period factored by the probability of achievement and a share based payments reserve is created as part of shareholders' equity.

x. Contributed equity

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

y. 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.

z. Rounding of amounts

The Company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars.

3. Financial risk management

The Group is exposed to financial risks, predominantly interest rate risk, foreign currency risk and credit risk and it has a financial risk management program which seeks to minimise potential adverse effects on financial performance. The Board provides written principles for investment of the Group's cash reserves, so as to ensure operational liquidity whilst optimising interest earnings from a mix of instruments with one or more of Australia's four main banks.

The Group held the following financial instruments:

Financial assets	2013 $'000	2012 $'000
Cash and cash equivalents	**24,064**	29,310
Trade and other receivables	**4,199**	3,030
Derivative financial instruments	**–**	31
Total financial assets	**28,263**	**32,371**

Financial liabilities	2013 $'000	2012 $'000
Trade and other payables	**2,553**	2,006
Derivative financial instruments	**198**	–
Convertible notes	**7,541**	7,024
Borrowings	**30**	36
Total financial liabilities	**10,322**	**9,066**

a. Interest rate risk exposures

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk is noted below:

			Fixed interest rate maturing in:				
2013	**Notes**	**Floating interest rate**	**1 year or less**	**Over 1 to 5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
Financial assets							
Cash and cash equivalents	9	5,477	18,587	–	–	–	24,064
Trade and other receivables	10	–	–	–	–	4,199	4,199
Derivative financial instruments	12	–	–	–	–	–	–
Total financial assets		**5,477**	**18,587**	**–**	**–**	**4,199**	**28,263**
Weighted average interest rate		**3.34%**	**4.20%**	**–**	**–**	**–**	**–**
Financial liabilities							
Trade and other payables	18	–	–	–	–	2,553	**2,553**
Derivative financial instruments	12	–	–	–	–	198	**198**
Convertible notes	22	–	–	7,541	–	–	**7,541**
Borrowings	21	–	6	24	–	–	**30**
Total financial liabilities		**–**	**6**	**7,565**	**–**	**2,751**	**10,322**
Weighted average interest rate		**–**	**8.06%**	**6.01%**	**–**	**–**	**–**
Net financial assets (liabilities) 2013		**5,477**	**18,581**	**(7,565)**	**–**	**1,448**	**17,941**

Notes to the financial statements (continued)

For the year ended 30 June 2013

2012	Notes	Floating interest rate	Fixed interest rate maturing in: 1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
Financial assets							
Cash and cash equivalents	9	3,153	26,157	–	–	–	29,310
Trade and other receivables	10	–	–	–	–	3,030	3,030
Derivative financial instruments	12	–	–	–	–	31	31
Total financial assets		3,153	26,157	–	–	3,061	32,371
Weighted average interest rate		2.72%	5.46%	–	–	–	–
Financial liabilities							
Trade and other payables	18	–	–	–	–	2,006	2,006
Convertible notes	22	–	–	7,024	–	–	7,024
Borrowings	21	–	6	30	–	–	36
Total financial liabilities		–	6	7,054	–	2,006	9,066
Weighted average interest rate		–	8.09%	6.01%	–	–	–
Net financial assets (liabilities) 2012		3,153	26,151	(7,054)	–	1,055	23,305

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant:

	Increase /decrease in basis points	Effect on profit before tax and other comprehensive income $'000
2013	**+ 75**	**200**
	– 100	**(266)**
2012	+ 75	151
	– 100	(201)

b. Foreign currency risk exposures

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 expense is 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 trade receivables.

The Group's exposure to foreign currency risk at the reporting date comprised:

	2013 Euro €'000	2013 USD $'000	2012 Euro €'000	2012 USD $'000
Cash and cash equivalents	**22**	**695**	59	769
Trade and other receivables	**16**	**3,503**	86	2,021
Trade and other payables	**(27)**	**(174)**	(59)	111
	11	**4,024**	86	2,901

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonable possible change in the US dollar and Euro against the Australian dollar, with all other variables held constant:

	Change in USD rate	Effect on profit before tax and other comprehensive income $'000	Change in EUR rate	Effect on profit before tax and other comprehensive income €'000
2013	**3%**	**121**	**4%**	**0**
	– 7%	**(282)**	**– 9%**	**(1)**
2012	3%	80	4%	3
	– 7%	(188)	– 9%	(8)

c. Operational risk

Operational risk is the risk of direct and indirect loss arising from a wide variety of causes associated with company processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

An objective of the Company is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of control to address operational risk is assigned to the Audit and Financial Risk Management Committee. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

d. Credit risk

Credit risk arises from holdings in cash and cash equivalents, trade receivables, and derivative financial instruments. The Group invests only in deposits and floating rate notes offered by Australia's four main banks.

The Company has limited number of customers which are appointed distributors for specific markets. The Company, by policy, performs customer credit assessment prior to entering into a distribution agreement and routinely assesses the financial strength of its customers and reviews distribution agreements. As a result, the Company believes that its accounts receivable credit risk exposure is mitigated and has not experienced significant write-downs in its accounts receivable balances. As of 30 June 2013, GE Healthcare and Regional Healthcare, combined, accounts for over 99% of the trade receivables (2012: GE Healthcare and Regional Healthcare, combined, accounts for over 99% of the trade receivables).

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

The maximum exposure to credit risk as at the reporting date is the carrying amount of the financial assets as set out above. The carrying amount is determined according to the Group's accounting policies.

e. 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.

Maturity profile

Following is the contractual maturity profiles of undiscounted cash flows from financial liabilities:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2013						
Trade and other payables	–	2,553	–	–	–	2,553
Borrowings	–	2	6	28	–	36
Derivative financial instruments	–	198	–	–	–	198
Convertible notes	–	–	–	9,300	–	9,300
Total financial liabilities	**–**	**2,753**	**6**	**9,328**	**–**	**12,087**
2012						
Trade and other payables	–	2,006	–	–	–	2,006
Borrowings	–	2	6	36	–	44
Convertible notes	–	–	–	9,300	–	9,300
Total financial liabilities	–	2,008	6	9,336	–	11,350

Fair values

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
	2013	2012	2013	2012
Financial assets				
Cash and cash equivalents	**24,064**	29,310	**24,064**	29,310
Trade and other receivables	**4,199**	3,030	**4,199**	3,030
Derivative financial instruments	**–**	31	**–**	31
	28,263	32,371	**28,263**	32,371
Financial liabilities				
Trade and other payables	**(2,553)**	(2,006)	**(2,553)**	(2,006)
Derivative financial instruments	**(198)**	–	**(198)**	–
Convertible notes	**(7,541)**	(7,024)	**(7,541)**	(7,024)
Borrowings	**(30)**	(36)	**(30)**	(36)
	(10,322)	(9,066)	**(10,322)**	(9,066)

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, trade and other receivables, trade and other payables approximate their carrying amounts largely due to the short term maturities of these instruments.
- The Group enters into derivative financial instruments with various counterparties principally with Australia's four major banks. Derivatives valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing models, using present value calculations. The models incorporate various inputs including the foreign exchange spot and forward rates and credit quality of counterparties.

Fair value hierarchy

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.

