nanosonics

INFECTION PREVENTION. **FOR LIFE.**

ANNUAL REPORT **2015**

Contents

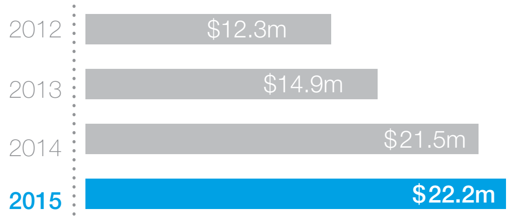
Company overview

Nanosonics (ASX: NAN) has developed a unique automated disinfection technology, which is the first major innovation in high level disinfection (HLD) for ultrasound probes in more than 20 years. This proprietary technology is now being introduced around the world and has the opportunity to become the new standard of care as it safely and effectively addresses the issues with traditional ultrasound probe disinfection practices.

Mission statement

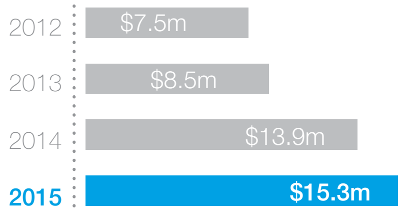
We improve the safety of patients, clinics, their staff and the environment by transforming the way infection prevention practices are understood and conducted, and introducing innovative technologies that deliver improved standards of care.

Financials 2015 At a glance



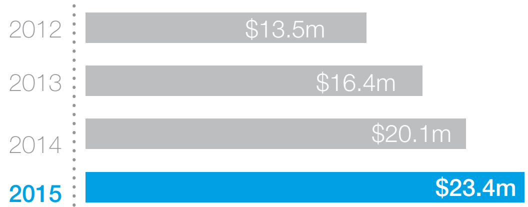
TOTAL SALES
3.4%
INCREASE

Total sales for the year were $22.2 million, an increase of 3.4% despite the foreshadowed lower purchases from GE Healthcare during the transition to a non-exclusive partnership and the establishment of the Nanosonics direct sales operations in North America.



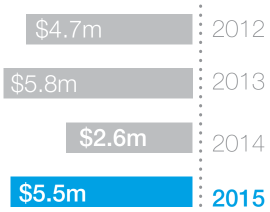
GROSS PROFIT
9.9%
INCREASE

Gross profit increased 9.9% reflecting higher margin direct sales in both the UK and the US plus higher sales associated with accessories and service.

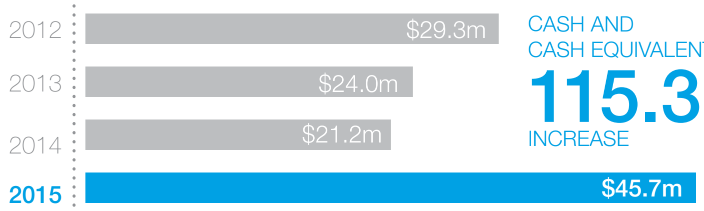


OPERATING EXPENSES
16.4%
INCREASE

Operating expenses were up $3.3 million and net loss up $2.9 million, reflecting the investment associated with establishing direct sales operations in North America and the one off costs associated with the move to new global corporate headquarters, manufacturing and R&D facility.



NET LOSSES
109.5%
INCREASE



CASH AND
CASH EQUIVALENTS
115.3%
INCREASE

The FY15 year ended with a strong balance sheet with cash equivalents of $45.7 million post the successful completion of a placement and Share Purchase Plan to raise a total of $28.0 million in March 2015.

2009 – 2015 Results

	2015 $'000	2014 $'000	2013 $'000	2012 $'000	2011 $'000	2010 $'000	2009 $'000
Revenue							
Operating revenue	**22,214**	21,492	14,899	12,301	2,247	763	309
Less cost of sales	**(6,901)**	(7,571)	(6,428)	(4,799)	(981)	(284)	(121)
Gross profit	**15,313**	13,921	8,471	7,502	1,266	479	188
Other income							
Government grants received	**119**	1,666	1,498	150	–	161	150
Other	**2,189**	1,709	–	–	–	–	–
Expenses							
Operating expenses (excluding depreciation, amortisation and impairment)	**(22,353)**	(19,141)	(15,335)	(12,634)	(13,229)	(8,827)	(9,867)
EBITDA	**(4,732)**	(1,845)	(5,366)	(4,982)	(11,963)	(8,187)	(9,529)
Depreciation, amortisation, and impairment	**(1,063)**	(975)	(1,044)	(914)	(1,010)	(771)	(419)
EBIT	**(5,795)**	(2,820)	(6,410)	(5,896)	(12,973)	(8,958)	(9,948)
Interest income	**928**	739	1,192	586	1,052	785	1,194
Interest expense	**(598)**	(555)	(517)	–	–	–	–
Operating loss before tax	**(5,465)**	(2,636)	(5,735)	(5,310)	(11,921)	(8,173)	(8,754)
Net income tax benefit (expense)	**5**	31	(33)	631	707	–	–
Operating loss after tax	**(5,460)**	(2,605)	(5,768)	(4,679)	(11,214)	(8,173)	(8,754)
Cash assets							
Cash and cash equivalents	**45,724**	21,233	24,064	29,310	12,356	21,144	13,881

Chairman's letter

On behalf of the Board of Directors of Nanosonics I am pleased to present our 2015 Annual Report.

During the past year Nanosonics has demonstrated an outstanding commitment and real progress on behalf of all of its stakeholders, that is its shareholders, its customers, its staff, its strategic partners and most importantly, society that it serves with its mission of "infection prevention for life".

The Nanosonics team has delivered a remarkable series of achievements which, in a very meaningful way, underpin not only our immediate growth objectives but fundamentally provide the foundation for the Company's strategic plans well into the future. Key to these capabilities has been the establishment of new state-of-the-art global headquarters, R&D laboratories and expanded manufacturing site in Lane Cove. Equally, the successful launch of our direct sales and distribution organisation in the United States, Nanosonics, Inc., provides us with a direct relationship with the customer, focussing on infection control, disruptive technology and outstanding clinical support.

Adoption of the trophon® EPR is growing strongly in the North American market and there are now more than 5,000 systems in use across 1,900 facilities. The speed at which the direct operations were put in place was remarkable. A first class team of trophon sales specialists is now active in all territories and well supported by a fully operational order procurement, warehousing, distribution and service centre. There is now a strong pipeline in place for building direct sales in this region, which has an estimated market opportunity in excess of 40,000 units.

Customers are responding positively to the direct Nanosonics presence and a number of important contracts with Integrated Delivery Networks in the USA were signed during the fourth quarter. The Company continues to actively work with GE Healthcare on a non-exclusive basis and GE Ventures has provided important marketing investment during the 2015 financial year.

The strategic partnership with Miele Professional in Germany is tracking well and this year Nanosonics expanded European market distribution into five new countries (Austria, Belgium, Italy, Luxembourg and the Netherlands), also through Miele Professional.

In the UK, our direct sales operations, together with our ongoing work with Toshiba, is driving an increasing rate of adoption across key practices and hospitals together with a rapidly evolving awareness of the key benefits that trophon provides as an environmentally friendly, rapid and automated ultrasound probe re-processor.

TROPHON EPR ADOPTION IN NORTH AMERICA
THERE ARE NOW MORE THAN 5,000 SYSTEMS IN USE ACROSS 1,900 FACILITIES

As a direct consequence of Nanosonics' extensive clinical research program, awareness of imaging-related healthcare acquired infections (HAIs) is growing rapidly. A major step in this area was taken in May this year with the announcement that the trophon EPR is the first and only ultrasound probe disinfection system to kill natural, infectious, high-risk human papillomavirus (HPV). This high-risk virus causes 5% of all cancers worldwide, is responsible for almost all cases of cervical cancer and is a leading cause of oral, throat, anal and genital cancers.

Other studies have shown that ultrasound probes can remain contaminated with HPV after other routine disinfection, posing a serious risk of cross infection. Nanosonics has first mover advantage and is undertaking a number of activities to drive education and awareness of this important information through working with key opinion leaders, industry societies and the medical profession.

The global trend towards stricter ultrasound reprocessing guidelines also continued this year with new Welsh guidelines from the UK's National Health System (NHS). The guidelines position an automated, validated system that can be used at the point of care (trophon technology) as the optimal solution. Further new guidelines from England and Scotland are expected in the first half of the coming financial year and will further boost the position of trophon technology as the new standard of care.

During the year the Company successfully completed a Placement and Share Purchase Plan to raise a total of $28 million. The funds raised have resulted in a very strong balance sheet to support the Company's continued bold plans for growth. Throughout the year, Nanosonics invested approximately $5 million in R&D, both in its core business of trophon and in addressing a global market for advanced infection control solutions that target many of the unmet needs of healthcare providers across the globe.

Financial results are in line with expectations during the successful transition phase of establishing direct sales operations in North America and the Company has delivered on all the objectives of our strategic plan. We are committed to driving shareholder value now and well into the future. Nanosonics is ideally positioned to benefit from both a lucrative capital equipment market and annuity revenue deriving form high margin consumable sales, which are already a meaningful component of the Company's sales.

The development of a direct sales presence, together with our strategic partnerships across the globe, position Nanosonics as the emerging leader in infection control solutions. Many key opinion leaders and high profile customers worldwide are now working with the Company as a consequence of Nanosonics' high profile and reputation as a trusted partner to the healthcare community.

On behalf of our board I take this opportunity to recognise the outstanding dedication and performance of the global Nanosonics team. This has resulted in our inclusion in the ASX 300, numerous awards and an exceptional platform for future success. Most important is the feedback from our customers outlining their positive recognition that trophon has eliminated toxic chemicals, revolutionised patient and staff safety, whilst markedly improving workflow. trophon has become a case study of disruptive technology driving better healthcare outcomes and creating remarkable brand equity with Nanosonics now in partnership with many of the world's foremost ultrasound companies.

Mr Maurie Stang

Chairman

Sydney

20 August 2015

"TROPHON HAS BECOME A CASE STUDY OF DISRUPTIVE TECHNOLOGY DRIVING BETTER HEALTHCARE OUTCOMES."

CEO's report

The 2015 financial year has been a year of continued strong delivery and significant achievement for Nanosonics. In 2014 we laid the foundations to support our next phase of growth through the implementation of a structured strategic growth agenda. I am pleased to report that, through focussed efforts, we delivered consistently on our plan for the five core corporate objectives of this growth agenda as outlined below.

Customer Experience

The first of our five Corporate Objectives is to establish our offerings as new standards of care globally and provide customers with a convenient and consistent experience with our products and brand. FY15 saw many important achievements associated with this objective, including:

Continued global expansion

In February this year we announced the establishment of our direct sales operation in North America to drive sales more broadly alongside our distribution partner GE Healthcare. We enter FY16 with our US operations fully established with the addition of a new sales force and service operations, plus our warehousing and order procurement functions fully operational. The North American market potential for trophon is large with an estimated market opportunity in excess of 40,000 units. Adoption is growing strongly with a current installed base of over 5,000 units across more than 1,900 facilities and the fundamentals for adoption continuing to strengthen. Our direct presence in North America is helping to build brand recognition for Nanosonics as a leader in infection prevention which is important as we plan to introduce new infection prevention products to market in the future.

FY15 also saw expansion in Europe. In November we began distribution into five new countries (Austria, Belgium, Italy, Luxembourg and the Netherlands) through our partner Miele Professional.

Further establishment of trophon as the new standard of care

Our clinical research program is structured around demonstrating trophon EPR's superior efficacy over current conventional manual practice in order to establish trophon technology as the new standard of care. A key highlight for Nanosonics this year was the announcement in May of exciting clinical results that positioned trophon EPR as the first and only system proven to kill high-risk, cancer-causing strains of human papillomavirus (HPV). This follows an important paper published last year showing that other disinfectants commonly used on ultrasound probes are not effective against HPV.

The outcomes of this study seriously question the effectiveness of current practice and we are working diligently with the relevant associations and medical profession to ensure awareness of the outcomes are understood. Further information about this study and the risks of HPV can be found at www.HPVdisinfection.com.

Other significant clinical results presented during the year included a study conducted by the University Hospital Münster in Germany which demonstrated a threefold higher risk of cross contamination with the manual wipe method when compared directly to trophon EPR's automated process.

Favourable changes to guidelines also play a crucial role in establishing trophon EPR as a standard of care and driving adoption. In October 2014, the UK's National Health System (NHS) Welsh guidelines for probe reprocessing were finalised.

Similar to the changes in the American Institute of Ultrasound in Medicine (AIUM) guidelines in May 2014, the Welsh guidelines reinforce stricter controls for ultrasound probe disinfection where an automated, validated system that can be used at the point of care is positioned as the optimal solution. New guidelines from Scotland and England are expected this financial year also.

Product Innovation

The second of our Corporate Objectives aims to bring to market a portfolio of innovative products that address unmet customer needs and again we achieved a great deal in this area, including:

Continued R&D investment

Throughout the 2015 financial year we invested approximately $5 million in R&D activities across the disciplines of mechanical, electrical and software engineering, as well as research investment in microbiology and chemistry as part of our ongoing product roadmap development. We also formed a strategic partnership with the American Association for Professionals in Infection Control and Epidemiology, which provides a valuable source of input to ensure that our R&D efforts are directed in areas of true need for infection prevention.

Increased probe compatibility numbers – a unique competitive advantage

As a result of our work throughout FY15, we expanded the number of ultrasound probes tested and approved compatible with trophon technology – from 600 to more than 900 models across the world's leading ultrasound manufacturers.

Continued to build on our IP strategy

Nanosonics patent portfolio made good progress in FY15 with more than 30 cases successfully passing examination to proceed to allowance or grant.

Achieved recognition for our innovation

A great achievement this year was the recognition Nanosonics received for its innovation program. In March, Dr Ron Weinberger, our President of Technology Development and Commercialisation, was awarded the Innovation Hero Medal from the Warren Centre and the University of Sydney. The award, which recognises outstanding innovations in engineering technology, was presented to Dr Weinberger for leading the team that developed our trophon technology.

Operational Excellence

Our third core Corporate Objective ensures our organisation is agile and has scalable, compliant and performance focussed processes. This was a priority over the last 12 months as we transitioned from an emerging company to an internationally recognised company in the field of infection prevention with global operations in place. Significant operational milestones were achieved this year, including:

Moved to new global headquarters

Moving our global headquarters and manufacturing facility to premises more suitable to our growth objectives was a core component of our strategic plan in FY15. In May this year we relocated our global operations to Lane Cove in Sydney, into the prior global headquarters of Cochlear Limited. The new headquarters provide more than double the space with extended flexibility in manufacturing capacity and capability.

CEO's report (continued)

We also built and commissioned new Microbiology, Virology and Chemistry laboratories at this new site to support our ongoing research program.

Our UK and German offices also moved to new premises to support the continued growth and expansion of our European operations.

Implemented a global IT and ERP system

To support global growth, our ERP (Enterprise Resource Planning) system was further developed and expanded. This system, along with an upgrade of our IT infrastructure, provides a fully integrated solution to enable our global business functions.

People Engagement

Our fourth objective centres around building an organisation that attracts and retains the best people, and ensures they are engaged and empowered to deliver on our corporate objectives.

The team at Nanosonics is our greatest asset. We are fortunate to have a highly skilled and dedicated workforce who are focussed on delivering our corporate mission of improving the safety of patients, clinics, their staff and the environment by transforming the way infection prevention practices are understood and conducted, and introducing innovative technologies that deliver improved standards of care.

Throughout the FY15 financial year our team grew by 21%, increasing our capabilities across the majority of our functions globally. In addition, formalised human capital planning was implemented across the organisation to ensure we continually assess, and have the necessary skills and experience, to enable us to deliver on our objectives.

Value Creation

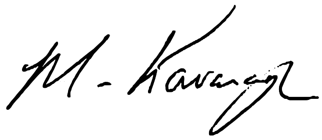
Our final Corporate Objective focuses on creating sustainable shareholder value and delivering high growth and strong returns.

True value creation comes from our ability to execute on the other four corporate objectives I have outlined. Over the past 12 months we have, through a determined focus, made significant progress across Customer Experience, Product Innovation, Operational Excellence and People engagement. As a consequence of this we have been able to deliver significant value creation for our shareholders. The market capitalisation of the Company has increased 131% over the last 12 months and, in March this year, Nanosonics was included in the ASX 300. In addition, a successful capital raising and Share Purchase Plan raised a further $28 million for the organisation to provide balance sheet strength, enabling us to move forward in a determined fashion and continue executing on our strategic growth agenda.

Outlook

Looking forward, our aim for FY16 is to consolidate and expand on the achievements of the past year. We will continue to focus on our five core corporate objectives and execute accordingly. Our installed base is growing well and the market fundamentals continue to strengthen for continued adoption of our technology as the new standard of care with new guidelines, compelling clinical evidence of the risk of cross contamination, and the superiority of our solution. Our direct operations in North America are now fully operational and we expect to expand our global operations further throughout the year.