As at 30 June 2013, the Group held the following derivative financial instruments carried at fair value in the Statement of Financial Position:

			Level 1	Level 2	Level 3
		$'000	$'000	$'000	$'000
Foreign exchange forward contracts	**30 June 2013**	(198)	–	(198)	–
Foreign exchange forward contracts	30 June 2012	31	–	31	–

4. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise judgment in the process of applying the Group's accounting policies. Estimates and associated assumptions and judgments affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities and are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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:

Provision for warranty

The Group has recognised a provision in accordance with the accounting policy describe in note 2. The Group has made assumptions in relation to the values estimated to be required to settle the warranty obligation on all products under warranty at balance date.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating the fair value for share based payment transactions requires determining the most appropriate valuation model, which is depended on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share based-payment transactions are disclosed in note 32.

Recognition of deferred tax assets

Deferred tax assets are only recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement 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. Details of the unrecognised deferred tax assets on unused tax losses are disclosed in note 8.

5. Segment information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director and CEO (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.

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.

Major customers

The Group has a number of customers to which it provides products and services. The most significant customer accounts for 88% (2012: 83%) of external revenue. The next most significant customer accounts for 7% of external revenue (2012: 9.5%).

Geographical information

Geographically, the Group operates in the global markets. Australia is the home country of the parent entity. Operations in Europe commenced in August 2007 and in North America in March 2011.

Revenue from external customers by geographical location is detailed below:

Segment revenue	**2013 $'000**	**2012 $'000**
North America	**13,165**	10,236
Australia and New Zealand	**1,497**	1,651
Europe and other countries	**237**	414
Total revenue	**14,899**	**12,301**

The analysis of the location of non-current assets is as follows:

Segment assets	**2013 $'000**	**2012 $'000**
North America	**17**	2
Australia and New Zealand	**1,962**	1,676
Europe and other countries	**14**	8
Total assets	**1,993**	**1,686**

Non-current assets for this purpose consist of property, plant and equipment, intangible assets and other non-current assets.

Segment information is prepared in conformity with the accounting policies of the Group as set out in note 2 and Accounting Standard AASB 8 *Operating Segments*.

Segment revenues are allocated based on the country in which the customer is located. Segment assets and capital expenditure are allocated based on where the assets are located.

Notes to the financial statements (continued)

For the year ended 30 June 2013

6. Other income

	2013 $'000	2012 $'000
Government grants	1,498	150
Interest income	1,192	586
Total	**2,690**	**736**

Government grants comprise:

a. payments under the Export Market Development Grant scheme and assistance with an overseas trade show.

b. 45% research and development refundable tax offset received during the year.

There were no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other form of governmental assistance.

7. Loss before income tax expense

	2013 $'000	2012 $'000
The loss from ordinary activities before income tax includes:		
Expenses		
Staffing costs broken into:		
Salaries and wages	7,859	6,445
Superannuation contribution	673	648
Workers compensation costs	112	64
Other employee benefits	2,302	1,495
Share-based payments	898	603
Less: Staffing costs included in cost of sales	(2,667)	(1,510)
Total staffing costs	**9,177**	**7,745**
Depreciation and amortisation	1,044	914
Research and development costs	3,167	3,135
Rental expenses relating to operating leases	537	472
Bad debts provision (reversal)	(1)	(60)
Inventories provision / write off	197	294
Unrealised loss (gain) on foreign exchange forward contracts	198	(31)
Realised loss (gain) on foreign exchange forward contracts	40	(16)

In accordance with AASB 138 *Intangible Assets*, the Company capitalises certain development costs as an intangible asset subject to amortisation – refer to note 16. No development costs were capitalised during the year (2012: NIL).

8. Taxation

	2013 $'000	2012 $'000
(a) Income tax expense		
Operating loss from ordinary activities	5,735	5,311
The prima facie income tax benefit applicable to the operating loss is calculated at 30% (2012:30%)	**1,721**	1,593
Non-assessable income		
Research and development tax offset received during the year	404	–
Non-deductible items:		
Research and development expense	(950)	(941)
Equity-based benefits	(157)	(181)
Entertainment	(13)	(12)
Other temporary differences	10	(21)
	1,015	438
Deferred tax benefit not recognised	(1,048)	(454)
Research and development tax concession received relating to previous year	–	678
Adjustment in respect of current income tax of previous years	–	(31)
Income tax benefit reported on the Consolidated Statement of profit or loss and other Comprehensive Income	**(33)**	631

(b) Deferred tax assets

The potential deferred tax assets in a controlled entity, which is a company, arising from tax losses and timing differences are only recognised when it is probable that future taxable amounts will be available to utilise those tax losses and temporary differences. Estimated tax losses carried forward are:

	2013 $'000	2012 $'000
Estimated tax losses carried forward at the end of the year	53,856	50,201
Beginning of the year unrecognised tax losses carried forward	50,201	51,495
Adjustment in respect of unrecognised tax losses carried forward from previous year	273	(2,755)
Tax losses for the year	3,382	1,461
	53,856	50,201

The potential future income tax benefit of 30% of tax losses carried forward will only be obtained if:

(i) the Company and the Group derive future assessable income of a nature and an amount sufficient to enable the benefit to be realised

(ii) the Company and the Group continue to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the Company and the Group is realising the benefit.

9. Current assets – Cash and cash equivalents

	2013 $'000	2012 $'000
Cash at bank and on hand	972	952
Deposits on call	1,005	2,201
Short term deposits	22,087	26,157
	24,064	29,310

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 3. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

10. Current assets – Trade and other receivables

	2013 $'000	2012 $'000
Trade receivables net of allowance for impairment loss	3,972	2,717
GST receivable	91	302
VAT receivable	18	5
Interest and other receivables	118	6
	4,199	3,030

As at 30 June 2013, the aging analysis of trade receivables is as follows:

			Past due but not impaired		
	Total $'000	Neither past due nor impaired $'000	<30 days $'000	30-60 days $'000	>60 days $'000
2013	3,972	3,964	2	1	5
2012	2,717	2,079	170	465	3

Information about the Group's exposure to foreign currency risk in relation to trade and other receivables is provided in note 3.

Due to the short-term nature of the receivables, their carrying amount is assumed to approximate their fair value.
The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.
Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

As at 30 June 2013, trade receivables with a nominal value of Nil (2012: $1,000) were considered impaired.

11. Current assets – Inventories

	2013 $'000	2012 $'000
Raw materials and stores – at cost	1,854	1,508
Work in progress – at cost	673	96
Finished goods – at net realisable value	382	794
	2,909	2,398

Write-downs of inventories to net realisable values during the year ended 30 June 2013 amounted to $197,000 (2012: $293,000). The expense has been included in other operating costs in the income statement.