I would like to thank the Nanosonics team for the significant achievements of FY15 and the support of our shareholders as they share our vision to establish Nanosonics as a recognised global leader in infection prevention.



Michael Kavanagh
CEO and President
Sydney
20 August 2015

MARKET CAPITALISATION
OF THE COMPANY HAS INCREASED 131% OVER THE LAST 12 MONTHS

Regional highlights

North America

Sales in North America for the year of $17.7 million reflect the strategic decision in February to establish a Nanosonics direct sales presence and foreshadowed lower purchases from GE Healthcare during the transition to a non-exclusive partnership.

Key highlights included:

- The installed base continued to grow strongly throughout the year and there are now more than 5,000 trophon EPR systems in operation across 1,900 facilities.
- Established a direct sales operation in North America consisting of 18 sales professionals to drive new business more broadly in the market alongside our distribution partner, GE Healthcare.
- Participated in nine major national conferences displaying trophon technology and had most successful sales conference to date at the national Association for Professionals in Infection Control and Epidemiology (APIC) 2015 conference. Additional presentations were made at 21 regional infection control scientific meetings.
- Worked with Penn State College of Medicine on a study that shows trophon EPR is the only high level disinfection system for ultrasound probes proven to be effective against high-risk, cancer causing strains of human papillomavirus (HPV).
- Completed a number of successful research studies to further validate the effectiveness of trophon technology.

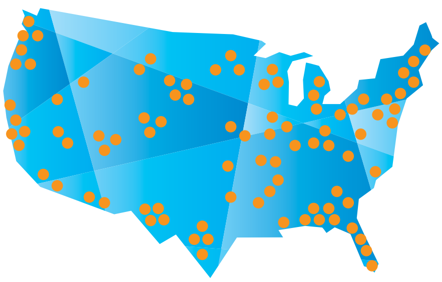
Direct sales operations in USA now in place

In February 2015, we announced the expansion of our North American presence with the introduction of a direct sales operation covering territories across the USA and Canada. Our operations in the USA are now fully established.

The new sales organisation includes a VP of Sales, two directors of sales – one East and one West – and 15 highly qualified sales professionals covering 15 territories. All these people are now fully trained and active in their territories, focussed on setting up accounts and building the pipeline for our future direct sales.

Warehousing, direct service operations and all order procurement systems are also in place and fully operational.

Initial feedback from customers has been very positive where we are positioned as Infection Prevention experts and we are seeing some early success where contracts have been signed for the provision of trophon EPR systems with a number of IDNs (integrated delivery networks), which are networks of facilities and providers that work together to provide a continuum of care.



INSTALLED BASE CONTINUED TO GROW STRONGLY THROUGHOUT THE YEAR AND THERE ARE NOW MORE THAN 5,000 TROPHON EPR SYSTEMS IN OPERATION ACROSS 1,900 FACILITIES.

Regional highlights (continued)

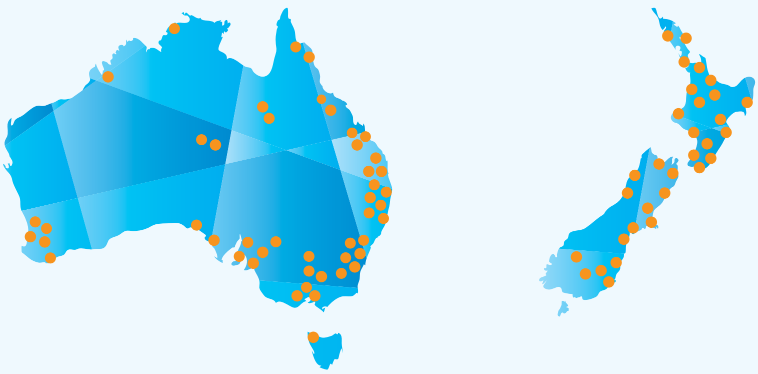
Asia Pacific

Sales in ANZ remained strong at $2.28 million for FY15.

Key highlights included:

- The trophon EPR is becoming the standard of care for ultrasound probe decontamination in ANZ with the installed base growing by 13% to 951 units.
- Total market penetration in ANZ is now in excess of 60% which is a good indication of the potential in other developed markets around the world.
- During the year formal market research was conducted to gain further insights into the market dynamics for ultrasound probe decontamination. The commercialisation strategy for Japan is expected to begin in the 2016 financial year.

TOTAL MARKET PENETRATION IN ANZ IS NOW IN EXCESS OF 60%

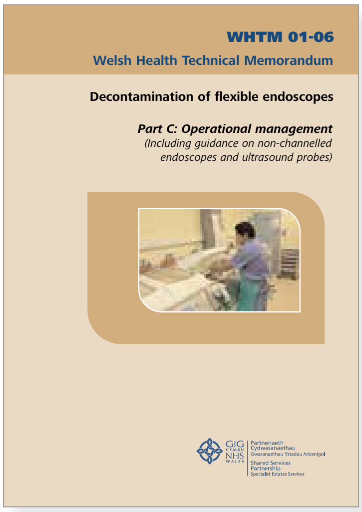


Europe/rest of world

Sales in Europe/rest of world grew strongly during the 2015 financial year with sales up 45% on the prior year.

Key highlights included:

- The market fundamentals for adoption in the UK continue to grow strongly and trophon is now represented in more than 40 facilities.
- Nanosonics' direct operations placed 29 trophon EPR units across five of Bart's Healthcare NHS Trust hospitals in London. Bart's Healthcare is the largest NHS trust in the UK.
- Our European market continued to expand with Miele professional now representing Nanosonics in Germany, Italy, Belgium, Netherlands, Austria and Luxembourg.
- New National Health System (NHS) Welsh guidelines were published, positioning automated, validated systems that can be used at the point of care as the optimum solution for ultrasound probe decontamination. trophon EPR meets all these criteria.
- trophon EPR passed all requirements of the test committee of DGKH in Germany and was awarded the hygiene certificate by the committee as a high level virucidal system.
- European study carried out by the University Hospital Münster in Germany demonstrated trophon EPR is significantly more effective than the manual wipe disinfection method currently standard in most European countries.
- Moved to new, larger offices in the UK and Germany.


WHTM 01-06
Welsh Health Technical Memorandum
Decontamination of flexible endoscopes
Part C: Operational management
(Including guidance on non-channelled endoscopes and ultrasound probes)

TROPHON IS NOW REPRESENTED IN MORE THAN 40 FACILITIES

trophon® EPR: innovative technology delivering improved standards of care

Why high level disinfection (HLD) of ultrasound probes is important

Decontamination and reprocessing of reusable medical instruments such as ultrasound probes is crucial to help reduce cross contamination between patients and the spread of healthcare acquired infections (HAIs). Awareness of imaging procedure (ultrasound) HAIs, a subset of HAIs, is growing. There are multiple disinfection guidelines globally that now require HLD of ultrasound probes between patients to prevent cross infection.

Issues with traditional HLD methods

Traditional ultrasound probe disinfection practices involve manual methods such as soaking in toxic chemicals, spraying or wiping. Studies have demonstrated these methods are ineffective, inefficient and environmentally unsound.

trophon EPR: innovative technology addressing market needs

Nanosonics' trophon EPR addresses market needs for fast, safe, environmentally friendly HLD of ultrasound probes. The device uses a proprietary disinfectant based on hydrogen peroxide chemistry. After use, the disinfectant breaks down into harmless water and oxygen. The device is fully self-contained so it can be safely used at the point of care to improve clinical workflow.

Consumables

1 **Sonex®/Nanonebulant®**
Proprietary disinfectant liquid with hydrogen peroxide chemistry that achieves effective HLD.

2 **Chemical indicators**
Chemical indicators validate each disinfection cycle by providing a qualitative colour change.

Accessories

3 **trophon® Connect**
Software tool to help clinics meet documentation and audit requirements.

4 **trophon® Printer**
Provides a fast, easy to use traceability solution by helping to link the probe and disinfection procedure to the patient.

5 **trophon Wall Mount and trophon® Cart**
Enables the trophon EPR to be mounted on a wall where there are space constraints or makes the device fully mobile for convenient point of care use.

6 **trophon Curved Probe Positioner (CPP)**
An accessory to improve the positioning of approved curved probes in the trophon EPR chamber.

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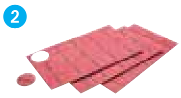

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The benefits that are positioning trophon EPR as the standard of care

Fast & Automated

Global guidelines are increasingly recommending automated ultrasound probe reprocessing over manual methods. The trophon EPR delivers fast, automated HLD and is proven to save time over aldehyde soak processes.[1]

Proven Effective

Independent laboratory testing shows the trophon technology is effective against a range of pathogens. Additional published, peer-reviewed evidence shows that trophon meets a range of international standards for HLD and is effective for disinfecting probe handles.[2,3] Of major significance is recent research showing that the trophon EPR is the only automated system proven to kill natural, infectious high-risk human papillomavirus (HPV).

Helps Protect

The American Institute of Ultrasound in Medicine (AIUM) guidelines recommend a "hydrogen peroxide nanodroplet emulsion" (trophon technology) for effective HLD without toxicity.

The trophon EPR is fully enclosed to minimise exposure to harmful chemicals. The disinfectant cartridge remains sealed until it is inside the device and the wastes are harmless water and oxygen.

Probe friendly

The trophon EPR's probe friendly process reduces probe exposure to potentially damaging chemicals. Instead the hydrogen peroxide mist generated by the device is in contact with the probe for just a few minutes. To date, trophon is approved for use with more than 900 probe models across leading manufacturers.

Cost Efficient

The trophon EPR can be used at the point of care to improve workflow efficiencies and reduce the need for separate cleaning facilities and probe transportation.

Environmentally Friendly

After use, the trophon EPR's disinfectant is broken down into harmless, environmentally friendly water and oxygen. The disinfectant cartridges are recyclable, as are more than 70 percent of trophon EPR components.

Consistent Process

The CDC recommends automated reprocessing over manual methods[4] and peer-reviewed, published evidence shows operator compliance with automated methods is much greater than that of manual methods (75.4% for automated versus 1.4% for manual).[5] The trophon EPR assures process consistency in every cycle.

Traceability Solution

Traceability is becoming a hot topic in infection control. Lack of monitoring or documentation of equipment reprocessing makes it difficult to track the use of equipment on a specific patient. This can complicate the patient notification process when an outbreak occurs.

The trophon EPR's optional traceability solution provides automated documentation and reporting to allow the probe and HLD cycle date and time to be linked with the patient and medical procedure.

1. Johnson et al., Evaluation of a Hydrogen Peroxide-Based System for High-Level Disinfection of Vaginal Ultrasound Probes, Journal of Ultrasound Medicine, 32:1799-804, 2013.
2. Vickery K, et al. Evaluation of an automated high-level disinfection technology for ultrasound transducers, Journal of Infection and Public Health, 2013.
3. Ngu A et al., Reducing infection risk through high-level disinfection of transvaginal ultrasound transducer handles. Infection Control and Hospital Epidemiology. In press.
4. Rutala W., et. al, Guideline for Disinfection and Sterilization in Healthcare Facilities, 2008, Centers of Disease Control, 1-158, 2008.
5. Ofstead, CL et al., Endoscope reprocessing methods: A prospective study on the impact of human factors and automation. Gastroenterology Nursing, 33:304–11, 2010.

Clinical research program

Clinical research program demonstrates superior efficacy of trophon EPR

Our clinical research program is structured around demonstrating trophon EPR's superior efficacy over current conventional manual practice in order to establish trophon technology as the new standard of care. In recent years there have been a number of clinical studies showing that, with traditional methods of ultrasound probe disinfection, these probes can remain contaminated with various bacteria and viruses and pose a risk of cross infection.

A key highlight for Nanosonics this year was the announcement in May of exciting clinical results that positioned trophon EPR as the first and only system proven to kill high-risk, cancer-causing strains of human papillomavirus (HPV).

Our clinical team worked with Distinguished Professor Craig Meyers of Penn State College of Medicine, PA to initiate the study which was presented at the Society for Healthcare Epidemiology of America (SHEA) spring conference. Professor Meyers was one of the authors of an important paper published last year showing that other disinfectants commonly used on ultrasound probes are not effective against HPV.

The results of both these studies are very significant as high-risk HPV accounts for 5% of all cancers worldwide, is responsible for almost all cases of cervical cancer and is a leading cause of oral, throat, anal and genital cancers.

The outcomes of the study involving trophon EPR, which has been submitted for publication in a leading, peer reviewed journal, seriously question the effectiveness of current practice. Further information about this study and the risks of HPV can be found at www.HPVdisinfection.com.

Validation of trophon EPR efficacy was also announced in September when research was presented at the World Congress of the International Society of Ultrasound in Gynaecology and Obstetrics (ISUOG) in Barcelona. The study showed that trophon EPR is significantly more effective than the manual wipe disinfection process that is currently standard across most European countries.

The study, conducted by the University Hospital Münster in Germany, demonstrated a threefold higher risk of cross contamination with the manual method when compared directly to trophon EPR's automated process – which means increased risk of infection for patients.

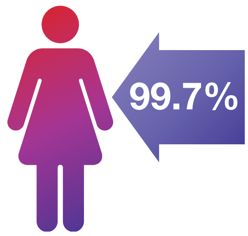
In addition to our own clinical work, awareness of the cross contamination risks associated with traditional disinfection methods is growing as a result of other clinical studies and publications.

In May this year an article by Michelle Alfa, PhD, FCCM, St Boniface Research Centre was published in Infection Control & Hospital Epidemiology, highlighting the risks of cross contamination with ultrasound probes that are not properly disinfected and inadequacies of some disinfectants against HPV. The article also reiterated the importance of disinfecting probe handles to reduce the risk of infection transmission. Nebulised hydrogen peroxide vapour [trophon technology] was referred to as an effective method to achieve high level disinfection of both probe handle and shaft.

Our clinical research program is gaining traction and is a key component of our strategy to position trophon as the standard of care for ultrasound probe disinfection. We are now working with the relevant associations and the medical profession to ensure awareness of the outcomes of our work and the serious risks associated with HPV are understood.

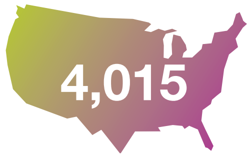
HPV facts

HPV accounts for 5% of all cancers worldwide.[1]

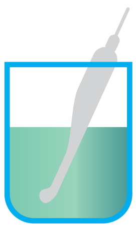


High risk types of HPV cause 99.7% of cervical cancer cases.[2]

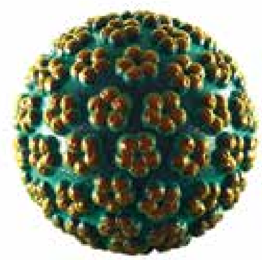
In Australia about 303 women die each year as a result of cervical cancer.[3]



The American Cancer Society estimates the US figure will be 4,015 in 2015.



Ultrasound probes are a potential source of infection and up to 7% remain contaminated with high-risk HPV after routine disinfection.[4-6]



HPV is highly resistant to disinfectants commonly used on ultrasound probes.[7]

1. Parkin DM (2006). "The global health burden of infection-associated cancers in the year 2002". Int. J. Cancer 118 (12): 3030–44.
2. Walboomers JMM, Jacobs MV, Manos MM, et al. Human papillomavirus is a necessary cause of invasive cervical cancer worldwide. J Pathol. 1999; 189: 12–19.
3. Bruni L, et al. ICO Information Centre on HPV and Cancer (HPV Information Centre). Human Papillomavirus and Related Diseases in Australia. Summary Report 2015- 03-20.
4. Casalegno et. Al.: High Risk HPV Contamination of Endocavity Vaginal Ultrasound Probes: An Underestimated Route of Nosocomial Infection?, PLOS ONE, Oct 2012, Volume 7, Issue 10.
5. M'Zali et al. Persistence of microbial contamination on transvaginal ultrasound probes despite low-level disinfection procedure. PLoS One 2014;9:e93368.
6. Leroy, S et al. Impact of Vaginal-Rectal Ultrasound Examinations with Covered and Low-Level Disinfected Transducers on Infectious Transmissions in France. Infection Control and Hospital Epidemiology, Vol 35, No 12 (December 2014), pp.1497-1504.
7. Meyers, J., et al., Susceptibility of high-risk human papillomavirus type 16 to clinical disinfectants. J Antimicrob Chemother, 2014.

Information on the directors, company secretaries and senior management

1. Maurie Stang

Non-executive Chairman

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

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

2. Michael Kavanagh BSc, MBA (Advanced)

CEO, President and Managing Director

Mr Kavanagh joined Nanosonics as CEO and President effective 21 October 2013. He was a Non-executive Director of the Board from 30 July 2012 to 20 October 2013.

Mr Kavanagh has more than 25 years of international commercial experience in the healthcare market having held local, regional and global roles in medical device and pharmaceutical industries.

Before joining Nanosonics, he was Senior Vice President of Global Marketing for the major medical device company Cochlear Ltd, a position he held for more than 10 years.

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

3. Richard England FCA, MAICD

Non-executive Director

Mr England joined the Board in February 2010. He is a chartered accountant and professional Non-executive Director. Since 2002, Mr England has been a director and Chairman of Ruralco Holdings Limited (ASX:RHL).

He has been a director of Macquarie Atlas Roads Limited (ASX:MQA) since June 2010, a director of Japara Healthcare Limited (ASX:JHC) since April 2014 and a director of HBF Health Limited since February 2015. He was a director and Chairman of Chandler Macleod Group Limited (ASX:CMG) from February 2008 to April 2015.

4. David Fisher BRurSc (Hons), MAppFin, PhD, FFin, GAICD

Non-executive Director

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

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

5. Ron Weinberger BSc (Hons), PhD

President Technology Development/Commercialisation

Dr Weinberger joined the Company in August 2004 and was appointed as Executive Director in July 2008 then Managing Director and Chief Executive Officer in December 2011 with a period as acting CEO from May 2011. Since October 2013, he has been President of Technology Development/Commercialisation and is responsible for the direction of the Company's technology development and commercialisation strategy.

Dr Weinberger has more than 20 years' experience in medical research and biotechnology. He is co-inventor of several of Nanosonics' key technology patents.

Dr Weinberger has not had any other directorships of listed companies in the last three years.

6. 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 Mr Kavanagh, has joint responsibility for investor relations. Mr Grant has more than 19 years' business 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 in Australia and Europe.

7. Gerard Putt BSc

Chief Operations Officer

Mr Putt joined Nanosonics full time in 2011 after 18 months on the Nanosonics advisory board. Mr Putt has more than 16 years' experience in the medical device industry as a leader of development, engineering, production and operations teams. He has particular experience in the implementation of new products into manufacturing and rapid scaling of production to international market needs.

8. Michael Potas BE (E&C)

Head of Research, Design and Development

Mr Potas joined Nanosonics in August 2006 and has more than 17 years' 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 and development of the trophon EPR and associated core intellectual property.

9. Vincent Wang BSc, MSc, MBA

Head of Global Support and Services

Mr Wang has extensive experience in developing and implementing global service and support strategy, establishing and managing customer support, technical service and service marketing functions in global medical device businesses. Before joining Nanosonics in May 2011, Mr Wang led and managed Technical Services and Service Operations for Sonova Hearing Healthcare Group and Cochlear Ltd, respectively.

10. Ruth Cremin MSc

Head of Quality and Regulatory

Ms Cremin joined Nanosonics in July 2011 and has extensive regulatory affairs experience. Previously she worked at Cochlear as a Senior Regulatory Affairs Specialist for the Asia Pacific Region; at Pfizer Australia as a QA & Regulatory Officer and at Bio-Medical Research Ltd in Galway, Ireland as a Regulatory Affairs Associate.

11. Kirste Courtney BA

Human Resources Manager

Ms Courtney joined Nanosonics in 2008 and has more than 17 years' human resources experience having worked in a variety of industry sectors including chartered accounting, media, logistics and banking.

12. Andrew Murray BE (Elec), MBA

Head of Global Marketing

Mr Murray joined Nanosonics in July 2015. He has more than 15 years' experience in medical device and technology marketing across the full spectrum of strategic planning to global launch.

His career includes senior marketing roles in Australia, USA and Europe with blue chip companies including Cochlear and ResMed and, more recently, consulting to a wide range of technology driven businesses across Australia.

13. Ronald J Bacskai BSME, MBA (Hons)

President and CEO, Nanosonics, Inc.

Mr Bacskai joined Nanosonics in 2010 and is responsible for leading Nanosonics' business in North America. Mr Bacskai is an experienced executive having worked in multiple industries with a broad technical, marketing and sales, and technology commercialisation background. Mr Bacskai has significant experience as President, CEO and board member of several public and private organisations as well as serving on the advisory board of a speciality environmental firm.

14. Bryn Tudor-Owens BSc

Country Manager – UK

Mr Tudor-Owen more than 24 years' experience gained within the medical device industry. Prior to Nanosonics he held senior positions with both GE Medical Systems and Cardinal Health for more than 15 years before more recently driving the UK startup operations of a German Healthcare SME.
He joined Nanosonics in August 2012.

15. Ralf Schmähling BA (Hons)

Country Manager – Germany

Mr Schmähling joined Nanosonics in September 2012. He has more than 12 years' experience in various business, sales and marketing management and leadership functions within blue chip medical device companies. He has a successful track record on strategic and tactical sales execution in the German health care market.

16. Julien Laronze BBA, BA

Country Manager – France

Mr Laronze joined Nanosonics in March 2014. He has more than 15 years' senior sales management and executive level experience, with a proven track record in driving growth both domestically and internationally, in the medical device industry with large and small companies. Prior to joining Nanosonics, he held Sales Director positions with Sophysa and Edap-Tms.

17. Robert Waring BEc, CA, FCIS, FFin, FAICD

Company Secretary

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

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 2015.

Principal activities

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

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

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

Operating and financial review

Revenue from sales for the year amounted to $22,214,000 (2014: $21,492,000), an increase of $722,000 or $3.4%. Sales in North America were consistent with last year and in line with plans as the Company continued through its transition phase to establish its direct sales operations in North America. Sales in Europe and other countries increased by 45.4% compared with the previous year. Sales in Australia and New Zealand were similar to the previous year.

Other income amounted to $3,236,000 (2014: $4,114,000), which included Export Market Development Grant of $119,000 (2014: 150,000); reimbursement of costs by a distributor of $1,200,000 (2014: $1,707,000); interest earned on cash investments of $928,000 (2014: $739,000) and foreign exchange gains of $988,000 (2014: nil, foreign exchange loss included in other operating costs). The Company did not receive an R&D tax offset in respect of the year ended 30 June 2014 (2014: $1,516,000 for the year ended 30 June 2013) because the turnover of the Company exceeded $20 million.

Operating expenditure for the year amounted to $23,416,000 (2014: $20,116,000), an increase of $3,300,000 or 16.4% driven by higher employment and related operating costs to support the growth of the business including the direct sales operations in North America.

Other expense for the year of $598,000 (2014: $555,000) relates mainly to borrowing costs on convertible notes.

The consolidated loss after tax amounted to $5,460,000 (2014: $2,605,000), an increase from last year.

The Group ended the year with $45,724,000 (2014: $21,233,000) of cash and equivalents which included net proceeds from capital raising $27,038,000. The Group has adequate cash to fund the operations of the business.

Other information on the operations of the Group and its business strategies and prospects are discussed in the review of operations included in the CEO's report and the Regional highlights on pages 6 to 11 of this report.

Significant changes in the state of affairs

During the year, the Company increased its funding as follows:

a. The Company issued 15,151,515 shares through a share Placement to sophisticated and professional investors at a price of $1.65 per share completed on 13 March 2015 to raise $25,000,000.

b. The Company issued 1,818,113 shares through a Share Purchase Plan to existing investors at a price of $1.65 per share completed on 27 March 2015 to raise $3,000,000.

c. The Company incurred a total of $962,000 in share issue costs relating to the share Placement and the Share Purchase Plan.

In the opinion of the directors, other than the matters described above and in the Review of operations, there were no other significant changes in the state of affairs of the Group during the financial year under review and to the date of this report.

Dividends – Nanosonics Limited

The directors do not recommend the payment of a dividend for the financial year ended 30 June 2015. No dividends were proposed, declared or paid during the financial year (2014: 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 2015 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.

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 6 to 11. Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group is subject to meeting statutory environmental regulations. To demonstrate its commitment to meeting these regulations, the Group maintains an Environmental Management system, which is currently certified to ISO14001.

Directors

During the year and to the date of this report, the Board of Nanosonics Limited comprised of Maurie Stang, David Fisher, Richard England, Michael Kavanagh, and Ron Weinberger.

As at the date of this report, Nanosonics Limited has the following committees of the Board: Audit and Risk, Remuneration, Nomination, and R&D and Innovation. Details of members of the committees of the Board during the year are included on page 23.

Information on the directors, company secretaries and senior management is a part of the Directors' report and can be found on pages 16 to 17 of the Annual Report.

Meetings of directors

The number of directors' meetings, including meetings of the committees, held during the year ended 30 June 2015, and numbers of meetings attended by each of the directors were as follows:

			Meetings of committees							
	Full meetings of directors		Audit and Risk		Nomination		Remuneration		R&D and Innovation	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Maurie Stang	11	11	3	3	1	1	1	1	3	3
Richard England	11	10	3	3	1	1	1	1		
David Fisher	11	11	3	3	1	1	1	1	3	3
Ron Weinberger	11	11							3	3
Michael Kavanagh	11	11							3	3

Directors' report (continued)

Share-based payments

Shares issued under the DESP and options granted under ESOP and GSOP during the year are detailed below.

Shares issued

During the year ended 30 June 2015, the Company issued a total of 19,087,064 (2014: 1,835,108) new ordinary shares in Nanosonics Limited as detailed below. To the date of this report, the Company issued a total of 2,251,811 new ordinary shares as detailed below. No amount was unpaid on any of the shares so issued.

Shares issued	Number of shares issued
Share Placement and Share Purchase Plan	16,969,628
Share options exercised under Share Option Plans	2,117,436
Total new shares issued during the year	**19,087,064**
Share options exercised under Share Option Plans post balance date	134,375
Total new shares issued to the date of this report	**19,221,439**

As at 30 June 2015, there were 282,910,890 (2014: 263,823,826) ordinary shares in Nanosonics Limited on issue. At the date of this report, there were 283,045,265 shares on issue. Further information on issued shares is provided in the Contributed equity and the Share-based compensation note to the financial statements.

Share options granted

During the financial year and to the date of this report, the Company granted, for no consideration 1,413,303, (2014: 3,115,869) unquoted options over unissued ordinary shares in Nanosonics Limited. Further information on the grants is provided below, in section 5 of the Remuneration report on pages 40 to 45 and in the Share-based compensation note to the financial statements.

Share options granted	Number of options granted
Employee Share Option Plan (ESOP)	1,413,303
General Share Option Plan (GSOP)	–
Total new options granted during the year and to the date of this report	**1,413,303**

Shares under option

At the date of this report, there were 3,589,668 unissued ordinary shares of Nanosonics Limited under option as detailed below. As at 30 June 2015, there were 5,694,023 (2014: 6,525,597) 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)	5,537,356
General Share Option Plan (GSOP)	156,667
Total shares under option at 30 June 2015	**5,694,023**
Share options exercised under Share Option Plans post balance date	(134,375)
Share options forfeited under Share Option Plans post balance date	(1,969,980)
Share options issued under Employee Share Option Plan (ESOP) post balance date	–
Total shares under option to the date of this report	**3,589,668**

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

Remuneration report – audited

Table of contents

1.0 Introduction

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

The Board's executive remuneration strategy is to provide 'fair and appropriate' remuneration balanced on a risk and reward framework that supports its business strategy in the short and long term. Board and executive remuneration are reviewed independently on a regular basis. The last formal review was undertaken during the year ended 30 June 2014.

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

1.1 Scope

This Remuneration report sets out, in accordance with the relevant *Corporations Act 2001* (Cth) (Corporations Act) and accounting standard requirements, the remuneration arrangements in place for KMP of Nanosonics Limited (Nanosonics) during the financial year ended 30 June 2015 (2015 Financial Year).

1.2 Key Management Personnel

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

Name	Title (at year end)	Change in 2015 Financial Year
Non-executive Directors		
Maurie Stang	Chairman Member, Audit and Risk Committee Member, Remuneration Committee Member, Nomination Committee Member, R&D and Innovation Committee	Full year
Richard England	Director Chairman, Audit and Risk Committee Chairman, Remuneration Committee Chairman, Nomination Committee	Full year
David Fisher	Director Member, Audit and Risk Committee Member, Remuneration Committee Member, Nomination Committee Chairman, R&D and Innovation Committee	Full year
Executive Directors		
Michael Kavanagh	Chief Executive Officer (CEO) and President, Managing Director Member, R&D and Innovation Committee	Full year
Ron Weinberger	Director and President, Technology Development/Commercialisation Member, R&D and Innovation Committee	Full year
Executive KMP		
McGregor Grant	Chief Financial Officer (CFO) and Company Secretary	Full year
Gerard Putt	Chief Operations Officer	Full year

2.0 Remuneration governance

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

2.1 Role of the Board and the Remuneration Committee

The Board is responsible for Nanosonics' remuneration strategy and policy. Consistent with this responsibility, the Board has established a Remuneration Committee which comprises a majority of independent Non-executive Directors. The members of the Remuneration Committee over the 2015 Financial Year were Richard England, Maurie Stang and David Fisher.

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

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

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

The Board

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

↕

The Remuneration Committee

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

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

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

↕ External Consultants

↕ Internal Resources

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

2.2 Use of remuneration consultants

From 1 July 2011, all proposed remuneration consultancy contracts (within the meaning of section 206K of the *Corporations Act 2001*) are subject to prior approval by the Board or the Remuneration Committee in accordance with the *Corporations Act 2001*.

During the year ended 30 June 2015, several remuneration consultancy contracts were entered into by Nanosonics and accordingly the disclosures required under section 300A (1) (h) of the *Corporations Act 2001* are set out below

Advisor/Consultant FY2015	**Service Provided**	**Remuneration Consultant for the purposes of the *Corporations Act 2001***
Ian Crichton, Remuneration Consultant, Crichton and Associates Pty Limited	Long Term Incentive (LTI) and Employee Share Scheme (ESS) advisory services, valuation of ESS instruments	Yes
Key questions regarding use of remuneration consultants		
Did a remuneration consultant provide remuneration recommendations in relation to any of the Executive KMP for the financial year?	No.	
How much was the remuneration consultant paid by the Company for remuneration related and other services?	Crichton and Associates Pty Limited – Remuneration Services $nil; Other Services $15,126.	
What arrangements did the Company make to ensure that the making of the remuneration recommendation would be free from undue influence by Executive KMP?	The Company made the following arrangements: • The company has implemented protocols to govern the procedure for procuring advice relating to KMP remuneration. The protocols contain a summary of the process for the engagement of remuneration consultants, the provision of information to the remuneration consultant, and the communication of remuneration recommendations. • The remuneration consultant must agree to adhere to the protocol procedures and is required to advise the Remuneration Committee whether or not they had been subjected to undue influence and must provide a Statement of Independence.	
Is the Board satisfied that the remuneration recommendation was free from any such undue influence? What are the reasons for the Board being so satisfied?	The Board is satisfied that the process are appropriate. No remuneration advice or recommendation has been provided this year.	

3.0 Non-executive Director remuneration

3.1 Non-executive Director remuneration philosophy

Principle	Comment
Fees are set by reference to key considerations	Fees for Non-executive Directors are based on the nature of the Directors' work and their responsibilities, taking into account the nature and complexity of the Company and the skills and experience of the Director. In determining the level of fees, survey data on comparable companies are considered. Non-executive Directors' fees are recommended by the Remuneration Committee and determined by the Board. Shareholders approve the aggregate amount available for the remuneration of Non-executive Directors. No increase in fees is proposed for the 2016 Financial Year.
Remuneration is structured to preserve independence whilst creating alignment	To preserve independence and impartiality, Non-executive Directors are not entitled to any form of incentive payments and the level of their fees is not set with references to measures of Company performance.
Aggregate Board Fees are approved by shareholders.	The total amount of fees paid to Non-executive Directors in the year ended 30 June 2015 is within the aggregate amount approved at a general meeting of the Company on 19 September 2006 of $500,000 a year. No increase in the pool limit is proposed.
Flexibility in how fees are received	Non-executive Directors can elect how they wish to receive their total fees – i.e. as a contribution of cash, superannuation contributions or charitable donations.

3.2 Non-executive Director fees and other benefits

Elements	Details	
Board fees per annum – 2015[1]	Board Chairman fee	$145,000
	Board NED fee	$80,000
Post-employment benefits		
Superannuation	Superannuation contributions are included in the Board fees and are made at a rate of 9.5% of base fee (up to the Government's prescribed maximum contributions limit) which satisfies the Company's statutory superannuation contributions.	
Other benefits		
Equity instruments	Non-executive Directors do not receive any performance related remuneration, options or performance shares. Options previously granted have either lapsed or been exercised.	
Other fees/benefits	Non-executive Directors are reimbursed for out-of-pocket expenses that are directly related to Nanosonics' business.	

1. Committee fees are not paid to the members of each Committee.

3.3 Non-executive Director total remuneration

	Year	Fees	Superannuation	Total
Maurie Stang	**2015**	**132,420**	**12,580**	**145,000**
	2014	111,362	10,301	121,663
Richard England	**2015**	**73,059**	**6,941**	**80,000**
	2014	66,613	6,162	72,775
David Fisher	**2015**	**73,059**	**6,941**	**80,000**
	2014	66,613	6,162	72,775
Michael Kavanagh[1]	**2015**	**–**	**–**	**–**
	2014	18,043	1,669	19,712
Total	**2015**	**278,538**	**26,462**	**305,000**
	2014	262,631	24,294	286,925

1. Includes remuneration paid to Mr Kavanagh until his appointment as an Executive Director on 21 October 2013.

4.0 Executive remuneration

4.1 Executive KMP remuneration

Nanosonics' executive remuneration strategy is designed to attract, retain and motivate its executives. Fixed remuneration components are determined having regard to the specific skills and competencies of the executive with reference to both internal and external relativities, particularly local market conditions. The 'at risk' components of remuneration are strategically directed to encourage management (and all participating executives) to strive for superior (risk balanced) performance by rewarding the achievement of targets that are challenging, clearly defined, understood and communicated and within the ambit of accountability of the relevant executive.