Roll forward of provision for inventories:	2013 $'000	2012 $'000
Beginning balance	485	756
Provided during this year	197	293
Utilised during this year	(535)	(564)
Ending balance	**147**	485

12. Derivative financial instruments

	2013 $'000	2012 $'000
Current assets		
Foreign exchange forward contracts	–	31
	–	31
Current liabilities		
Foreign exchange forward contracts	(198)	–
	(198)	–

13. Current assets – Other

	2013 $'000	2012 $'000
Prepaid expenses	475	205
Prepaid foreign income tax	10	–
Service work in progress	3	–
	488	205

14. Parent company investments in controlled entities

			Equity holding %	
Name of controlled entity	**Country of incorporation**	**Class of shares**	**2013**	**2012**
Nanosonics Europe GmbH	Germany	Ordinary	100%	100%
Saban Ventures Pty Limited	Australia	Ordinary	100%	100%
Nanosonics Inc.	USA	Ordinary	100%	100%

Notes to the financial statements (continued)

For the year ended 30 June 2013

15. Non-current assets – Property plant and equipment

	Laboratory fit out	Laboratory equipment	Office furniture & equipment	Leasehold improvements	Manufacturing equipment	Service & demo equipment	Computer equipment & software	Capital Work in Progress	Total
Year ended 30 June 2012									
Opening net book amount	17	69	147	130	720	80	359	–	**1,522**
Additions	–	26	24	204	225	194	171	–	**844**
Disposals	–	–	–	–	–	(3)	(21)	–	**(24)**
Depreciation charge	(4)	(30)	(53)	(185)	(271)	(112)	(219)	–	**(874)**
Closing net book amount at 30 June 2012	13	65	118	149	674	159	290	–	**1,468**
At 30 June 2012									
Cost	343	324	799	876	1,459	621	781	–	**5,203**
Accumulated depreciation	(330)	(259)	(681)	(727)	(785)	(462)	(491)	–	**(3,735)**
Net book amount at 30 June 2012	**13**	**65**	**118**	**149**	**674**	**159**	**290**	–	**1,468**
Year ended 30 June 2013									
Opening net book amount	13	65	118	149	674	159	290	–	**1,468**
Additions	–	27	14	6	88	838	275	97	**1,345**
Disposals	–	–	–	–	–	–	–	–	**–**
Depreciation charge	(3)	(26)	(49)	(138)	(300)	(283)	(205)	–	**(1,004)**
Foreign currency translation effect (net)	–	–	–	–	–	2	1		**3**
Closing net book amount at 30 June 2013	10	66	83	17	462	716	361	97	**1,812**
At 30 June 2013									
Cost or fair value	343	351	817	882	1,546	1,462	1,057	97	**6,555**
Accumulated depreciation	(333)	(285)	(734)	(865)	(1,084)	(746)	(696)	–	**(4,743)**
Net book amount at 30 June 2013	**10**	**66**	**83**	**17**	**462**	**716**	**361**	**97**	1,812

16. Non-current assets – Intangible assets

	2013 $'000	2012 $'000
Development Costs		
At cost	201	201
Accumulated amortisation	(164)	(124)
Net book value	**37**	77

Development costs relate to the trophon® project and are carried at cost less accumulated amortisation. The intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 5 years. Amortisation of $40,000 (2012: $40,000) is included in depreciation and amortisation expense in the statement of profit or loss.

17. Non-current assets – Other

	2013 $'000	2012 $'000
Refundable deposits and bonds	**144**	141
Total	**144**	141

18. Current liabilities – Trade and other payables

	2013 $'000	2012 $'000
Trade payables	1,302	1,174
Other payables	1,251	832
Provision for warranty	449	368
Total	**3,002**	**2,374**

Roll forward of provision for warranty:

	2013 $'000	2012 $'000
Beginning balance	368	174
Provided during this year	638	236
Utilised during this year	(557)	(42)
Balance as at 30 June	**449**	**368**

The Group has recognised a provision for warranty in accordance with the accounting policy describe in note 2. The Group has made assumptions in relation to the values estimated to be required to settle the warranty obligation on all products under warranty at balance date.

19. Current liabilities – Deferred revenue

	2013 $'000	2012 $'000
Beginning balance	91	–
Deferred during the year	416	123
Released to the Statement of Profit or Loss	(298)	(32)
Ending balance	**209**	**91**

20. Employee provisions

	2013 $'000	2012 $'000
Provision for bonuses	157	619
Provision for annual leave	607	370
Provision for long service leave	202	143
Total	**966**	1,132
Employee provisions – current		
Provision for bonus	157	619
Provision for annual leave	607	370
Provision for long service leave	19	–
Total	**783**	989
Employee provisions – non-current		
Provision for long service leave	183	143
Total	**183**	143

Notes to the financial statements (continued)

For the year ended 30 June 2013

Employee benefits:	**2013 $'000**	**2012 $'000**
Aggregate liability for employee benefits, including on-cost but excluding provision for bonuses:		
Payables	142	150
Employee benefits provision	809	513

The provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also where employees are entitled to pro-rata payments in certain circumstances.

Superannuation commitments

The Company makes contributions to superannuation plans for the benefit of eligible employees. The Company has a legally enforceable obligation to make these contributions under the auspices of the Superannuation legislation and related guidelines proclaimed by the federal government. The contributions are made as a fixed percentage of salary.

21. Borrowings

	2013 $'000	**2012 $'000**
Finance lease obligations	30	36
Current portion	6	6
Noncurrent portion	24	30
Total	**30**	36

22. Convertible notes

	2013 $'000	**2012 $'000**
Non-current liabilities		
Convertible notes at amortised value	7,091	7024
Accrued interest on convertible notes	450	–
Convertible notes – noncurrent liabilities	**7,541**	7,024
Convertible notes – Equity component		
Option premium on convertible notes	376	376

On 28 June 2012, the Company issued unsecured Tranche A convertible note of $4,000,000 and Tranche B convertible note of $3,500,000 which matures 4 years after the issue date. The convertible notes bear 6% interest per annum on a simple interest basis calculated on each anniversary of the issue date. No interest repayment will be made to the noteholder in the first two years but the interest will accrue and form part of the face value of the note but will not bear any further interest. After that period, the noteholder may elect whether to receive interest in cash or to have such interest accrue and form part of the Face Value (but this will not bear further interest). The convertible notes may be converted at any time up until the Maturity Date at $0.75 per share, subject to certain adjustments. The effective interest on convertible notes is 7.364%. As at 30 June 2013, the amortised value of convertible notes recognised in non-current liabilities including accrued interest amounted to $7,541,000 (2012: $7,024,000) and borrowing costs related to the convertible notes amounted to $517,000 (2012: Nil).

23. Contributed equity

Share capital

261,988,718 ordinary fully paid shares (2012: 259,982,918)

	Number of shares	$'000
Movements in ordinary shares on issue		
At 30 June 2011	**230,490,585**	**58,138**
Share options exercised	247,050	82
Shares issued	29,245,283	15,312
At 30 June 2012	**259,982,918**	**73,532**
Share options exercised	1,287,604	203
Shares issued	718,196	333
At 30 June 2013	**261,988,718**	**74,068**

All ordinary shares are fully paid. 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 and the Company does not have a limited amount of authorised capital.

At 30 June 2013 there were 5,418,625 (2012: 3,758,269) options to acquire one ordinary share each outstanding, of which 1,397,002 (2012: 1,236,484) had vested and were exercisable.

Information relating to the Company's employee share-based payment schemes, including details of shares and options issued, options exercised and options lapsed during the financial year, as well as options outstanding at the end of the financial year, is set out in note 32.

Capital Management

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. 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.

24. Reserves

	2013 $'000	2012 $'000
Share-based payments reserve	2,673	1,775
Foreign currency translation reserve	27	(11)
Balance 30 June	**2,700**	**1,764**

Share-based payments reserve

	2013 $'000	2012 $'000
Balance 1 July	1,775	1,172
Share-based payment (ESOP)	804	572
Share-based payment (GSOP)	94	31
Balance 30 June	**2,673**	**1,775**

The Share-based payments reserve is used to record the value of share-based payments provided to employees, including KMP, as part of their remuneration. Refer to note 32 for further details of these plans.

Foreign currency translation reserve	2013 $'000	2012 $'000
Balance 1 July	**(11)**	**(14)**
Exchange difference on foreign currency translation during the year	38	3
Balance 30 June	**27**	**(11)**

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

25. Dividends

No dividends were proposed, declared or paid during the financial year and to the date of this report (2012: Nil).

26. Capital and leasing commitments

	2013 $'000	2012 $'000
Future operating lease commitments not provided for in the financial statements and payable:		
Within one year	**462**	424
One year or later and no later than five years	189	185
	651	609

The Group does not have any non-cancellable capital expense commitments.

Finance lease and hire purchase commitments	2013 $'000		2012 $'000	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	8	6	8	6
After one year but not more than 5 years	28	24	36	30
Total minimum lease payments	36	30	44	36
Less finance charges	6	0	8	0
Present value of minimum lease payments	30	30	36	36

27. Auditor's remuneration

	2013 $	2012 $
Audit services		
Audit and review of financial reports	52,000	49,000
Total remuneration for audit services	**52,000**	**49,000**
Non-audit services		
Assurance related services		
Audit of regulatory returns	–	3,600
Total remuneration for assurance related services	**–**	**3,600**
Total remuneration for non-audit services	**–**	**3,600**

28. Related party disclosure

(a) Parent entities

The parent entity within the Group is Nanosonics Limited which at 30 June 2013 owned 100% of the issued ordinary shares of Nanosonics Europe GmbH, Saban Ventures Pty Limited and Nanosonics Inc.

(b) Subsidiaries

Interests in subsidiaries are set out in note 14.

(c) Directors and key management personnel

Related party disclosures in respect of directors and key management personnel are set out in note 29.

(d) Transactions with related parties

The following transactions occurred with related parties:

	2013 $	2012 $
Sales of goods and services		
Sale of products to related parties	**1,056**	1,186
Purchases of goods		
Purchases of goods and services from related parties	**553**	649
Superannuation contributions		
Contributions to superannuation funds on behalf of all employees	**695**	637
Other transactions		
Rent of premises and equipment from related parties	**185**	189

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

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2013 $	2012 $
Current receivables (supply of goods and services)	**53**	728
Current payables (purchases of goods and services)	**37**	89

(f) Guarantees

No guarantees were provided during the year under review and none were in effect at the year-end between the Company and its subsidiaries (2012: Nil).

(g) Terms and conditions

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties.

Outstanding balances are unsecured and are repayable in cash.

29. Directors and key management personnel disclosures

(a) Directors

The following persons were directors of Nanosonics Limited throughout the financial year unless shown otherwise:

Mr Maurie Stang, *Non-Executive Chairman*

Dr Ron Weinberger, *Managing Director and CEO* (until 20 October 2013)

Dr David Fisher, *Non-Executive Director*

Mr Richard England, *Non-Executive Director*

Mr Michael Kavanagh, *Non-Executive Director* (appointed 30 July 2012)

(b) Key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, throughout the financial year ended 30 June 2013 unless shown otherwise:

Mr McGregor Grant, *Chief Financial Officer & Company Secretary*

Mr Gerard Putt, *Chief Operations Officer*

Mr Michael Potas, *Head of Research, Design & Development*

Mrs. Kirste Courtney, *Human Resources Manager*

Mr Vincent Wang, *Head of Global Support and Services* (included in the top five highest remunerated executive in 2013)

Dr. Jianhe Chen, *Quality Assurance Manager* (included in the top five highest remunerated executive in 2012)

All of the above persons were employed by Nanosonics Limited and were respectively directors and key management personnel for the year ended 30 June 2012, except as noted above.

(c) Directors and key management personnel compensation

	Group and Company	
	2013 **$'000**	**2012** **$'000**
Director fees	265,450	208,915
Short-term employee benefits	1,494,198	1,270,071
Long-term benefits	141,050	165,095
Termination benefits	–	–
Share based payments	447,013	420,822
Total compensation	**2,347,711**	2,064,903
Total compensation includes total remuneration for executive and non-executive directors of the parent entity	**835,647**	669,955

The Company has taken advantage of the relief provided by *Corporations Regulation 2M.6.04* and transferred the detailed remuneration disclosures to the Directors' report. The relevant information can be found in Parts 5 to 8 of the Remuneration report on pages 40 to 45.

(d) Equity instrument disclosures relating to directors and key management personnel

(i) Options provided as remuneration

Details of options provided as remuneration and shares issued on exercise of such options, together with the terms and conditions of the options, can be found in Sections 6 to 8 of the Remuneration report on pages 42 to 45.

Notes to the financial statements (continued)

For the year ended 30 June 2013

(ii) Options holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of the Company and key management personnel of the Group, including their personally-related parties, are set out below.

Option holder		Balance at start of the year	Granted as compensation	Other changes	Exercised	Balance at the end of the year	Vested and exercisable	Unvested or not exercisable
Directors								
Maurie Stang	**2013**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2012	–	–	–	–	–	–	–
David Fisher	**2013**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2012	–	–	–	–	–	–	–
Richard England	**2013**	**50,000**	**–**	**–**	**–**	**50,000**	**50,000**	**–**
	2012	50,000	–	–	–	50,000	33,000	17,000
Ron Weinberger[1]	**2013**	**251,659**	**1,288,607**	**–**	**(51,659)**	**1,488,607**	**132,000**	**1,356,607**
	2012	200,000	51,659	–	–	251,659	66,000	185,659
Michael Kavanagh[8]	**2013**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2012	–	–	–	–	–	–	–
Key management personnel								
McGregor Grant[2]	**2013**	**1,000,000**	**62,056**	**–**	**–**	**1,062,056**	**500,001**	**562,055**
	2012	1,000,000	–	–	–	1,000,000	166,667	833,333
Gerard Putt[3]	**2013**	**400,000**	**50,546**	**–**	**–**	**450,546**	**200,001**	**250,545**
	2012	400,000	–	–	–	400,000	66,667	333,333
Jianhe Chen[7]	**2013**	**226,984**	**31,870**	**–**	**(26,984)**	**231,870**	**132,000**	**99,870**
	2012	200,000	26,984	–	–	226,984	66,000	160,984
Michael Potas[4]	**2013**	**78,699**	**38,785**	**–**	**(78,699)**	**38,785**	**–**	**38,785**
	2012	50,250	28,449	–	–	78,699	50,250	28,449
Kirste Courtney[5]	**2013**	**249,863**	**35,272**	**–**	**(149,863)**	**135,272**	**66,000**	**69,272**
	2012	220,000	29,863	–	–	249,863	153,000	96,863
Vincent Wang[6]	**2013**	**10,987**	**35,272**	**–**	**(10,987)**	**35,272**	**–**	**35,272**
	2012	–	10,987	–	–	10,987	–	10,987