Directors' report (continued)

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

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

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

Total Target Remuneration (TTR)

TTR is intended to be positioned in the 3rd quartile compared to relevant market based comparisons. 4th quartile TTR may result if outperformance is achieved. This strategy is intended to ensure that top quartile remuneration is only awarded if the Company exceeds the performance objectives set by the Board.

4.2 Remuneration mix and timing of receipt

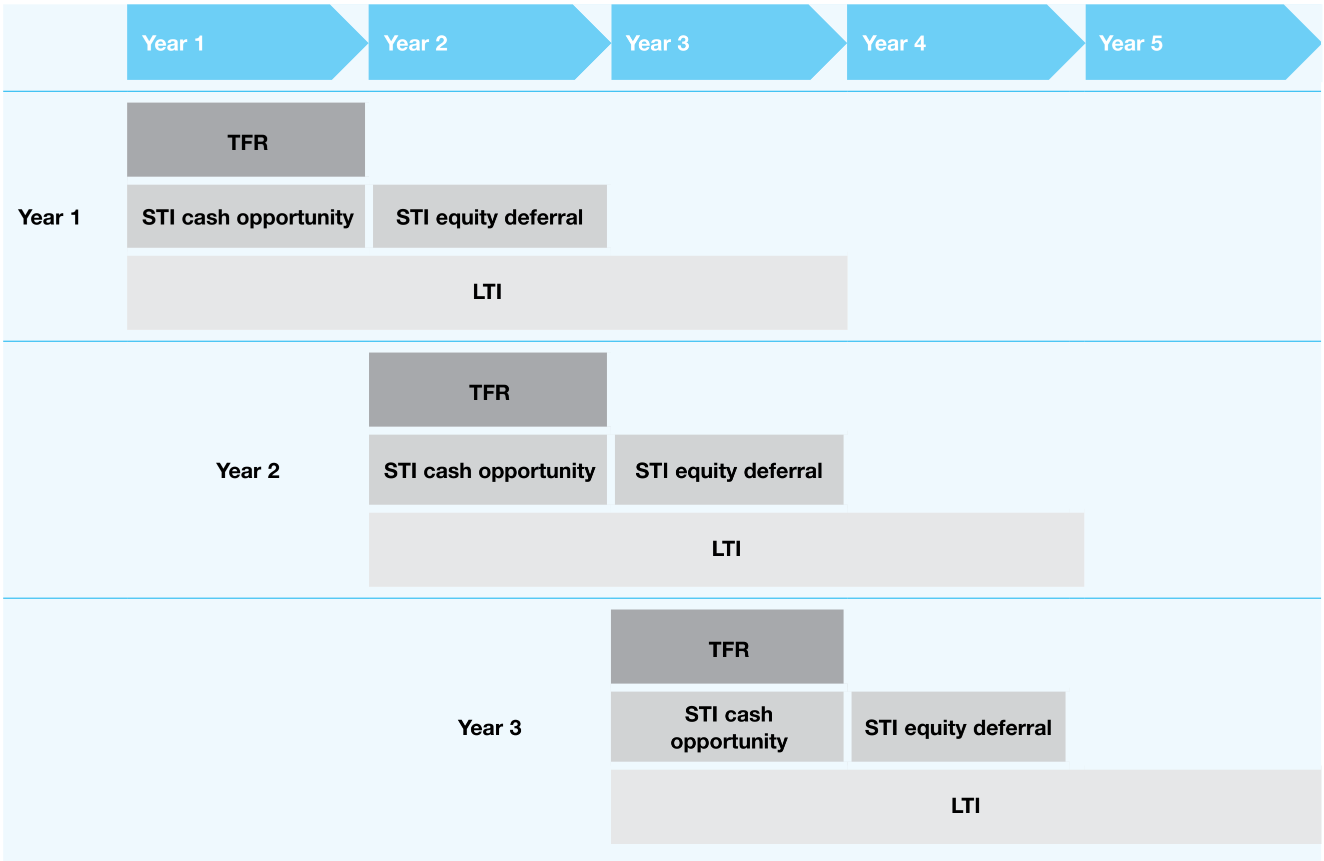
4.2.1 Remuneration mix

Position	TFR (Cash)	STI (Cash and Equity)	LTI (Equity)
CEO and President	100%	33.3% of Base Salary	33.3% of Base Salary[1]
Senior Executives (Executive KMP)	100%	25% of Base Salary	25% of Base Salary

1. In connection with the appointment of Mr Kavanagh as CEO and President, at the 2013 AGM shareholders approved the granting of 1,500,000 Performance Rights to Mr Kavanagh. Details of the vesting conditions associated with these Performance Rights are provided in Section 4.4.2 Long Term Incentives.

4.2.2 Remuneration – timing of receipt of the benefit

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



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

4.3 Total Fixed Remuneration (TFR) explained

Total Fixed Remuneration (TFR) includes all remuneration and benefits paid to an executive KMP calculated on a Total Employment Cost (TEC) basis. Executive KMP TFR is tested regularly for market competitiveness by reference to appropriate independent and externally sourced comparable benchmark information. Usually, TFR adjustments are only made in response to individual performance (as measured), an increase in job role, changing market circumstances or promotion. Any adjustment to executive KMP remuneration is approved by the Board, based on recommendations by the CEO and President and the Remuneration Committee.

4.4 Variable 'at risk' remuneration explained

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

4.4.1 Short Term Incentives (STI)

Purpose	The STI arrangements at Nanosonics are designed to reward executives for the achievements against annual performance targets set by the Board at the beginning of the performance period. The STI program is reviewed annually by the Remuneration Committee and approved by the Board. All STI awards to the CEO and President and other executive KMP are approved by the Remuneration Committee and the Board.
Performance targets	The key performance objectives of Nanosonics are currently directed to achieving a Profit Before Tax (PBT) target complemented by the achievement of individual performance goals. The weighting between the PBT target and individual performance goals will depend on the responsibilities and scope of influence of the relevant executive. All targets are set having regard to prior year performance, market conditions and the Board approved budgets. The specific targets are not provided in detail due to their commercial sensitivity. Any anomalies or discretionary elements are approved and validated by the Board.
Rewarding performance	The actual STI awards for executive KMP in 2015 are as set out in the table in Section 4.6.1.
Payment of STI	To ensure there is an appropriate retention element of STI and to reinforce alignment with shareholders there is a mandatory deferral of a portion of STI. The STI is delivered as follows: • 50% of STI paid in cash • 50% of STI delivered as Nanosonics Performance Rights deferred for one year The equity component will be determined based on the 5 day Volume Weighted Average Market Price of Nanosonics shares as at 31 August each year. As the STI amount awarded as equity has already been earned, there are no further performance measures attached to the Performance Rights. However, they are subject to service conditions until the vesting date.

4.4.2 Long Term Incentives (LTI)

The LTI provides an annual opportunity for selected executives to receive an equity award deferred for three years that is intended to align a significant portion of an executives overall remuneration to shareholder value over the longer term. All LTI awards remain at risk until vesting and must meet or exceed the defined performance hurdles over the vesting period.

Purpose	To retain key executives and align their remuneration opportunity with shareholder value.
Type of equity awarded	Under the Nanosonics Long Term Incentive Scheme (LTIS) selected senior executives are offered Performance Rights (being options to acquire ordinary shares of Nanosonics Limited for a nil exercise price) under the terms of the Nanosonics Employee Share Option Plan (ESOP). See Section 5.1 for further details. Performance Rights do not carry any dividend or voting rights prior to exercise.
Timing	Grants are made each year after shareholder approval to issue securities to Directors has been obtained at the relevant AGM.
LTI allocation	The size of individual LTI grants for the CEO and President and other Executive KMP is determined in accordance with the Board approved remuneration strategy mix. See Section 4.2. The target LTI $ value for each executive once determined is then converted into a number of Performance Rights based on a valuation methodology determined at the grant date, as follows: Performance Rights allocated = LTI $ value divided by 5 day Volume Weighted Average Market Price of Nanosonics shares as at the date of the AGM each year.
Performance hurdles	Equity grants to the CEO and President and other Executive KMP are subject to both internal (Revenue) and external (relative Total Shareholder Return (TSR)) Performance Conditions.
CEO and President 2013 Long Term Incentive Scheme (2013 LTIS)	At the 2013 AGM, shareholders approved the granting of 1,500,000 Performance Rights to Mr Kavanagh. The number of Performance Rights granted to Mr Kavanagh was determined at the Board's discretion in connection with Mr Kavanagh's appointment as CEO and President. The 1,500,000 Performance Rights granted to Mr Kavanagh was made in respect of the 2013 and 2014 LTIS grant years. Accordingly, no additional LTIS grant will be made to Mr Kavanagh in respect of the 2014 LTIS. Full details of the vesting conditions associated with the Performance Rights granted to Mr Kavanagh were included in the explanatory notes included with the Notice of the 2013 AGM (Resolution 10) and are summarised below.

CEO and President 2013 Long Term Incentive Scheme (2013 LTIS) – continued

2016 Performance Conditions

Ranking of TSR vs. 2013 LTIS Comparator Group[1]		**Revenue Hurdle**	
Tranche 1: 25% of total Performance Rights granted (375,000)		Tranche 2: 25% of total Performance Rights granted (375,000)	
Performance	% of Performance Rights to vest[3]	Revenue in Financial Year 2016	% of Performance Rights to vest[3]
< 50th percentile	0%	<$25.7 million	0%
50th to 75th percentile	50% to 100% pro-rata	$25.7 million	25%
At 75th percentile	100%	$29.1 million	50%
		$32.7 million	75%
		$36.7 million	100%

2017 Performance Conditions

Ranking of TSR vs. 2013 LTIS Comparator Group[2]		**Revenue Hurdle**	
Tranche 3: 25% of total Performance Rights granted (375,000)		Tranche 4: 25% of total Performance Rights granted (375,000)	
Performance	% of Performance Rights to vest[3]	Revenue in Financial Year 2017	% of Performance Rights to vest[3]
< 50th percentile	0%	<$30.9 million	0%
50th to 75th percentile	50% to 100% pro-rata	$30.9 million	25%
At 75th percentile	100%	$36.4 million	50%
		$42.6 million	75%
		$49.5 million	100%

1. TSR measurement period is 8 November 2013 to the date of the release of Nanosonics’ FY16 financial statements.
2. TSR measurement period is 8 November 2013 to the date of the release of Nanosonics’ FY17 financial statements.
3. Straight line interpolation will apply to incremental results.

Service Conditions

In addition to the above performance conditions, the Performance Rights will only vest if Mr Kavanagh remains in continuous employment with Nanosonics from the date of the grant to the respective vesting date of each Tranche.

Special provisions, in accordance with company policies, may apply in the event of termination of employment or a change of control.

Other Executive KMP 2014 Long Term Incentive Scheme (2014 LTIS)

A summary of the vesting conditions associated with the Performance Rights granted to other Executive KMP under the 2014 LTIS are summarised below.

Ranking of TSR vs. 2013 LTIS Comparator Group[1]		**Revenue Hurdle**	
Tranche 1: 50% of total Performance Rights granted		Tranche 2: 50% of total Performance Rights granted	
Performance	% of Performance Rights to vest[2]	Revenue in Financial Year 2016	% of Performance Rights to vest[2]
< 50th percentile	0%	<$30.9 million	0%
50th to 75th percentile	50% to 100% pro-rata	$30.9 million	25%
At 75th percentile	100%	$36.4 million	50%
		$42.6 million	75%
		$49.5 million	100%

1. TSR measurement period is 8 November 2013 to the date of the release of Nanosonics' FY16 financial statements.

2. Straight line interpolation will apply to incremental results.

Service Conditions

In addition to the above performance conditions, the Performance Rights will only vest if the Executive KMP remains in continuous employment with Nanosonics from the date of the grant to the respective vesting date of each Tranche.

Special provisions, in accordance with company policies, may apply in the event of termination of employment or a change of control.

Other Executive KMP 2013 Long Term Incentive Scheme (2013 LTIS)

A summary of the vesting conditions associated with the Performance Rights granted to other Executive KMP under the 2013 LTIS are summarised below.

Ranking of TSR vs. 2013 LTIS Comparator Group[1]		**Revenue Hurdle**	
Tranche 1: 50% of total Performance Rights granted		Tranche 2: 50% of total Performance Rights granted	
Performance	% of Performance Rights to vest[2]	Revenue in Financial Year 2017	% of Performance Rights to vest[2]
<50th percentile	0%	<$25.7 million	0%
50th to 75th percentile	50% to 100% pro-rata	$25.7 million	25%
At 75th percentile	100%	$29.1 million	50%
		$32.7 million	75%
		$36.7 million	100%

1. TSR measurement period is 8 November 2013 to the date of the release of Nanosonics' FY17 financial statements.

2. Straight line interpolation will apply to incremental results.

Service Conditions

In addition to the above performance conditions, the Performance Rights will only vest if the Executive KMP remains in continuous employment with Nanosonics from the date of the grant to the respective vesting date of each Tranche.

Special provisions, in accordance with company policies, may apply in the event of termination of employment or a change of control.

Directors' report (continued)

4.5 Other remuneration elements and disclosures relevant to Executive KMP

4.5.1 Clawback

In accordance with the ASX Corporate Governance Guidelines, the Board has clear policies regarding the deferral of performance-based remuneration as set out in Section 4.4.1. Policies concerning the reduction, cancellation or clawback of performance-based remuneration in the event of serious misconduct or a material misstatement in the entity's financial statements have not been determined as yet. These policies will be developed as clear market trends emerge.

4.5.2 Securities trading restrictions

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

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

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

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

4.5.3 Cessation of employment provisions

The provisions that apply for STI and LTI awards in the case of cessation of employment are detailed in Section 6.

4.5.4 Change of control

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

4.5.5 Conditions of LTI grants

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

4.6 Relationship between Nanosonics' performance and executive KMP remuneration

As explained in Section 4.2, Nanosonics' remuneration framework aims to incentivise executive KMP towards achieving sustainable growth of the business and the creation of shareholder value in the short, medium and long term.

4.6.1 Short Term Incentives

Executive KMP STI opportunity and actual 2015 STI awarded are set out in the table below:

Executive KMP	Position	Maximum STI % of 2015 TFR[1]	STI awarded as a % of potential[1]	STI cash award in 2015 ($)[2]	Deferred equity STI award ($)[3]	% Forfeited[4]
Michael Kavanagh	CEO and President, Managing Director	31%	100%	68,467	68,468	–
Ron Weinberger	President, Technology Development/Commercialisation	22%	100%	38,750	38,750	–
McGregor Grant	CFO and Company Secretary	23%	100%	38,318	38,318	–
Gerard Putt	Chief Operations Officer	22%	100%	31,255	31,255	–

1. Relates to STI % both cash and deferred equity opportunity. The deferred equity will be awarded the following year.
2. Amounts included in the remuneration for the financial year represent the maximum cash STI opportunity related to the financial year based on the achievement of individual goals and satisfaction of specified performance criteria. The amount was finally determined on 12 August 2015 after performance reviews were completed and approved by the Board.
3. The equivalent number of Performance Rights to be awarded in the following year will be determined as set out in section 4.4.1 of the Remuneration Report.
4. The amounts forfeited are due to the performance criteria not being fully met in relation to the current financial year.

Short Term Incentives have been accrued in respect of the 2015 financial year because the performance conditions set by the Board have been met.

4.6.2 Long Term Incentives

Executive KMP are only entitled to a benefit under the current Company's LTI scheme if both Revenue and relative Total Shareholder Return (TSR) targets are met.

Revenue growth is considered a priority for Nanosonics at this stage of its development, in the opinion of the Board. Relative TSR is a generally accepted proxy for creation of shareholder value. The Board believes a balance between these two performance criteria is a sound guide to medium and long term performance.

Revenue (50%)

Revenue targets under the 2013 and 2014 LTI grants were as follows:

Year/Vesting %	25%	50%	75%	100%
2016	$25.7M	$29.1M	$32.7M	$36.7M
2017	$30.9M	$36.4M	$42.6M	$49.5M

Nanosonics' revenue for the financial years ended 30 June, 2012, 2013, 2014 and 2015 are set out below.

Financial year	Revenue $'000
2015	22,214
2014	21,492
2013	14,899
2012	12,301

Nanosonics would have to achieve an increase in revenue (2015 base year) of 16% for 25% of the 2013 LTI to vest and 65% for 100% of the 2013 LTI to vest. Similarly, using the same base year, an increase of 39% for 25% of the 2014 LTI to vest and 123% for 100% of the 2014 LTI to vest. If these increases are achieved the Board believes an appropriate balance of results and benefit will result.