[1] Mr Weinberger was granted on 9 November 2012 1,220,000 options which vests on 31 August 2015 subject to vesting conditions.
[2] Mr. Grant joined the Company and was appointed Chief Financial Officer and Company Secretary on 28 April 2011. As part of his employment contract, he was granted 1,000,000 options which vest in 4 tranches subject to service conditions.
[3] Mr Putt was granted 400,000 options which vest in 4 tranches subject to service conditions, as part of his employment contract on his appointment on 27 April 2011.
[4] Michael Potas was employed by the Company on 7 August 2006 and was appointed Head of Research, Design & Development on 23 March 2011.
[5] Mrs Courtney is included as one of the five named Company or Group executives who received the highest remuneration in the current financial year in accordance with section 300a of the *Corporations Act 2001*.
[6] Mr Wang is included as one of the five named Company or Group executives who received the highest remuneration in the current financial year in accordance with section 300a of the *Corporations Act 2001*.
[7] Ms Chen was included as one of the five named Company or Group executives who received the highest remuneration in the previous financial year in accordance with section 300a of the *Corporations Act 2001*.
[8] Mr Kavanagh was appointed non-executive director on 30 July 2012.

All vested options were exercisable at the end of the financial year.

(iii) Share holdings

The numbers of shares in the Company held during the financial year by each director of the Company and key management person of the Group, including their personally-related parties, are set out below. Details of shares provided as remuneration, together with the terms and conditions of the shares, can be found in Sections 6 to 8 of the Remuneration report on pages 42 to 45.

Share holders name		Balance at start of the year	Received during the year on the exercise of options	Other net changes during the year	Balance at end of the year
Directors					
Maurie Stang	**2013**	**28,407,457**	**–**	**(5,033)**	**28,402,424**
	2012	28,407,457	–	–	28,407,457
David Fisher	**2013**	**812,705**	**–**	**–**	**812,705**
	2012	812,705	–	–	812,705
Richard England	**2013**	**50,000**	**–**	**28,301**	**78,301**
	2012	25,000	–	25,000	50,000
Ron Weinberger	**2013**	**808,013**	**51,659**	**–**	**859,672**
	2012	808,013	–	–	808,013
Michael Kavanagh[1]	**2013**	**–**	**–**	**100,000**	**100,000**
	2012	–	–	–	–
Key management personnel					
McGregor Grant[2]	**2013**	**15,000[3]**	**–**	**–**	**15,000**
	2012	–	–	15,000[3]	15,000
Gerard Putt[2]	**2013**	**18,500[3]**	**–**	**–**	**18,500**
	2012	18,500[3]	–	–	18,500
Jianhe Chen	**2013**	**–**	**26,984**	**–**	**26,984**
	2012	–	–	–	–
Michael Potas	**2013**	**5,506**	**78,699**	**(63,155)**	**21,050**
	2012	5,506	–	–	5,506
Kirste Courtney	**2013**	**5,880**	**149,863**	**(155,743)**	**–**
	2012	5,880	–	–	5,880
Vincent Wang	**2013**	**–**	**10,987**	**–**	**10,987**
	2012	–	–	–	–

[1] Shareholder appointed in the 2013 financial year.
[2] Shareholder appointed in the 2011 financial year.
[3] This represents shareholding of a close family member of the KMP.

Notes to the financial statements (continued)

For the year ended 30 June 2013

(e) 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 2013 (2012: Nil).

(f) Transactions with directors and key management personnel

Certain directors and key management personnel, or their personally-related entities, 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 financial years to 30 June 2013 and 30 June 2012. 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.

Details of the types of transactions that were entered into with directors and key management personnel are:

Directors and key management personnel	Related entities	Transactions
Maurie Stang	Gryphon Capital Pty Ltd	Services received
Maurie Stang	Medi-Consumables Pty Ltd	Products purchased, services received and products sold
Maurie Stang	Novapharm Research (Australia) Pty Ltd	Services received
Maurie Stang	Ramlist Pty Ltd	Rent of premises
Maurie Stang	Regional Healthcare Group Pty Ltd	Products purchased, services received and products sold
Richard England	Angleterre Pty Ltd and Domkirke Pty Ltd	Services received

The aggregate amounts of each of the above types of transactions with directors and key management personnel of the Group were:

	2013 $'000	2012 $'000
Amounts recognised as revenue		
Products and services sold	**1,056**	1,186
Amounts recognised as expenses		
Services received	**150**	150
Products purchased and services received	**403**	499
Rent of premises	**185**	189

The aggregate amounts of assets and liabilities relating to the above types of transactions with directors and key management personnel of the Group were:

	2013 $'000	2012 $'000
Assets		
Current receivables	**53**	728
Liabilities		
Current liabilities	**150**	150

30. Notes to the cash flow statements

(a) Reconciliation of cash

	2013 $'000	2012 $'000
Cash and cash equivalents	**24,064**	29,310

For the purpose of the Statement of cash flows, cash includes cash on hand and at bank, deposits on call and short term deposits, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of cash flow is reconciled to the related items in the statement of financial position as follows:

(b) Reconciliation of operating loss after income tax to net cash provided by operating activities

	2013 $'000	2012 $'000
Operating loss after income tax	**(5,768)**	(4,679)
Adjustment for:		
Depreciation and amortisation	**1,044**	914
Share-based payments expense	**898**	603
Loss on sales of fixed assets	**–**	24
Borrowing costs on convertible notes	**517**	–
Loss (gain) on foreign exchange forward contracts	**238**	(31)
Unrealised foreign exchange (gain) loss	**(70)**	3
Changes in assets and liabilities		
(Increase) / decrease in receivables	**(1,171)**	(2,097)
(Increase) / decrease in inventories	**(512)**	(788)
(Increase) / decrease in other current assets	**(285)**	4
(Increase) / decrease in other non-current assets	**(3)**	(43)
Increase / (decrease) in trade and other payables	**130**	360
Increase / (decrease) in provisions	**(151)**	347
Increase / (decrease) in other current liabilities	**623**	354
Increase / (decrease) in current tax liabilities	**4**	–
Net cash used in operating activities	**(4,506)**	(5,029)

(c) Credit standby arrangements unused

		Facility Limit $'000	Facility used by $'000	Facility available at $'000
Borrowing facilities	**30 June 2013**	256	74	182
	30 June 2012	256	21	23

31. Loss per share

	2013 Cents	2012 Cents
(a) Basic loss per share		
Loss attributable to ordinary shareholders of the Company	**(2.2)**	(2.0)
(b) Diluted loss per share		
Loss attributable to ordinary shareholders of the Company	**(2.2)**	(2.0)
(c) Losses used in calculating loss per share		
Net loss after income tax expense attributable to shareholders	**(5,768)**	(4,679)
(d) Weighted average number of shares used		
For basic earnings per share	**261,201,368**	234,650,192
For diluted earnings per share	**261,201,368**	234,650,192

(e) Information concerning options granted

Options granted under the Nanosonics Employee Share Option Plan and the Nanosonics General Share Option Plan are considered to be potential ordinary shares and have been excluded from the calculation of diluted loss per share as the effect would have been anti-dilutive. Details relating to the options are set out in note 32 to these financial statements.

32. Share-based compensation

The Company's share-based compensation schemes comprise option plans and share plans. Options have been granted under the option plans. Shares have been granted under the Deferred Employee Share Plan. To the date of this report no shares have been granted under the Exempt Employee Share Plan.

(a) Option plans

The establishment of both the Nanosonics Employee Share Option Plan (ESOP) and the Nanosonics General Share Option Plan (GSOP) was approved by the directors on 2 April 2007. Under the plans, participants are granted options for no consideration which vest in three equivalent tranches on each of the first three anniversaries of the issue date of the options. The options expire on the fourth such anniversary. 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.

General Share Option Plan (GSOP)

The General Share Option Plan is designed to provide incentive, recognition and reward for non-employees, usually consultants and contractors, who create long-term value for the Company.

536,038 share options were issued under the GSOP during the financial year (2012:195,000 issued).

Employee Share Option Plan (ESOP)

The Employee Share Option Plan is designed to provide 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.

2,487,891 share options were issued under the ESOP during the financial year (2012: 657,442 issued).

(b) Exercise of options

Options are granted under the plans for no consideration and options carry no dividend or voting rights. When exercisable, each 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 options issued to the date of this report were fixed on the dates the options were granted. Details are provided in section (c) of note 32 to these financial statements.

(c) Unexpired options

	ESOP		GSOP		All Option Plans	
Number of Options	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Unexpired options as at 1 July	**3,330,719**	3,032,700	**427,550**	353,500	**3,758,269**	3,386,200
Granted during the year	2,487,891	657,442	536,038	195,000	3,023,929	852,442
Exercised during the year	(1,173,016)	(126,100)	(114,588)	(120,950)	(1,287,604)	(247,050)
Forfeited during the year	(41,969)	–	(34,000)	–	(75,969)	–
Expired during the year	–	(233,323)	–	–	–	(233,323)
Unexpired options as at 30 June	**4,603,625**	3,330,719	**815,000**	427,550	**5,418,625**	3,758,269
Number of holders as at 30 June	**68**	46	**6**	9	**74**	54[1]

[1] Includes a common holder of both ESOP and GSOP options.

Set out below are details of unexpired options granted under the plans as at 30 June 2013:

Option type	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	$0.30	Nov-08	$0.06	17-Nov-12	45,000	–	(45,000)	–	–	–
ESOP	$0.35	Jun-09	$0.23	26-Jun-13	501,600	–	(501,600)	–	–	–
GSOP	$0.35	Jun-09	$0.23	26-Jun-13	82,550	–	(48,550)	(34,000)	–	–
GSOP	$0.55	Jan-10	$0.30	5-Jan-14	50,000	–	–	–	50,000	50,000
ESOP	$0.56	Aug-10	$0.31	19-Jul-14	500,000	–	–	–	500,000	330,000
GSOP	$0.78	Oct-10	$0.49	1-Oct-14	100,000	–	–	–	100,000	100,000
ESOP	$0.56	Mar-11	$0.63	19-Jul-14	200,000	–	–	–	200,000	132,000
ESOP	$0.92	Mar-11	$0.58	23-Feb-15	30,000	–	–	–	30,000	20,000
ESOP	$0.85	May-11	$0.50	28-Apr-16	1,400,000	–	–	–	1,400,000	700,002
GSOP	$0.53	Nov-11	$0.38	21-Nov-15	195,000	–	–	–	195,000	65,000
ESOP	$0.00	Jan-12	$0.58	1-Oct-12	318,057	–	(303,891)	(14,166)	–	–
ESOP	$0.00	Apr-12	$0.51	1-Apr-13	315,757	–	(315,757)	–	–	–
ESOP	$0.00	Jun-12	$0.49	1-Apr-15	20,305	–	(6,768)	–	13,537	–
GSOP	$0.00	Sep-12	$0.49	21-Sep-13	–	66,038	(66,038)	–	–	–
ESOP	$0.00	Nov-12	$0.55	30-Sep-15	–	1,220,000	–	–	1,220,000	–
ESOP	$0.00	Nov-12	$0.55	1-Oct-13	–	557,483	–	(13,292)	544,191	–
GSOP	$0.51	Nov-12	$0.27	24-Nov-16	–	195,000	–	–	195,000	–
GSOP	$0.52	Dec-12	$0.20	21-Nov-16	–	275,000	–	–	275,000	–
ESOP	$0.00	Apr-13	$0.45	1-Apr-14	–	710,408	–	(14,511)	695,897	–
Totals as at year end					**3,758,269**	**3,023,929**	**(1,287,604)**	**(75,969)**	**5,418,625**	**1,397,002**

Notes to the financial statements (continued)

For the year ended 30 June 2013

(d) Fair value of options granted

The assessed fair value on the date options were granted was independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the 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 option.

The inputs to the valuations of options granted and not expired to 30 June 2013 included:

Option type	Exercise price	Grant date	Expiry date	Estimated share price at grant date	Expected price volatility of the company's shares	Expected dividend yield	Risk-free interest rate	Assessed fair value at grant date
GSOP	$0.55	Jan-10	5-Jan-14	$0.62	71.04%	0%	5.29%	$0.30
ESOP	$0.56	Aug-10	19-Jul-14	$0.54	74.87%	0%	4.77%	$0.31
GSOP	$0.78	Oct-10	1-Oct-14	$0.80	77.58%	0%	4.95%	$0.49
ESOP	$0.56	Mar-11	19-Jul-14	$0.93	77.97%	0%	5.15%	$0.63
ESOP	$0.92	Mar-11	23-Feb-15	$0.93	80.48%	0%	5.15%	$0.58
ESOP	$0.85	May-11	28-Apr-16	$0.80	73.62%	0%	5.14%	$0.50
GSOP	$0.53	Nov-11	21-Nov-15	$0.63	73.09%	0%	3.44%	$0.38
ESOP	$0.00	Jun-12	1-Apr-15	$0.49	49.04%	0%	2.43%	$0.49
ESOP	$0.00	Nov-12	30-Sep-15	$0.55	45.46%	0%	2.58%	$0.55
ESOP	$0.00	Nov-12	1-Oct-13	$0.55	39.91%	0%	2.66%	$0.55
GSOP	$0.51	Nov-12	24-Nov-16	$0.56	54.96%	0%	2.71%	$0.27
GSOP	$0.52	Dec-12	21-Nov-16	$0.49	53.13%	0%	2.87%	$0.20
ESOP	$0.00	Apr-13	1-Apr-14	$0.45	35.35%	0%	2.83%	$0.45

(e) Recognition of expense of options granted

General Share Option Plan (GSOP)

The assessed fair values of options granted under the GSOP are expensed in full in the month in which they are granted and a share-based payments reserve is created as part of shareholders' equity, except where the options are granted as part of a capital raising program, in which case no cost is recognised.