Relative Total Shareholder Return (50%)

The relative TSR for 2013 LTI and 2014 LTI awards measures NAN TSR against a selected group of comparator companies, set out as follows:

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

Testing of performance against the relevant comparator group will only occur at the vesting date of each grant. To date, no equity grant subject to a TSR hurdle has vested. The TSR hurdle set and the relative vesting schedule meet contemporary market standards according to independent advice received by the Board. The cost of preparing an interim TSR performance measure against the actual peer group outweighs the benefit of this disclosure in the Board's opinion.

4.7 Executive remuneration tables

		Fixed remuneration						Variable remuneration			Total	Proportion of total remuneration		
		Short-term			Long-term		Total	Short-term	Equity compensation	Total		Performance related	Non-performance related[2]	Value of options and rights
	Year	Salary and fees	Non-monetary benefits	Other	Superannuation	Other long term benefits		Cash bonus[5]	Options and performance rights[6]			%	%	%
Executive Directors														
Michael Kavanagh[1]	**2015**	**395,477**	**–**	**–**	**18,783**	**31,863**	**446,123**	**68,467**	**439,823**	**508,290**	**954,413**	**53%**	**0%**	**46%**
	2014	267,446	–	–	13,094	20,903	301,443	65,305	232,933	298,238	599,681	50%	0%	39%
Ron Weinberger	**2015**	**279,001**	**25,710**	**–**	**18,783**	**32,336**	**355,830**	**38,750**	**109,982**	**148,732**	**504,562**	**29%**	**0%**	**22%**
	2014	290,923	39,459	–	17,885	30,473	378,740	49,104	147,533	196,637	575,377	34%	0%	26%
McGregor Grant[3]	**2015**	**292,652**	**–**	**–**	**18,783**	**23,906**	**335,341**	**38,318**	**101,273**	**139,591**	**474,932**	**26%**	**4%**	**21%**
	2014	273,037	–	506	17,775	22,933	314,251	35,751	107,373	143,124	457,375	16%	15%	23%
Gerard Putt[4]	**2015**	**234,375**	**–**	**–**	**18,783**	**33,196**	**286,354**	**31,255**	**72,661**	**103,916**	**390,270**	**25%**	**2%**	**19%**
	2014	214,575	–	–	17,775	17,819	250,169	26,551	59,737	86,288	336,457	18%	8%	18%
Total	**2015**	**1,201,505**	**25,710**	**–**	**75,132**	**121,301**	**1,423,648**	**176,790**	**723,739**	**900,529**	**2,324,177**	**38%**	**1%**	**31%**
Total	2014	1,045,981	39,459	506	66,529	92,128	1,244,603	176,711	547,576	724,287	1,968,890	5%	32%	28%

1. Includes remuneration paid to Mr Kavanagh since his appointment as an Executive Director on 21 October 2013.
2. Non-performance related remuneration relates to options granted as part of employment contracts subject to service conditions.
3. Mr Grant joined the Company on 28 April 2011 and in connection with his appointment he was granted 1,000,000 options, which vested in 4 tranches with service conditions completed in 2015. These options were exercised during the year.
4. Mr Putt joined the Company on 27 April 2011 and in connection with his appointment he was granted 400,000 options, which vested in 4 tranches with service conditions completed in 2015. These options were exercised during the year.
5. The cash bonus is for the performance during the respective financial year based the criteria set out in Section 4.4.1. 2015 amounts represent the maximum cash STI opportunity related to the financial year based on the achievement of individual goals and satisfaction of specified performance criteria. Actual cash STI award is disclosed in Section 4.6.1.
6. The amount disclosed is the amount of the fair value of the options and performance rights recognised as an expense in each reporting period. It also covers both the performance rights issued under the LTIS program as well as the deferred STI. The ability to exercise the options and rights are subject to vesting conditions. The fair values of the options and performance rights that are subject to non-market performance conditions or service conditions are calculated at the date of the grant using Binomial Approximation model. The fair values of performance rights that are subject to TSR performance conditions are calculated at the date of the grant using the Monte-Carlo simulation model.

4.8 Executive remuneration tables – unaudited

This table represents the value to the executive KMP of cash paid and vested equity awards (intrinsic value) received during the year, and unvested equity awards (IFRS-2 value) granted during the financial year at risk. The LTI equity granted is a value determined under IFRS-2 which may or may not vest depending on future outcomes that are uncertain. Accordingly, this table incorporates data that could represent an accumulation of outcomes arising from multiple years.

		Short-term benefits		Past at-risk remuneration received	Actual remuneration received during year	Future at risk remuneration received during year	
	Year	Fixed remuneration[2]	Incentives[3]	Value of performance rights[4]		STI (deferred as equity)	LTI (equity) granted[5]
Michael Kavanagh[1]	**2015**	**429,999**	**65,305**	**–**	**495,304**	**121,231**	**–**
	2014	287,369	–	–	287,369	–	1,158,938
Ron Weinberger	**2015**	**354,494**	**49,104**	**–**	**403,598**	**91,155**	**154,371**
	2014	391,189	–	73,940	465,129	–	103,089
McGregor Grant	**2015**	**325,329**	**35,751**	**136,666**	**497,746**	**66,368**	**110,664**
	2014	311,626	–	52,433	364,059	–	181,902
Gerard Putt	**2015**	**266,735**	**26,551**	**54,666**	**347,952**	**49,289**	**91,314**
	2014	247,408	–	42,670	290,078		150,093
Total	**2015**	**1,376,557**	**176,711**	**191,332**	**1,744,600**	**328,043**	**356,349**
	2014	1,237,592	–	169,043	1,406,635	–	1,594,022

1. Includes remuneration paid to Mr Kavanagh since his appointment as an Executive Director on 21 October 2013.
2. Base salary, superannuation, non-monetary, and other cash benefits received during the year (excludes annual leave and long service leave accrual).
3. STI received as cash in respect of the 2014 Financial Year. Excludes cash STI accrued in respect of the 2015 Financial Year.
4. Intrinsic value at vesting date of options and performance rights issued in previous periods that vested during the year.
5. Accounting value of performance rights awarded during the year that are unvested and subject to vesting conditions (i.e. achievement of performance conditions and/or service conditions).

5.0 Employee Share Scheme information

This section provides:

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

5.1 Employee Share Schemes operated by Nanosonics

Plan Name	Type of Instruments	Purpose	Details
Nanosonics Deferred Employee Share Plan (DESP) Established in 2007 Date last approved by shareholders: 8 November 2013	Ordinary Shares	The purpose of the Share Plans is to provide eligible employees (including Executive Directors but excluding Non-Executive Directors) with performance incentives through opportunities to acquire beneficial ownership of shares in the Company and to access the taxation concessions available under the Income Tax Assessment Act. The DESP is also used for the settlement of shares on exercise of options in the Share Option Plans.	Since the DESP was last approved, 814,841 shares (from the exercise of ESOP options) have been issued to the Plan. As at the date of this report 849,741 shares remain outstanding.
Nanosonics Exempt Employee Share Plan (EESP) Established in 2007 Date last approved by shareholders: 8 November 2013			No grants to date have been made under the EESP.
Nanosonics Employee Share Option Plan (ESOP) Established in 2007 Date last approved by shareholders: 8 November 2013	Options	The purpose of the Share Option Plans is to permit the Company, as part of its overall remuneration programs, to provide long-term incentives for employees (including Executive Directors), consultants and contractors to Nanosonics who deliver long-term shareholder returns. The Plans provide participants with an opportunity to acquire a beneficial ownership of shares in the Company and to access the taxation concessions available under the Income Tax Assessment Act.	Since the ESOP was last approved, 3,681,827 options have been issued, 2,644,841 options exercised, and 2,056,270 options lapsed. As at the date of this report 3,433,001 options remain outstanding.
Nanosonics General Share Option Plan (GSOP) Established in 2007 Date last approved by shareholders: 8 November 2013			Since the GSOP was last approved, no options have been issued, 608,333 options exercised and 50,000 options lapsed. There have been no new issues. As at the date of this report 156,667 options remain outstanding.

5.2 ESS grants to KMP

5.2.1 Analysis of share-based payments granted as remuneration

Details of the vesting profiles for the year and as at 30 June 2015 of the Options and Performance Rights granted as remuneration to each Executive KMP are set out below:

	Options/Performance Rights												Vesting in future years		
	Description	**Grant Date**	**Expiry Date**	**Exercise Price**	**Number granted**	**Number vested during the year**	**% vested during the year**	**Number vested to date**	**Number lapsed/ forfeited during the year**	**% lapsed/ forfeited**	**Balance at year end**	**Intrinsic value at year end**	**2016**	**2017**	**2018**
Michael Kavanagh	2014 Deferred STI	Mar-15	01-Oct-15	$0.00	70,479	–	–	–	–	–	70,479	119,814	70,479		
	2013 LTIS Tranche 1	Nov-13	30-Sep-16	$0.00	375,000	–	–	–	–	–	375,000	637,500		375,000	
	2013 LTIS Tranche 2	Nov-13	30-Sep-16	$0.00	375,000	–	–	–	–	–	375,000	637,500		375,000	
	2013 LTIS Tranche 3	Nov-13	30-Sep-17	$0.00	375,000	–	–	–	–	–	375,000	637,500			375,000
	2013 LTIS Tranche 4	Nov-13	30-Sep-17	$0.00	375,000	–	–	–	–	–	375,000	637,500			375,000
Ron Weinberger	2014 Deferred STI	Mar-15	01-Oct-15	$0.00	52,994	–	–	–	–	–	52,994	90,090	52,994		
	2014 LTIS Tranche 1	Mar-15	30-Sep-17	$0.00	50,276	–	–	–	–	–	50,276	85,469			50,276
	2014 LTIS Tranche 2	Mar-15	30-Sep-17	$0.00	50,275	–	–	–	–	–	50,275	85,468			50,275
	2013 LTIS Tranche 1	Nov-13	30-Sep-16	$0.00	67,409	–	–	–	–	–	67,409	114,595		67,409	
	2013 LTIS Tranche 2	Nov-13	30-Sep-16	$0.00	67,409	–	–	–	–	–	67,409	114,595		67,409	
	2012 LTIS[1]	Nov-12	30-Sep-15	$0.00	1,220,000	–	–	–	–	–	1,220,000	2,074,000	1,220,000[1]		
	Options	Jul-10	19-Jul-14	$0.56	200,000	–	–	200,000	–	–	–	–			
McGregor Grant	2014 Deferred STI	Mar-15	01-Oct-15	$0.00	38,584	–	–	–	–	–	38,584	65,593	38,584		
	2014 LTIS Tranche 1	Mar-15	30-Sep-17	$0.00	36,041	–	–	–	–	–	36,041	61,270			36,041
	2014 LTIS Tranche 2	Mar-15	30-Sep-17	$0.00	36,041	–	–	–	–	–	36,041	61,270			36,041
	2013 LTIS Tranche 1	Mar-14	30-Sep-16	$0.00	47,888	–	–	–	–	–	47,888	81,410		47,888	
	2013 LTIS Tranche 2	Mar-14	30-Sep-16	$0.00	47,889	–	–	–	–	–	47,889	81,411		47,889	
	2012 LTIS[1]	Aug-13	30-Sep-15	$0.00	145,307	–	–	–	–	–	145,307	247,022	145,307[1]		
	Options	May-11	28-Apr-16	$0.85	1,000,000	166,666	17%	1,000,000	–	–	–	–			
Gerard Putt	2014 Deferred STI	Mar-15	01-Oct-15	$0.00	28,655	–	–	–	–	–	28,655	48,714	28,655		
	2014 LTIS Tranche 1	Mar-15	30-Sep-17	$0.00	29,739	–	–	–	–	–	29,739	50,556			29,739
	2014 LTIS Tranche 2	Mar-15	30-Sep-17	$0.00	29,739	–	–	–	–	–	29,739	50,556			29,739
	2013 LTIS Tranche 1	Mar-14	30-Sep-16	$0.00	39,514	–	–	–	–	–	39,514	67,174		39,514	
	2013 LTIS Tranche 2	Mar-14	30-Sep-16	$0.00	39,515	–	–	–	–	–	39,515	67,176		39,515	
	2012 LTIS[1]	Aug-13	30-Sep-15	$0.00	119,898	–	–	–	–	–	119,898	203,827	119,898[1]		
	Options	May-11	27-Apr-16	$0.85	400,000	66,666	17%	400,000	–	–	–	–			

1. The performance conditions set out in the 2012 LTIS were not met. Accordingly, these performance rights did not vest and were subsequently forfeited in July 2015.

Directors' report (continued)

5.2.2 Exercise of options granted as remuneration

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

	Number of shares	Amount paid per share ($)	Total amount paid ($)	Intrinsic value[1] ($)
Ron Weinberger	200,000	$0.556	$111,200	$47,940
McGregor Grant	1,000,000	$0.85	$850,000	$1,035,000
Gerard Putt	400,000	$0.85	$340,000	$414,000
Total	**1,600,000**		**$1,301,200**	**$1,496,940**

1. The intrinsic value of the shares is calculated as the market price of the shares of the company on the ASX as at close of trading on the date the options were exercised and the shares were issued after deducting the price paid to exercise the option.

There are no amounts unpaid on the shares issued as a result of the exercise of the options in prior years.

5.2.3 Analysis of movement in options

The movement in number and value during the financial year of Options and Performance Rights over ordinary shares of Nanosonics Limited held by KMP is detailed below.

	Balance at start of the year		Granted in year		Exercised in year		Forfeited in year		Balance at end of the year	
	Number	Value ($)[1]	Number	Value ($)[1]	Number	Value($)[2]	Number	Value ($)[2]	Number	Value ($)[1]
Michael Kavanagh	1,500,000	$1,158,938	70,479	$121,231	–	–	–	–	1,570,479	$1,280,169
Ron Weinberger	1,554,818[3]	$836,989	153,545	$245,526	200,000	$47,940	–	–	1,508,363[3]	$1,019,614
McGregor Grant	1,241,084[3]	$683,102	110,666	$177,032	1,000,000	$1,035,000	–	–	351,750[3]	$358,934
Gerard Putt	598,927[3]	$350,093	88,133	$140,603	400,000	$414,000	–	–	287,060[3]	$290,696
Total	**4,894,829**	**$3,029,122**	**422,823**	**$684,392**	**1,600,000**	**$1,496,940**	**–**	**–**	**3,717,652**	**$2,949,413**

1. The 'fair value' of options granted in the year is the fair value of the options calculated at grant date and derived applying the valuation methodology prescribed under IFRS-2. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 30 June 2012 to 30 June 2015).
2. The value of options exercised and forfeited during the year is calculated as the market price of shares of the company on the ASX as at close of trading on the date the options were exercised or forfeited after deducting the price paid or payable to exercise the option.
3. This includes performance rights under the 2012 LTIS. The performance conditions set out in the 2012 LTIS were not met. Accordingly, these performance rights did not vest and were subsequently forfeited in July 2015.

5.3 Fair value of share-based compensation

The following factors and assumptions were used in determining the fair value on grant date of options and performance rights granted to directors and KMP under ESOP which were unexpired on 30 June 2015, including those granted during the period:

Option/ Performance Rights Description	Vesting Conditions	Grant date	Expiry date	Share price at grant date($)	Exercise price ($)	Valuation Model	Estimated volatility	Risk free interest rate	Fair Value of option($)
2012 LTIS[1]	FY15 Revenue, net profit after tax and service	Nov-12	30-Sep-15	0.55	–	Binomial	45.46%	2.58%	0.55
2012 LTIS[1]	FY15 Revenue, net profit after tax and service	Aug-13	30-Sep-15	0.78	–	Binomial	45.49%	2.35%	0.78
2013 LTIS Tranche 1 – CEO	Relative TSR performance and service	Nov-13	30-Sep-16	0.85	–	Monte Carlo	45.00%	3.00%	0.68
2013 LTIS Tranche 2 – CEO	FY16 Revenue and service	Nov-13	30-Sep-16	0.85	–	Binomial	45.00%	3.00%	0.85
2013 LTIS Tranche 3 – CEO	Relative TSR performance and service	Nov-13	30-Sep-17	0.85	–	Monte Carlo	45.00%	3.20%	0.71
2013 LTIS Tranche 4 – CEO	FY17 Revenue and service	Nov-13	30-Sep-17	0.85	–	Binomial	45.00%	3.20%	0.85
2013 LTIS Tranche 1 – Other KMP	Relative TSR performance and service	Mar-14	30-Sep-16	0.80	–	Monte Carlo	45.00%	2.68%	0.63
2013 LTIS Tranche 2 – Other KMP	FY16 Revenue and service	Mar-14	30-Sep-16	0.80	–	Binomial	45.00%	2.68%	0.80
2014 Deferred STI	Service	Mar-15	01-Oct-15	1.72	–	Binomial	45.00%	2.10%	1.72
2014 LTIS Tranche 1 – Other KMP	Relative TSR performance and service	Mar-15	30-Sep-17	1.72	–	Monte Carlo	45.00%	1.88%	1.36
2014 LTIS Tranche 2 – Other KMP	FY17 Revenue and service	Mar-15	30-Sep-17	1.72	–	Binomial	45.00%	1.88%	1.71

1. The performance conditions set out in the 2012 LTIS were not met. Accordingly, these performance rights did not vest and were subsequently forfeited in July 2015.