Employee Share Option Plan (ESOP)

Options granted under the ESOP require the holder to be an employee of the Company at the time the options are exercised, except that they may be exercised, if vested, up to 30 days after voluntary termination of employment. The fair value of options granted under ESOP is recognised as an employee benefit expense with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for share-based payment transactions 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 income statement expense or credit for a period represents the movement in cumulative expense recognised as the beginning and end of that period.

No expense is recognised for options that do not ultimately vest, except for option transaction for which vesting is 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.

(f) Employee share plans

The Company has two Employee Share Plans, being the Exempt Employee Share Plan ("EESP") and the Deferred Employee Share Plan ("DESP").

Adoption of the EESP and DESP was approved at a general meeting of shareholders on 26 November 2007 and the approval is for a period of 3 years ending 26 November 2010. Shareholder approval was also granted on 26 November 2007 to enable the Company to grant financial assistance under both the EESP and the DESP in accordance with the *Corporations Act 2001*.

Exempt Employee Share Plan ("EESP")

The EESP enables eligible employees, including directors, to acquire up to $1,000 worth of Nanosonics shares each year on a tax-exempt basis in accordance with enabling tax legislation. As a contemporary company the Board believes allowing employees to acquire equity in the Company on tax-preferred terms should be encouraged. No shares have been issued under the EESP to the date of this report.

Nanosonics Deferred Employee Share Plan ("DESP")

The DESP allows invited eligible employees, including directors, to receive Nanosonics shares as a bonus or incentive or as remuneration sacrifice and, subject to certain conditions, not to pay tax for up to 10 years on the benefit in accordance with enabling tax legislation. The DESP is designed to allow the Company to meet contemporary executive equity incentive practices. No shares were granted under the DESP during the financial year.

(g) Shares granted

During the financial year there were no shares directly granted under the DESP. Details of shares granted under the DESP to the date of this report are set out below.

Share Plan	Share issue price	Grant date	Assessed fair value at grant date	Closing share price on grant date	Number granted
DESP	0.2880	23 March 2009	0.2880	0.2950	336,424
DESP	0.4251	26 June 2009	0.4251	0.4100	176,400
DESP	0.4251	26 June 2009	0.4251	0.4100	75,000
DESP	0.9080	3 May 2011	0.9080	0.9080	102,403
Total Employee Shares granted to date					**690,227**

Share issued on the exercise of zero-priced options granted to employees as part of their performance bonus or short term incentive has been issued to the DESP. These shares were excluded in the above table.

No shares have been granted to the date of this report under the EESP.

(h) Fair value 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.

(i) Recognition of expense of shares granted

Deferred Employee Share Plan (DESP)

The assessed fair values of shares granted under the 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 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.

(j) Shares on issue under employee share plans

	DESP		EESP		All Share Plans	
Number of Shares	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Employee Shares on issue as at 1 July	**305,483**	371,424	**–**	–	**305,483**	371,424
Granted during the year	–	–	**–**	–	–	–
Issued on exercise of zero-priced options during the year	626,416	–	**–**	–	626,416	–
Issued on share purchase plan allotment during the year	7,548	–	**–**	–	7,548	–
Withdrawn during the year	(160,394)	(65,941)	**–**	–	(160,394)	(65,941)
Forfeited during the year	–	–	**–**	–	–	–
Employee Shares on issue as at 30 June	**779,053**	305,483	**–**	–	**779,053**	305,483
Number of holders as at 30 June	**37**	30	**–**	–	**37**	30

(k) Expenses arising from share-based compensation transactions

	2013 $'000	2012 $'000
Options issued under ESOP	804	572
Options issued under GSOP	94	31
Shares issued under DESP	–	–
Total share-based compensation	**898**	**603**

33. Parent entity information

Set out below is the supplementary information about the parent entity.

	2013 $'000	2012 $'000
Current assets	31,335	34,929
Total assets	**33,385**	36,691
Total current liabilities	3,964	3,454
Total liabilities	**11,926**	10,765
Contributed Equity	74,068	73,532
Option premium on convertible notes	376	376
Share-based payments reserve	2,562	1,747
Accumulated losses	(55,547)	(49,729)
Total equity	**21,459**	25,926

	2013 $'000	2012 $'000
Profit or loss for the year	(5,819)	(4,728)
Total comprehensive income (loss)	**(5,819)**	(4,728)

Hire purchase commitment		
For acquisition of manufacturing equipment	**30**	36

Contingent liabilities
The parent entity had no contingent liabilities.

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2 except for the following:

Investments in subsidiaries are accounted for at cost, less any impairment.

34. Events subsequent to reporting date

No matter or circumstance has arisen since 30 June 2013 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.

Directors' declaration

In the directors' opinion:

1. the financial statements and notes set out on pages 48 to 93 are in accordance with the *Corporations Act 2001*, including:
   (a) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
   (b) giving a true and fair view of the Company's and Group's financial position as at 30 June 2013 and of their performance for the financial year ended on that date; and
2. 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.

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*.

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

Richard England

Richard England
Director
Sydney

18 September 2013

UHY Haines Norton
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

To the Members of Nanosonics Limited

Report on the Financial Report

We have audited the accompanying financial report of Nanosonics Limited, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility 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 Note 2b, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

UHY Haines Norton - ABN 85 140 758 156 NSWBN 98 133 826

Level 11, 1 York Street Sydney NSW 2000
GPO Box 4137 Sydney NSW 2001

t +61 2 9256 6600
f +61 2 9256 6611

e sydney@uhyhn.com.au
w www.uhyhn.com

UHY Haines Norton
Chartered Accountants

Opinion

In our opinion:

(a) The financial report of Nanosonics Limited is in accordance with the Corporations Act 2001, including:
   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of their performance for the year ended on that date; and
   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 2b;

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 37 to 45 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 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.

Auditor's Opinion

In our opinion the Remuneration Report of Nanosonics Limited for the year ended 30 June 2013, complies with s 300A of the Corporations Act 2001.

Franco Giannuzzi
Partner

UHY Haines Norton
Chartered Accountants

Sydney
Date: 18 September 2013

INTELLIGENT CHOICE • INTELLIGENT SOLUTIONS

Shareholder information

The shareholder information set out below was applicable as at 12 September 2013.

A. Equity security holders

Twenty largest holders of quoted equity securities.

Ordinary shares	Number of quoted shares held	Percentage
National Nominees Limited	29,503,535	11.23%
Mr Maurie Stang[1]	28,402,424	10.81%
Mr Bernard Stang	27,713,255	10.54%
Mr Steve Kritzler	19,651,439	7.48%
Aust Executor Trustees SA Ltd <Tea Custodians Limited>	16,182,541	6.16%
Citicorp Nominees Pty Limited	11,162,197	4.25%
HSBC Custody Nominees (Australia) Limited	8,734,703	3.32%
J.P. Morgan Nominees Australia Limited	8,291,899	3.15%
Link Traders (Aust) Pty Ltd	3,228,635	1.23%
Asia Union Investments Pty Ltd	3,000,000	1.14%
HSBC Custody Nominees (Australia) Limited – A/C 2	2,970,619	1.13%
BNP Paribas Noms Pty Ltd <DRP>	2,646,433	1.01%
Dr Harry Hirschowitz	2,010,000	0.76%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	1,615,245	0.61%
Bennelong Resources Pty Ltd <John Egan Super Fund A/C>	1,500,000	0.57%
UBS Nominees Pty Ltd	1,435,893	0.55%
Moore Family Nominee Pty Ltd <Moore Family Super Fund A/C>	1,290,000	0.49%
Bevan Holdings Pty Ltd <Phillip David Stricker Family >	1,262,487	0.48%
Hofbauer Nominees Pty Ltd	1,200,000	0.46%
Bentale Pty Ltd <Allambi Road Family A/C>	1,158,000	0.44%
Total top 20 holders	**172,959,305**	**65.81%**
Total all other holders	89,863,158	34.19%
Total shares on issue	**262,822,463**	**100%**

[1] Include indirect holdings of 116,368 shares.