5.4 KMP equity interests

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

Equity interests as at 30 June 2015	Nanosonics Limited ordinary shares[1]	Options over Nanosonics Limited ordinary shares	Total intrinsic value of NAN securities as at year end ($)[2/3]
Non-Executive Directors			
Maurie Stang	25,099,701	–	$42,669,492
Richard England	128,301	–	$218,112
David Fisher	812,705	–	$1,381,599
Executive Directors			
Michael Kavanagh	150,000	1,570,479	$2,924,814
Ron Weinberger	52,000	1,508,363[4]	$2,652,617
Other Executive KMP			
McGregor Grant	645,578	351,750[4]	$1,695,458
Gerard Putt	100,096	287,060[4]	$658,165

1. Includes the number of Nanosonics shares issued to executives under the DESP.
2. The intrinsic value of Nanosonics shares calculated as at the closing NAN price on 30 June 2015 times the number of shares.
3. The intrinsic value of options calculated as at the closing NAN price on 30 June 2015 less the applicable exercise price times the number of options.
4. Includes performance rights relating to the 2012 LTIS which did not vest and were subsequently forfeited in July 2015 as the performance conditions were not met.

Equity interests as at the date of this report	Nanosonics Limited ordinary shares[1]	Options over Nanosonics Limited ordinary shares
Non-Executive Directors		
Maurie Stang	25,099,701	–
Richard England	128,301	–
David Fisher	812,705	–
Executive Directors		
Michael Kavanagh	150,000	1,570,479
Ron Weinberger	52,000	288,363
Other Executive KMP		
McGregor Grant	645,578	206,443
Gerard Putt	100,096	167,162

1. Includes the number of Nanosonics shares issued to executives under the DESP.

Refer to Section 4.5.2 regarding Securities Trading Restrictions.

5.5 KMP Share movement

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

	Balance at start of the year	Received during the year on the exercise of options	Other net changes during the year	Balance at end of the year
Non-Executive Directors				
Maurie Stang	28,402,424	–	(3,302,723)	25,099,701
Richard England	128,301	–	–	128,301
David Fisher	812,705	–	–	812,705
Executive Directors				
Michael Kavanagh	150,000	–	–	150,000
Ron Weinberger	68,607	200,000	(216,607)	52,000
Other Executive KMP				
McGregor Grant[1]	77,056	1,000,000	(431,478)	645,578
Gerard Putt[1]	69,046	400,000	(368,950)	100,096

1. This includes shareholding of a close family member of the KMP.

Directors' report (continued)

6.0 Employment agreements

6.1 CEO and President

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

Length of contract	Ongoing employment contract until notice is given by either party.
Fixed Remuneration	$410,000 p.a., inclusive of superannuation and reviewed annually. Increased to $430,000 p.a., inclusive of superannuation effective 1 July 2014.
Short-term Incentive	33.3% of Base Salary.
Long-term Incentive	33.3% of Base Salary. LTI arrangements in respect of 2013 and 2014 are described in section 4.4.2.
Notice periods	In order to terminate the employment arrangements, is required to provide Nanosonics with 9 months written notice. Nanosonics must provide Mr Kavanagh with 9 months written notice.
Resignation	On resignation, unless the Board determines otherwise: • All unvested STI or LTI benefits are forfeited. • All vested but unexercised STI or LTI benefits are forfeited after 30 days following cessation of employment.
Termination on notice by Nanosonics	Nanosonics may terminate employment by providing 9 months' written notice or payment in lieu of the notice period based on fixed remuneration. Upon termination on notice by Nanosonics, unless the Board determines otherwise: • All unvested STI or LTI benefits are forfeited. • All vested but unexercised STI or LTI benefits are forfeited after 30 days following cessation of employment.
Change of control	In the event of a takeover or change in control of Nanosonics Limited, any unvested Performance Rights will vest on a pro-rata basis based on the most current financial reports available at the time a change of control occurs, unless otherwise determined by the Board. The pro-rata period will be calculated from the grant date to the change of control date. Performance Rights that vest following a change of control will not generally be subject to restrictions on dealings.
Termination for serious misconduct	Nanosonics may immediately terminate employment at any time in the case of serious misconduct, and Mr Kavanagh will be only be entitled to payment of fixed remuneration up to the date of termination. On termination without notice by Nanosonics in the event of serious misconduct all unvested STI or LTI benefits will be forfeited. The treatment of any vested but unexercised STI or LTI benefits will be at the discretion of the Board.
Statutory Entitlements	Payment of statutory entitlements of long service leave and annual leave applies in all events of separation.
Post-employment Restraints	Mr Kavanagh will be restrained for a period of up to 24 months after termination of his employment by either party from being engaged in any of the following activities: • Engaging with clients of Nanosonics with a view to obtaining the custom of those clients in a business that is the same as or similar to Nanosonics' business. • Interfering with the relationship between Nanosonics, its customers, employees, agents, contractors or suppliers. • Inducing or assisting in the inducement of any employee, agent or contractor of Nanosonics to leave their employment or terminate their contract. • Carrying-on or becoming in any way involved in any trade or business that is in competition with Nanosonics.

6.2 Other Executive KMP

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

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

Directors' report (continued)

7.0 Key Management Personnel transactions

7.1 Loans to KMP and their related parties

During the financial year and to the date of this report, the Group made no loans to directors and other KMP and none were outstanding as at 30 June 2015 (2014: Nil).

7.2 Other transactions with KMP

Certain directors and KMP, 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 2014 and 2015 Financial Years. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with unrelated entities on an arms-length basis.

Directors and KMP	Related entities	Transactions
Maurie Stang	Gryphon Capital Pty Ltd	Director fees
Maurie Stang	Novapharm Research (Australia) Pty Ltd	No transactions during the period
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	Director fees

The aggregate amounts of each of the above types of transactions with directors and KMP of the Group were:

	2015	2014
	$'000	$'000
Amounts recognised as revenue		
Products and services sold	**1,748**	1,812
Amounts recognised as expenses		
Products purchased and services received	**345**	357
Rent of premises	**177**	184

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

	2015	2014
	$'000	$'000
Assets		
Current receivables	**501**	450
Liabilities		
Current liabilities	**4**	18

Indemnifying officers or auditor

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

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

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

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

Proceedings on behalf of the Company

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

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

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) and where noted ($'000) under the option available to the Company under ASIC 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 and Risk Committee, is satisfied that the provision of the non-audit services by the auditor, if any, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

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

b. None of the services undermines the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

The auditor of the Group, UHY Haines Norton and its related practice firms did not provide any non-audit services during the year.

Directors' report (continued)

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

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 52 of this report.

Auditor

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

Corporate Governance

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

This report, which includes the review of operations (on pages 6 to 11) and the Information on the directors, company secretaries and senior management (on pages 16 to 17), is made and signed in accordance with a resolution of directors, pursuant to section 298 (2)(a) of the *Corporations Act 2001*, on 20 August 2015.

Richard England
Director
Sydney
20 August 2015

Contents of the financial statements

For the year ended 30 June 2015

Auditor's independence declaration

UHY Haines Norton
Chartered Accountants

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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 2015, 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.

Mark Nicholaeff
Partner

UHY Haines Norton
Chartered Accountants

Sydney
Date: 20 August 2015

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
Continuing operations			
Sale of goods and services	5	**22,214**	21,492
Cost of sales		**(6,901)**	(7,571)
Gross profit		**15,313**	13,921
Other income	6	**3,236**	4,114
Operating expenses			
Staffing costs	7	**13,906**	12,005
Intellectual property		**342**	594
Quality & regulatory management		**272**	298
Business development		**1,479**	1,094
Premises, plant & equipment		**2,885**	1,635
External consultants & advisors		**1,421**	1,534
Other operating costs		**3,111**	2,956
Total operating expenses		**23,416**	20,116
Borrowing costs	7	**598**	555
Operating loss before income tax		**(5,465)**	(2,636)
Income tax benefit	8	**5**	31
Net loss after income tax expense attributable to owners of the parent entity		**(5,460)**	(2,605)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on foreign currency translation		**14**	(7)
Income tax on items of other comprehensive income		**–**	–
Total items that may be reclassified subsequently to profit or loss		**14**	(7)
Total other comprehensive income		**14**	(7)
Total comprehensive income for the period attributable to owners of the parent entity		**(5,446)**	(2,612)

(Loss) per share for losses attributable to ordinary shareholders of the company		**Cents**	**Cents**
Basic (loss) per share	29	**(2.0)**	(1.0)
Diluted (loss) per share	29	**(1.9)**	(1.0)

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 2015

	Notes	2015 $'000	2014 Restated $'000
Current assets			
Cash and cash equivalents	9	45,724	21,233
Trade and other receivables	10	3,871	5,712
Inventories	11	6,209	4,237
Other current assets	12	636	440
Total current assets		56,440	31,622
Non-current assets			
Property, plant and equipment	13	3,568	1,641
Intangible assets	14	207	137
Other non-current assets	15	150	144
Total non-current assets		3,925	1,922
Total assets		60,365	33,544
Current liabilities			
Trade and other payables	16	2,725	1,722
Deferred revenue	17	443	308
Provisions	18	3,321	2,799
Borrowings	19	7	6
Convertible Notes	20	8,693	–
Total current liabilities		15,189	4,835
Non-current liabilities			
Trade and other payables	16	238	–
Provisions	18	251	159
Borrowings	19	11	18
Convertible Notes	20	–	8,097
Total non-current liabilities		500	8,274
Total liabilities		15,689	13,109
Net assets		44,676	20,435
Equity			
Contributed equity	21	103,059	74,410
Option premium on convertible notes	20	376	376
Reserves	22	4,743	3,691
Accumulated loss		(63,502)	(58,042)
Total equity		44,676	20,435

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 2015

	Contributed equity Note 21 $'000	Option premium on convertible note Note 20 $'000	Employee equity benefits reserve Note 22 $'000	Foreign currency translation reserve Note 22 $'000	Accumulated losses $'000	Total equity $'000
At 30 June 2013	74,068	376	2,673	27	(55,437)	21,707
Loss for the period	–	–	–	–	(2,605)	(2,605)
Other comprehensive income	–	–	–	(7)		(7)
Total comprehensive income (loss)	–	–	–	(7)	(2,605)	(2,612)
Transactions with owners in their capacity as owners						
Shares issued	–	–	–	–	–	–
Transaction costs	–	–	–	–	–	–
Share-based payment	342	–	998	–	–	1,340
At 30 June 2014	**74,410**	**376**	**3,671**	**20**	**(58,042)**	**20,435**
Loss for the period	**–**	**–**	**–**	**–**	**(5,460)**	**(5,460)**
Other reserves	**–**	**–**	**–**	**14**		**14**
Total comprehensive income (loss)	**–**	**–**	**–**	**14**	**(5,460)**	**(5,446)**
Transactions with owners in their capacity as owners						
Shares issued	**28,000**	**–**	**–**	**–**	**–**	**28,000**
Transaction costs	**(962)**	**–**	**–**	**–**	**–**	**(962)**
Share-based payment	**1,611**	**–**	**1,038**	**–**	**–**	**2,649**
At 30 June 2015	**103,059**	**376**	**4,709**	**34**	**(63,502)**	**44,676**

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 2015

	Notes	2015 $'000	2014 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**26,873**	23,027
Receipts from government grants (inclusive of refundable R&D tax offset)	**6**	**119**	1,666
Payments to suppliers and employees (inclusive of GST)		**(30,265)**	(28,020)
Interest received		**837**	727
Income taxes paid		**15**	6
Net cash used in operating activities	**28**	**(2,421)**	(2,594)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,135)**	(433)
Purchase of intangible assets		**(176)**	(46)
Net cash used in investing activities		**(2,311)**	(479)
Cash flow from financing activities			
Proceeds from issue of shares		**28,000**	342
Share issue costs		**(962)**	–
Proceeds from exercise of options		**1,611**	–
Repayments of borrowings		**(8)**	(6)
Net cash provided by financing activities		**28,641**	336
Net increase (decrease) in cash and cash equivalents		**23,909**	(2,737)
Cash at the beginning of the financial year		**21,233**	24,064
Effects of exchange rate changes on cash and cash equivalents		**582**	(94)
Cash and cash equivalents at the end of year	**9**	**45,724**	21,233

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 2015

1. Corporate information

The financial report on pages 53 to 98 covers Nanosonics Limited as a consolidated entity consisting of Nanosonics Limited (the Company) and its subsidiaries (the Group).

Nanosonics Limited is a publicly listed company, limited by shares, incorporated and domiciled in Australia and listed on the Australian Securities Exchange (ASX code NAN). During the year, the Company move it's registered office and principal place of business to:

14 Mars Road, Lane Cove, NSW 2066 Australia

The Company's previous registered office and principal place of business was:

Unit 24, 566 Gardeners Road, Alexandria NSW 2015 Australia

A description of the nature of the Group's operations and its principal activities is included in the review of operations on pages 6 to 11 and in the Directors' report on page 18, both of which are not part of this financial report.

The financial report was authorised for issue in accordance with the resolution of the directors on 20 August 2015.

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 (AASB). 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 2014:

- AASB 2014-1 Part A – Amendments to Australian Accounting Standards – *Annual Improvements 2010-2012 and 2011-2013 Cycles*.
- AASB 2014-1 Part B – Amendments to Australian Accounting Standards – *Defined Benefit Plans: Employee Contributions*.
- AASB 2014-1 Part C – Materiality.
- AASB 2012-3 Amendments to Australian Accounting Standards – *Offsetting Financial Assets and Financial Liabilities*.
- AASB 2013-3 Amendments to AASB 136 – *Recoverable Amount Disclosure for Non-Financial Assets*.

The effect of the adoption of the above standards or interpretations or other amendments applied for the first time are disclosed below:

- AASB 2014-1 Part A – Amendments to Australian Accounting Standards – *Annual Improvements 2010-2012 and 2011-2013 Cycles* – This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs). Annual Improvements to IFRSs 2010-2012 Cycle.

Annual Improvements to IFRSs 2010–2012 Cycle is a collection of amendments to IFRSs in response to eight issues addressed during the 2010–2012 cycle for annual improvements to IFRSs.

Among the items addressed by this standard, the following are relevant to the Group:

  - IFRS 2 – Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.
  - IFRS 8 – Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide reconciliation of total reportable segments' assets to the entity's total assets.
  - IAS 16 & IAS 38 – Clarifies the determination of accumulated depreciation does not depend on the selection of valuation technique and that it is calculated as the difference between the gross and net carrying amounts.
  - IAS 24 – Defines a management entity providing Key Management Personnel (KMP) services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of IAS 24 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.

- AASB 2013-3 Amendments to AASB 136 – *Recoverable Amount Disclosure for Non-Financial Assets*- The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less cost of disposal.

When these amendments were adopted, they did not have a significant impact to the Group given that they are largely of the nature of clarification of existing requirements.

Adoption of the other standards affected the disclosures but did not have a material impact on the financial statements 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 2015, are outlined below:

Standards to be applied by the Group beyond 1 July 2015

- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification on the Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138), effective 1 January 2016, applicable 1 July 2016. AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The AASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The AASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.
- AASB 2014-5 Amendments arising from AASB 15 *Revenue from Contracts with Customers*, effective 1 January 2017, applicable 1 July 2017. AASB 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:
  - Step 1: Identify the contract(s) with a customer.
  - Step 2: Identify the performance obligations in the contract.
  - Step 3: Determine the transaction price.
  - Step 4: Allocate the transaction price to the performance obligations in the contract.
  - Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

- AASB 9 *Financial Instruments*, effective 1 January 2018, applicable 1 July 2018. AASB 9 includes requirements for the classification and measurement of financial assets. It was amended by AASB 2010-7 and AASB 2012-6 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. In December 2014 it was further amended by AASB 2014-7 and AASB 2014-8 to the classification and measurement rules and also introduced a new impairment model. With these amendments, AASB 9 is now complete.

The Group has not yet assessed the full impact of the above standards that will be applied by the Group beyond 1 July 2015.

d. Basis of consolidation

The consolidated financial statements comprise the financial statements of Nanosonics Limited ('Company' or 'parent entity') and its subsidiaries as at 30 June each year. Nanosonics Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain or a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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. Information on subsidiaries is contained in note 26 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.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

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

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 statement of profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities are recognised in 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 EUR;
- Nanosonics, Inc. is USD;
- Nanosonics Europe Limited is GBP; and
- Nanosonics UK Limited is GBP.