Unquoted equity securities	Number of options over ordinary shares	Number of holders
Options on issue		
General Share Options to take up unissued ordinary shares	815,000	6
Employee Share Options to take up unissued ordinary shares	4,452,285	65
Total options on issue	**5,267,285**	**71**

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	215	–
1,001 – 5,000	540	9
5,001 – 10,000	426	34
10,001 – 100,000	1,027	20
100,001 and over	191	8
Total Holders	**2,399**	**71**

There were 92 holders of less than a marketable parcel of 559 ordinary shares.

C. Substantial holders

Substantial holders in the Company are shown below:

	Number of ordinary shares	Percentage
National Nominees Limited	29,503,535	11.23%
Mr Maurie Stang[1]	28,402,424	10.81%
Mr Bernard Stang	27,713,255	10.54%
Mr Steve Kritzler	19,651,439	7.48%
Aust Executor Trustees SA Ltd <Tea Custodians Limited>	16,182,541	6.16%

[1] Includes indirect holdings of 116,368 shares.

D. Voting rights

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

(a) Ordinary shares including restricted 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) Options

Options have no voting rights.

Glossary

AASB	Australian Accounting Standards Board
AGM	Annual General Meeting
ANZ	Australia and New Zealand
APES	Standards issued by the Accounting Professional & Ethical Standards Board (APESB)
APIC	Association for Professionals in Infection Control
ASUM	Australian Society for Ultrasound in Medicine
ASX	Australian Securities Exchange Limited
BBSW	Bank bill swap reference rate
Clostridium difficile	A bacterium, the most common cause of infectious diarrhoea in hospitals and long-term care homes
Company	Nanosonics Limited
Date of this report	18 September 2013
DESP	Deferred Employee Share Plan
EESP	Exempt Employee Share Plan
EN15883	A Standard, also known as HTM2030, for the testing of Washer Disinfectors for surgical instruments, including endoscopes, to ensure they are operating correctly.
EPS	Earnings Per Share
ESOP	Employee Share Option Plan
FDA	Food and Drug Administration – USA
Financial Year	Year to 30 June
Fiscal Year	Year to 30 June
FY	Financial year, eg. FY2013 is the financial year ending 30 June 2013
Glutaraldehyde	An used to disinfect medical and dental equipment. It is and can cause severe eye, nose, throat and lung irritation, along with headaches, drowsiness and dizziness. It is a main source of occupational asthma among health care providers (source: *Canadian Centre for Occupational Health and Safety* – February 2005).
GMP	Good Manufacturing Practices
Group	Nanosonics Limited and its wholly owned subsidiary companies
GSOP	General Share Option Plan
GST	Goods and Services Tax
HAI	Healthcare Acquired/Associated Infections
HLD	High Level Disinfection – the minimum treatment recommended for reprocessing a device or item of equipment for use in a semi critical site, if it cannot be sterilised. It involves killing all microorganisms, with the exception of high numbers of bacterial spores.
HLD+	High Level Disinfection Plus, including sporicidal efficacy – Nanosonics new dimension of disinfection based on the Company's platform technologies
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IP	Intellectual Property
ISO 13485	Quality Management System for Medical Devices – Requirements for Regulatory Purposes
IVF	In-vitro fertilisation
ISOOG	International Society of Ultrasound in Obstetrics and Gynaecology
KMP	Key management personnel (excludes non-executive directors)
MRSA	Methicillin resistant staphylococcus aureus, a bacterium resistant to broad-spectrum antibiotics
NanoNebulant™	The biocide used in Nanosonics' technological process
PCT	Patent Co-operation Treaty

Glossary (continued)

Q 1, 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 2013
RoHS compliant	Restriction of Use of Hazardous Substances
RSNA	Radiological Society of North America
S+	Sterilisation Plus, including prionicidal efficacy – Nanosonics new dimension of sterilisation based on the Company's platform technologies
TEE	Transoesophageal Echocardiagram, a type of probe
TGA	Therapeutic Goods Administration – Australia
trophon®	The brand representing Nanosonics' range of infection control solutions designed specifically for healthcare settings
trophon® EPR	The brand of Nanosonics' device specifically designed to disinfect intracavity and surface ultrasound probes. See also www.trophon.com.au
VAT	Value Added Tax

Corporate directory and information for investors

Nanosonics Limited ABN 11 095 076 896 incorporated 14 November 2000

Directors

Maurie Stang
Richard England
David Fisher
Michael Kavanagh
Ron Weinberger

Company Secretaries

McGregor Grant
Robert Waring

Registered Office

Unit 24, 566 Gardeners Road
Alexandria NSW 2015 Australia
Ph: +61 2 8063 1600

European Office

Nanosonics Europe GmbH
Falkenried 88. House A
D-20251 Hamburg Germany
Ph: +49 40 468 56885

Share Register

Computershare Investor Services Pty Ltd
GPO Box 2975
Melbourne, VIC 3001 Australia
Ph: +61 3 9415 4088
Ph: 1300 555 159 (within Australia)
www.au.computershare.com

Investor Relations

Computershare Investor Services Pty Ltd
Ph: +61 8 9323 2000
Ph: 1300 557 010 (within Australia)

McGregor Grant – Secretary
Ph: +61 2 8063 1600
Email: info@nanosonics.com.au

Auditor

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

Website Address

www.nanosonics.com.au

Legal Advisors

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

Spruson & Ferguson
Level 35, St Martins Tower,
31 Market Street
Sydney NSW 2000 Australia

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

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

Bankers

ANZ Banking Group Limited
Level 17, 242 Pitt Street
Sydney NSW 2000 Australia

National Australia Bank Limited
Level 36, 100 Miller Street
North Sydney NSW 2060 Australia

Deutsche Bank AG
Eppendorfer Landstrasse 70
Hamburg 20249 Germany

PNC Bank N.A
1015 S Bethlehem Pike
Ambler PA 19002 USA

Stock Exchange Listings

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

2013 Annual General Meeting

The 2013 AGM of Nanosonics Limited will be held:
At 11.00am on Friday 8th November 2013
Level 3, Sydney Harbour Marriott Hotel
30 Pitt Street, Sydney NSW 2000 Australia

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Nanosonics Limited

Unit 24, 566 Gardeners Road
Alexandria NSW 2015 Australia

T +61 2 8063 1600
E info@nanosonics.com.au

www.nanosonics.com.au