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

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

Revenue 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, Saban Ventures Pty Limited, 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 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 statement of profit or loss 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 recognized 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. 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.

n. Financial assets

Classification

Financial assets are classified at initial recognition 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'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.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables generally have 30 to 60 days credit terms. Loans and receivables 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, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial assets.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade dates. i.e. the date that 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, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognised in the statement of profit or loss.

Receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

Impairment of financial assets

For financial assets carried at amortised cost, at each reporting date, the Group assesses whether there is objective evidence that a financial asset is impaired. For trade receivables, collectability is reviewed on an on-going basis.

An impairment exists if one or more events that has occurred since the initial recognition of the assets (an incurred "loss event") has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or group of debtors is experiencing significant financial difficulty, default or delinquency in payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If any such evidence exists, the amount of any impairment loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment were recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expense in the statement of profit or loss.

o. 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.

p. Convertible notes

Convertible notes are compound financial instruments which 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. The equity component is initially recognised at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the convertible notes is measured at amortised cost using the effective interest method. The equity component is not remeasured.

Interest related to the financial liability is recognised in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

q. 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 income statement.

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	2015	2014
Leasehold improvements	Lease	Lease
Plant and equipment	2-7 years	2-7 years

Plant and equipment comprises laboratory fit-out and equipment, manufacturing equipment, office furniture and equipment, computer equipment, service, test and demonstration equipment and vehicle which were previously disclosed separately.

r. 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.

(iii) ERP system and computer software

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

s. 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 income statement in expense categories consistent with the function of the impaired asset.

t. 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.

u. Provisions

General

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used 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 for warranty related costs are made in respect of the Group's estimated liability on all products sold or services provided 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.

Provision for make good lease costs

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

Provision for onerous contracts

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

v. 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. Sick leaves 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 corporate bonds (previously 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 equity-settled transactions provided to employees via the Nanosonics share-based compensation plans. Information relating to the plans is set out in note 30 to the financial statements.

Share option plans

The assessed fair value on the date options are granted is independently determined using the appropriate valuation 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.

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 and performance rights granted under the 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 payments at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of the period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting are conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms had not been modified. If the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

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.

w. 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.

x. 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.

y. Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle.
- Held primarily for the purpose of trading.
- Expected to be realised within twelve months after the reporting period.
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is current when it is:

- Expected to be settled in normal operating cycle.
- Held primarily for the purpose of trading.
- Due to be settled within twelve months after the reporting period.
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

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

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 and their classification:

Financial assets	Notes	2015 $'000	2014 $'000
Loans and receivables			
Trade and other receivables	10	3,871	5,712
Other financial assets			
Cash and cash equivalents	9	45,724	21,233
Total Financial assets		49,595	26,945
Financial liabilities			
Fair value through profit or loss			
Derivative financial instruments		–	–
Other financial liabilities			
Trade and other payables	16	2,963	1,722
Convertible notes	20	8,693	8,097
Borrowings	19	18	24
Total Financial liabilities		11,674	9,843

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:				
2015	**Notes**	**Floating interest rate $'000**	**1 year or less $'000**	**Over 1 to 5 years $'000**	**More than 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Financial assets							
Cash and cash equivalents	**9**	15,524	30,200	–	–	–	45,724
Trade and other receivables	**10**	–	–	–	–	3,871	3,871
Total financial assets		**15,524**	**30,200**	**–**	**–**	**3,871**	**49,595**
Weighted average interest rate		**2.71%**	**3.09%**	**–**	**–**	**–**	**–**
Financial liabilities							
Trade and other payables	**16**	–	–	–	–	2,963	**2,963**
Convertible notes	**20**	–	8,693	–	–	–	**8,693**
Borrowings	**19**	–	7	11	–	–	**18**
Total financial liabilities		**–**	**8,700**	**11**	**–**	**2,963**	**11,674**
Weighted average interest rate		**–**	**6.01%**	**8.09%**	**–**	**–**	**–**
Net financial assets (liabilities)		**15,524**	**21,500**	**(11)**	**–**	**908**	**37,921**

			Fixed interest rate maturing in:				
2014	**Notes**	**Floating interest rate $'000**	**1 year or less $'000**	**Over 1 to 5 years $'000**	**More than 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Financial assets							
Cash and cash equivalents	**9**	6,013	15,220	–	–	–	21,233
Trade and other receivables	**10**	–	–	–	–	5,712	5,712
Total financial assets		**6,013**	**15,220**	–	–	**5,712**	**26,945**
Weighted average interest rate		**0.21%**	**3.73%**	–	–	–	–
Financial liabilities							
Trade and other payables	**16**	–	–	–	–	1,722	1,722
Convertible notes	**20**	–	–	8,097	–	–	8,097
Borrowings	**19**	–	6	18	–	–	24
Total financial liabilities		**–**	**6**	**8,115**	**–**	**1,722**	**9,843**
Weighted average interest rate		**–**	**8.09%**	**6.01%**	**–**	**–**	**–**
Net financial assets (liabilities)		**6,013**	**15,214**	**(8,115)**	**–**	**3,990**	**17,102**

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
2015	**+ 25**	**84**
	- 25	**(84)**
2014	+ 25	57
	- 25	(57)

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 Groups' exposure to foreign currency risk at the reporting date comprised:

	2015			**2014**		
	Euro	**USD**	**GBP**	**Euro**	**USD**	**GBP**
	€ '000	**$'000**	**£'000**	**€ '000**	**$'000**	**£'000**
Cash and cash equivalents	**25**	**659**	**233**	104	4,580	152
Trade and other receivables	**147**	**1,720**	**205**	178	4,125	223
Trade and other payables	**(64)**	**(621)**	**(40)**	(88)	(525)	(83)
	108	**1,758**	**398**	194	8,180	292

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonable possible change in the USD, EUR and GBP 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	Change in GBP rate	Effect on profit before tax and other comprehensive income £'000
2015	**3%**	**53**	**3%**	**3**	**3%**	**12**
	-10%	**(176)**	**-8%**	**(9)**	**-6%**	**(24)**
2014	3%	245	3%	6	3%	9
	-8%	(654)	-10%	(19)	-6%	(18)

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 Risk 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 is the risk of financial loss to Nanosonics if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk arises from 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 exposure to credit risk is influenced mainly by the geographical location, the type and characteristics of individual customer. Customer credit risk is managed subject to the Group's established policy, procedures and control relating to credit risk management. The Company, by policy, performs customer credit assessment prior to entering into a distribution agreement or sales and routinely assesses the financial strength of its customers and reviews distribution agreements. The Company utilises an external credit rating agency to assess the credit worthiness of its end-user customers. In North America outstanding customer receivables are regularly monitored and are generally covered by credit insurance. 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 2015, GE Healthcare and Regional Healthcare, combined, accounts for over 41% of the trade receivables (2014: GE Healthcare and Regional Healthcare, combined, accounts for over 91% 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:

2015	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Trade and other payables	**–**	**2,725**	**–**	**238**	**–**	**2,963**
Borrowings	**–**	**2**	**6**	**11**	**–**	**19**
Convertible notes	**–**	**–**	**9,300**	**–**	**–**	**9,300**
Total financial liabilities	**–**	**2,727**	**9,306**	**249**	**–**	**12,282**

2014	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Trade and other payables	–	1,722	–	–	–	1,722
Borrowings	–	2	6	19	–	27
Convertible notes	–	–	450	8,850	–	9,300
Total financial liabilities	–	1,724	456	8,869	–	11,049

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.

	Notes	Carrying amount 2015	Fair value 2015	Carrying amount 2014	Fair value 2014
Financial assets					
Loans and receivables					
Cash and cash equivalents	**9**	**45,724**	**45,724**	21,233	21,233
Trade and other receivables	**10**	**3,871**	**3,871**	5,712	5,712
		49,595	**49,595**	26,945	26,945
Financial liabilities					
Other financial liabilities					
Trade and other payables	**16**	**(2,963)**	**(2,963)**	(1,722)	(1,722)
Convertible notes	**20**	**(8,693)**	**(8,693)**	(8,097)	(8,097)
Borrowings	**19**	**(18)**	**(18)**	(24)	(24)
		(11,674)	**(11,674)**	(9,843)	(9,843)

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 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 major banks. Derivatives valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts. The valuation technique is described below.

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 2015, the Group did not hold any derivative financial instruments. (2014: Nil derivative financial instruments)

4. Critical accounting estimates and judgments

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(u). 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.

Other provisions

The Group has recognised make good and onerous lease provisions in accordance with the accounting policy describe in note 2(u). The Group has made assumptions in relation to the values estimated to be required to settle these obligations 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 30 to the financial statements.

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 and non-refundable R&D tax offset are disclosed in note 8 to the financial statements.

5. Segment information

Operating segment

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. Accordingly, the Group's consolidated total assets is the total reportable assets of the operating 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 80% (2014: 82%) of external revenue. The next most significant customer accounts for 7.9% of external revenue (2014: 8.4%).

Geographical information

Geographically, the Group operates in the global markets. Australia is the home country of the parent entity.

Revenue from external customers by geographical location is detailed below.

	2015 $'000	**2014** $'000
North America	**17,663**	17,665
Australia and New Zealand	**2,282**	2,267
Europe and other countries	**2,269**	1,560
Total revenue	**22,214**	21,492

Revenues above are allocated based on the country in which the customer is located.

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

	2015 $'000	**2014** $'000
North America	**127**	10
Australia and New Zealand	**3,768**	1,903
Europe and other countries	**30**	9
Total non-current assets	**3,925**	1,922

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

6. Other income

	2015 $'000	2014 $'000
Interest income	**928**	739
Government grants	**119**	1,666
Foreign exchange gain (Note 7)	**988**	–
Other income	**1,201**	1,709
Total	**3,236**	4,114

Government grants comprise receipt of payments under the Export Market Development Grant scheme.

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

Other income includes reimbursement of cost by a distributor of $1,200,000 (2014: $1,707,000). The related costs are included in the operating expenses.

7. Loss before income tax expense

	2015 $'000	2014 $'000
The loss from ordinary activities before income tax includes:		
Expenses		
Staffing costs broken into:		
Salaries and wages	**11,944**	10,592
Superannuation and social security contribution	**1,182**	1,001
Workers compensation costs	**96**	98
Other employee benefits and staffing costs	**2,520**	2,203
Share based payments	**1,038**	997
Less: Staffing costs included in cost of sales	**(2,874)**	(2,886)
Total staffing costs	**13,906**	12,005
Depreciation, amortisation and impairment	**1,063**	975
Research and development costs	**4,902**	4,103
Rental expenses relating to operating leases	**1,116**	576
Bad debts provision	**1**	5
Inventories provision/write off	**412**	536
Borrowing costs	**598**	555
Loss on disposal of fixed assets	**120**	–
Realised loss on foreign exchange forward contracts	**496**	32
Net foreign exchange (gains)/losses	**(988)**	414

8. Taxation

	2015 $'000	2014 $'000
(a) Income tax expense		
Operating loss from ordinary activities	**5,465**	2,636
The prima facie income tax benefit applicable to the operating loss is calculated at 27.0% (2014:28.3%)	**1,474**	745
Non-assessable income		
Research and development tax offset received during the year	**–**	455
Other deductible items	**4**	307
Non-deductible items:		
Research and development expense	**(1,569)**	(1,231)
Equity based benefits	**(316)**	(282)
Entertainment	**–**	(1)
Other temporary differences	**53**	(270)
	(354)	(277)
Deferred tax benefit not recognised	**(1,616)**	(1,459)
Non-refundable research and development tax offset	**1,961**	1,641
Adjustment in respect of current income tax of previous years	**14**	126
Income tax benefit reported on the Consolidated statement of profit or loss and other comprehensive income	**5**	31

(b) Deferred tax assets

The potential deferred tax assets in a controlled entity, which is a company, arising from tax losses, non-refundable tax offsets 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.

	2015 $'000	2014 $'000
Unrecognised deferred tax assets include:		
Estimated tax losses carried forward	**17,061**	16,241
Non-refundable R&D tax offset	**1,536**	1,375
	18,597	17,616
Estimated tax losses carried forward:		
Beginning of the year unrecognised tax losses carried forward	**54,137**	53,856
Adjustment in respect of unrecognised tax losses carried forward from previous year	**(859)**	281
Tax losses for the year	**3,145**	–
	56,423	54,137
Estimated non-refundable R&D tax offset carried forward:		
Beginning of the year non-refundable R&D tax offset carried forward	**3,438**	–
Arose during the year	**4,902**	4,103
Utilised during the year	**(3,727)**	(665)
Adjustment in respect of non-refundable R&D tax offset carried forward from previous year	**(772)**	–
Estimated non-refundable R&D tax offset at the end of the year	**3,841**	3,438

The potential future income tax benefit of tax losses carried forward and non-refundable R&D tax offset 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

	2015 $'000	2014 $'000
Cash at bank and on hand	**1,886**	5,705
Deposits on call	**2,138**	308
Short term deposits	**41,700**	15,220
	45,724	21,233

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

	2015 $'000	2014 $'000
Trade receivables net of allowance for impairment loss	**3,417**	5,338
GST receivable	**127**	59
VAT receivable	**102**	204
Interest and other receivables	**225**	111
	3,871	5,712

Trade receivables by geographic region were as follows:

	Carrying amount	
	2015 $'000	2014 $'000
North America	**2,247**	4,382
Australia and New Zealand	**629**	472
Europe and other countries	**541**	484
	3,417	5,338

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

	Carrying amount	
	2015 $'000	2014 $'000
Distributors	**1,908**	5,310
End-user customers	**1,509**	28
	3,417	5,338

As at 30 June 2015, 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
2015	**3,417**	**2,652**	**692**	**72**	**1**
2014	5,338	5,295	28	1	14

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

	2015 $'000	2014 $'000
External financial ratings at least 1A from Dun & Bradstreet	**1,139**	4,826
Covered by credit insurance	**905**	–
Other customers:		
Four or more years trading history with the Group	**523**	453
Less than four years of trading history with the Group	**85**	16
	2,652	5,295

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 2015, trade receivables with a nominal value of $5,000 (2014: $5,000) were considered impaired.

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

	$000
At 1 July 2013	**–**
Increase for the year	5
Utilised	–
Unused amount reversed	–
At 30 June 2014	**5**
Increase for the year	1
Utilised	–
Unused amount reversed	(1)
At 30 June 2015	**5**

11. Current assets – Inventories

	2015 $'000	2014 $'000
Raw materials and stores – at net realisable	**2,822**	2,211
Work in progress – at cost	**831**	737
Finished goods – at net realisable value	**2,556**	1,289
	6,209	4,237

Write-downs of inventories to net realisable values during the year ended 30 June 2015 amounted to $412,000 (2014:$536,000). The expense has been included in other operating costs in the income statement.

Roll forward of provision for inventories:	2015 $'000	2014 $'000
Beginning balance	**357**	147
Provided during this year	**412**	536
Utilised during this year	**(367)**	(326)
Ending balance	**402**	357

12. Current assets – Other

	2015 $'000	2014 $'000
Prepaid expenses	**602**	388
Prepaid foreign income tax	**22**	31
Service work in progress	**12**	21
	636	440

13. Non-current assets – Property, plant and equipment

	Leasehold improvements	Plant and equipment	Capital work in progress	Total
Year ended 30 June 2014				
Opening net book value	17	1,446	97	1,560
Additions	58	960	17	1,035
Retirement and others	–	(177)	–	(177)
Depreciation charge	(37)	(740)	–	(777)
Foreign currency translation effect (net)	–	–	–	–
Closing net book value at 30 June 2014	38	1,489	114	1,641
At 30 June 2014				
Cost	940	5,443	114	6,497
Accumulated depreciation	(902)	(3,954)	–	(4,856)
Net book value at 30 June 2014	38	1,489	114	1,641
Year ended 30 June 2015				
Opening net book value	**38**	**1,489**	**114**	**1,641**
Additions	**2,062**	**906**	**62**	**3,030**
Retirement and others	**(4)**	**(149)**	**–**	**(153)**
Impairment	**–**	**(92)**	**–**	**(92)**
Depreciation charge	**(64)**	**(801)**	**–**	**(865)**
Foreign currency translation effect (net)	**–**	**7**	**–**	**7**
Closing net book value at 30 June 2015	**2,032**	**1,360**	**176**	**3,568**
At 30 June 2015				
Cost	**2,059**	**4,250**	**176**	**6,485**
Accumulated depreciation and impairment	**(27)**	**(2,890)**	**–**	**(2,917)**
Net book value at 30 June 2015	**2,032**	**1,360**	**176**	**3,568**

Plant and equipment comprises laboratory fit-out and equipment, manufacturing equipment, office furniture and equipment, computer equipment, service, test and demonstration equipment and vehicle which were previously disclosed separately.

The net book value of ERP system and computer software of $207,000 has been reclassified and disclosed under Intangible assets in the Statement of financial position as it better reflects the nature of the asset. In prior periods, this was included under Property, plant and equipment. Accordingly, the comparative net book value of the ERP system and computer software of $137,000 has been reclassified.

14. Non-current assets – Intangible assets

	2015 $'000	2014 $'000
Development costs		
At cost	**201**	201
Accumulated amortisation	**(201)**	(201)
Net book value	**-**	-
ERP system and computer software		
At cost	**1,055**	879
Accumulated amortisation	**(848)**	(742)
Net book value	**207**	137
Opening net book value	**137**	252
Additions	**176**	46
Amortisation	**(106)**	(161)
Closing net book value	**207**	137
Total intangible assets, net book value at 30 June	**207**	137

Development costs relate to the trophon® EPR 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 $Nil (2014:$37,000) is included in depreciation and amortisation expense in the statement of profit or loss.

Intangible assets include the net book value of the ERP system and computer software of $207,000 which was reclassified from Property, plant and equipment to better reflect the nature of the account. Accordingly, the comparative net book value of the ERP system and computer software of $137,000 has been reclassified.

15. Non-current assets – Other

	2015 $'000	2014 $'000
Refundable deposits and bonds	**150**	144
Total	**150**	144

16. Trade and other payables

	2015 $'000	2014 $'000
Trade payables	**1,034**	575
Accrued rent expense	**238**	–
Other payables	**1,691**	1,147
Total trade and other payables	**2,963**	1,722
Trade and other payables – current		
Trade payables	**1,034**	575
Other payables	**1,691**	1,147
Total trade and other payables – current	**2,725**	1,722
Trade and other payables - non-current		
Accrued rent expense	**238**	–
Total trade and other payables – non-current	**238**	–

17. Current liabilities – Deferred revenue

	2015 $'000	2014 $'000
Beginning balance	**308**	209
Deferred during the year	**843**	616
Released to profit or loss	**(708)**	(517)
Ending balance	**443**	308

18. Provisions

	2015 $'000	2014 $'000
Provision for warranty	**1,004**	896
Other provisions	**564**	382
Employees provisions:		
Provision for bonus	**772**	723
Provision for annual leave	**856**	690
Provision for long service leave	**376**	267
Total employee provisions	**2,004**	1,680
Total provisions	**3,572**	2,958
Provisions – current		
Provision for warranty	**1,004**	896
Other provisions	**494**	382
Employees provisions:		
Provision for bonus	**772**	723
Provision for annual leave	**856**	690
Provision for long service leave	**195**	108
Total employee provisions	**1,823**	1,521
Total provisions – current	**3,321**	2,799
Provisions – non-current		
Provision for long service leave	**181**	159
Other provisions	**70**	–
Total provisions – non-current	**251**	159

Roll forward of:	2015 $'000	2014 $'000
Provision for warranty		
At 1 July	**896**	449
Provided during this year	**658**	701
Utilised during this year	**(550)**	(254)
At 30 June	**1,004**	896

Other provisions	**2015 $'000**	**2014 $'000**
At 1 July	**382**	382
Provided during this year	**182**	–
Utilised during this year	**–**	–
At 30 June	**564**	382

Other provisions consist of:	**2015 $'000**	**2014 $'000**
Make good provision	**452**	382
Onerous lease	**112**	–
	564	382

The Group has recognised a provision for warranty in accordance with the accounting policy describe in note 2(u). 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.

Provision for warranty of $1,004,000 and Other provisions of $564,000 has been disclosed under Provisions in the Statement of financial position as it better reflects the nature of the liability. In prior period, this was included under Trade and other payables. Accordingly, the comparative Provision for warranty of $896,000 and Other provisions of $382,000 have been reclassified.

The Group recognised make good provision at the time it is determined that it is probable that such costs will be incurred in a future year, measured at the expected cost of returning the asset to the lessor in its original condition in accordance with the accounting policy describe in note 2(u). An offsetting asset of the same value is also recognised and is classified in property, plant and equipment. This asset is amortised to the statement of profit or loss over the life of the lease.

The Group recognised a provision for onerous lease contracts when expected benefits to be derived by Nanosonics from a contract are lower than the unavoidable cost of meeting contractual obligations in accordance with the accounting policy describe in note 2(u). The provision is measured at the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with the contract.

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.

19. Borrowings

	2015 $'000	**2014 $'000**
Finance lease obligations	**18**	24
Current portion	**7**	6
Non-current portion	**11**	18
Total	**18**	24

20. Convertible notes

	2015 $'000	2014 $'000
Current liabilities		
Convertible notes at amortised value	**8,693**	–
Non-current liabilities		
Convertible notes at amortised value	**–**	8,097
Equity		
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%.

The noteholder elected to have interest in respect of the third year not to be paid and instead accrue and form part of the face value (though that portion will not bear further Interest) of the convertible notes.

As at 30 June 2015, the amortised value of convertible notes recognised in current liabilities including accrued interest amounted to $8,693,000 (2014: recognised in Non-current liabilities of $8,097,000) and borrowing costs related to the convertible notes amounted to $596,000 (2014: 555,000).

21. Contributed equity

Share capital

282,910,890 ordinary fully paid shares (2014: 263,823,826)

	Number of shares	$'000
Movements in ordinary shares on issue		
At 30 June 2013	**261,988,718**	**74,068**
Share options exercised	1,835,108	342
Share issued	–	–
At 30 June 2014	**263,823,826**	**74,410**
Share options exercised	2,117,436	1,611
Shares issued under share Placement and Share Purchase Plan (net of issue cost)	16,969,628	27,038
At 30 June 2015	**282,910,890**	**103,059**

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 2015 there were 5,694,023 (2014: 6,525,597) options to acquire one ordinary share each outstanding, of which 25,000 (2014: 1,705,668) 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 30.

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.

22. Reserves

	2015 $'000	2014 $'000
Employee equity benefits reserve	**4,709**	3,671
Foreign currency translation reserve	**34**	20
Balance 30 June	**4,743**	3,691

Employee equity benefits reserve	2015 $'000	2014 $'000
Balance 1 July	**3,671**	2,673
Share-based payment (ESOP)	**1,025**	940
Share-based payment (GSOP)	**13**	58
Balance 30 June	**4,709**	3,671

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including KMP, as part of their remuneration. Refer to note 30 for further details of these plans.

Foreign currency translation reserve	2015 $'000	2014 $'000
Balance 1 July	**20**	(27)
Exchange difference on foreign currency translation during the year	**14**	7
Balance 30 June	**34**	20

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

23. Dividends

No dividends were proposed, declared or paid during the financial year and to the date of this report (2014: Nil).

24. Capital and leasing commitments

	2015 $'000	2014 $'000
Future operating lease commitments not provided for in the financial statements and payable:		
Within one year	**922**	473
One year or later and no later than five years	**3,241**	105
Greater than 5 years	**977**	–
	5,140	578

Finance lease and hire purchase commitments	2015		2014	
	$'000	$'000	$'000	$'000
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	**8**	**7**	8	6
After one year but not more than 5 years	**11**	**11**	19	18
Total minimum lease payments	**19**	**18**	27	24
Less finance charges	**1**	**–**	3	–
Present value of minimum lease payments	**18**	**18**	24	24

25. Auditor's remuneration

	2015	2014
Audit services		
Audit and review of financial reports	**59,200**	56,000
Total remuneration for audit services	**59,200**	56,000
Non-audit services		
Assurance related services		
Audit of regulatory returns	**–**	–
Total remuneration for assurance related services	**–**	–
Total remuneration for non-audit services	**–**	–

26. Information relating to subsidiaries

The consolidated financial statements of the Group include:

Name of controlled entity	Principal activities	Country of incorporation	Class of shares	Equity Holdings 2015	Equity Holdings 2014
Nanosonics Europe GmbH	Provision of sales and customer support services to Nanosonics Limited in Germany	Germany	Ordinary	**100%**	100%
Saban Ventures Pty Limited	Owner of the registered intellectual property of the Group	Australia	Ordinary	**100%**	100%
Nanosonics, Inc.	Sales and distribution of Nanosonics' products and provision of sales and customer support services to Nanosonics Limited in the USA[1]	USA	Ordinary	**100%**	100%
Nanosonics Europe Limited[2]	Sales and distribution of Nanosonics' products in Europe	UK	Ordinary	**100%**	–
Nanosonics UK Limited[2]	Provision of sales and customer support services in Europe	UK	Ordinary	**100%**	–

1 The principal activities of Nanosonics, Inc. changed during the year from provision of sales and customer support services to include sales and distribution with the transition to direct sales operations in the USA.

2 Nanosonics Europe Limited and Nanosonics UK Limited were incorporated in United Kingdom on 15 December 2014.

Parent entity

The parent entity within the Group is Nanosonics Limited which is based and listed in Australia.

27. Related party disclosures

Note 26 provides the information about the Group's structure including the details of the subsidiaries and the parent entity.

(a) Transactions with related parties

Certain directors and Key Management Personnel (KMP), 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. Details of the type of transactions that were entered into with directors and KMP are as follows:

Directors and Key Management Personnel	Related entities	Transactions
Maurie Stang	Gryphon Capital Pty Ltd	Director fees
Maurie Stang	Novapharm Research (Australia) Pty Ltd	No transactions during the period
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	Director fees

	2015 $'000	2014 $'000
Key Management Personnel – Other directors' interests		
Sales of goods and services		
Sale of products to related parties	**1,748**	1,812
Purchases of goods		
Purchases of goods and services from related parties	**345**	357
Other transactions		
Rent of premises and equipment from related parties	**177**	184

(b) 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:

	2015 $'000	2014 $'000
Key Management Personnel – Other directors' interests		
Current receivables (supply of goods and services)	**501**	450
Current payables (purchases of goods and services)	**4**	18

There were no provisions for doubtful debts relating to the outstanding balances from related parties (2014: Nil) and there were no expenses recognized during the period in respect of doubtful debts from related parties.

(c) 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 (2014: Nil).

(d) Terms and conditions

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.

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.

(e) Directors and key management personnel compensation

	Group and Company	
	2015	**2014**
Director fees	**278,538**	262,631
Short-term employee benefits	**1,404,005**	1,262,657
Long-term benefits	**222,895**	182,951
Termination benefits	**–**	–
Share based payments	**723,739**	547,576
Total compensation	**2,629,177**	2,255,815
Total compensation includes total remuneration for executive and non-executive directors of the parent entity	**1,763,975**	1,461,983

Options and performance rights were granted to KMP as part of their compensation. Details of options and performance rights 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 4 to 5 of the Remuneration Report on pages 27 to 45.

(f) 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 2015 (2014: Nil).

28. Notes to the cash flow statements

(a) Reconciliation of cash

	2015 $'000	2014 $'000
Cash and cash equivalents	**45,724**	21,233

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

	2015 $'000	2014 $'000
Operating loss after income tax	**(5,460)**	(2,605)
Adjustment for:		
Depreciation, amortisation, and impairment	**1,063**	975
Share based payments expense	**1,038**	998
Borrowing costs	**598**	555
Unrealised foreign exchange loss	**121**	119
Loss on disposal of fixed assets	**120**	–
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	**1,873**	(1,574)
(Increase)/decrease in inventories	**(2,832)**	(1,752)
(Increase)/decrease in other current assets	**(205)**	51
(Increase)/decrease in other non-current assets	**(6)**	–
Increase/(decrease) in trade and other payables	**477**	(728)
Increase/(decrease) in derivative financial instruments	**–**	(198)
Increase/(decrease) in provisions	**783**	717
Increase/(decrease) in other current liabilities	**–**	854
(Increase)/ decrease in net current tax assets	**9**	(6)
Net cash used in operating activities	**(2,421)**	(2,594)

(c) Credit standby arrangements unused

		Facility Limit $'000	Facility used by $'000	Facility available at $'000
Borrowing facilities	**30 June 2015**	**115**	**21**	**94**
Guarantee facility		**475**	**297**	**178**
Borrowing facilities	30 June 2014	256	50	206
Guarantee facility		–	–	–

29. Loss per share

	2015 Cents	2014 Cents
Basic loss per share		
Loss attributable to ordinary shareholders of the Company	**(2.0)**	(1.0)
Diluted loss per share		
Loss attributable to ordinary shareholders of the Company	**(1.9)**	(1.0)
Losses used in calculating loss per share		
Net loss after income tax expense attributable to shareholders	**(5,460)**	(2,605)
Weighted average number of shares used		
For basic earnings per share	**269,533,917**	263,072,467
For diluted earnings per share	**286,677,733**	263,072,467

Information concerning options granted

Options granted under the Nanosonics Employee Share Option Plan and the Nanosonics General Share Option Plan and the Convertible notes 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 30 to these financial statements.

30. 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 Nanosonics Employee Share Option Plan (ESOP) and the Nanosonics General Share Option Plan (GSOP) were established in 2007 and last approved by the shareholders in the 2013 Annual General Meeting (AGM) on 7 November 2013. Under the plans, participants are granted options for no consideration. Options may only be exercised on or after any vesting dates specified by the Board at the time of offer. The exercise price of options is determined by the Board at the time of issue. Participation in the plans is at the Board's discretion and no individual has a contractual right to participate in a plan or to receive any guaranteed benefits.

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.

No share options were issued under the GSOP during the financial year (2014: Nil issued).

Employee Share Option Plan (ESOP)

The Employee Share Option Plan is designed to provide the deferred equity component of the short-term incentive and long-term incentives for employees (including executive directors) to deliver long-term shareholder returns. All employees and directors are eligible to participate in the ESOP at the invitation of the Board. The maximum number of options able to be on issue under the ESOP during any five-year period is 5% of the total number of shares on issue. 1,413,303 share options were issued under the ESOP during the financial year (2014: 2,981,494 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 this note.

(c) Reconciliation of outstanding share options and performance rights

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

Number of Options	ESOP				GSOP				All Option Plans	
	2015		2014		2015		2014		2015	2014
	Number of options and rights	WAEP ($)	Number of options and rights	WAEP ($)	Number of options and rights	WAEP ($)	Number of options and rights	WAEP ($)	Number of options and rights	Number of options and rights
Unexpired options as at 1 July	**5,972,263**	**0.24**	4,603,625	0.35	**553,334**	**0.57**	815,000	0.55	**6,525,597**	5,418,625
Granted during the year	**1,413,303**	**–**	2,981,494	–	**–**	**–**	–	–	**1,413,303**	2,981,494
Exercised during the year	**(1,770,769)**	**0.79**	(1,573,442)	0.13	**(346,667)**	**0.60**	(261,666)	0.53	**(2,117,436)**	(1,835,108)
Forfeited during the year	**(77,441)**	**–**	(39,414)	–	**(50,000)**	**0.52**	–	–	**(127,441)**	(39,414)
Expired during the year	**–**	**–**	–	–	**–**	**–**	–	–	**–**	–
Unexpired options as at 30 June	**5,537,356**	**–**	5,972,263	0.24	**156,667**	**0.51**	553,334	0.57	**5,694,023**	6,525,597
Number of holders as at 30 June	**88**		20		**3**		5		**91**	25

Set out below are details of unexpired options granted under the plans as at 30 June 2015:

Option Plan	Exercise price	Grant date	Assessed fair value at grant date	Expiry date	Number at start of the year	Number granted during the year	Number exercised during the year	Number forfeited during the year	Number at end of the year	Number vested and exercisable at end of year
ESOP	$0.56	Aug-10	$0.31	19-Jul-14	334,000		(334,000)		–	
GSOP	$0.78	Oct-10	$0.49	01-Oct-14	100,000		(100,000)		–	
ESOP	$0.92	Mar-11	$0.58	23-Feb-15	30,000		(30,000)		–	
ESOP	$0.85	May-11	$0.50	28-Apr-16	1,400,000		(1,400,000)		–	
GSOP	$0.53	Nov-11	$0.38	21-Nov-15	115,000		(115,000)		–	
ESOP	$0.00	Jun-12	$0.49	01-Apr-15	6,769		(6,769)		–	
ESOP	$0.00	Nov-12	$0.55	30-Sep-15	1,220,000				1,220,000[1]	
GSOP	$0.51	Nov-12	$0.27	24-Nov-16	155,000		(65,000)		90,000	25,000
GSOP	$0.52	Dec-12	$0.20	21-Nov-16	183,334		(66,667)	(50,000)	66,667	
ESOP	$0.00	Aug-13	$0.78	30-Sep-15	712,970				712,970[1]	
ESOP	$0.00	Nov-13	$0.68	30-Sep-16	442,409				442,409	
ESOP	$0.00	Nov-13	$0.85	30-Sep-16	442,409				442,409	
ESOP	$0.00	Nov-13	$0.71	30-Sep-17	375,000				375,000	
ESOP	$0.00	Nov-13	$0.85	30-Sep-17	375,000				375,000	
ESOP	$0.00	Mar-14	$0.63	30-Sep-16	316,847			(29,044)	287,803	
ESOP	$0.00	Mar-14	$0.80	30-Sep-16	316,859			(29,045)	287,814	
ESOP	$0.00	Jul-14	$0.80	30-Jul-15		134,375			134,375	
ESOP	$0.00	Mar-15	$1.36	30-Sep-17		399,181		(4,559)	394,622	
ESOP	$0.00	Mar-15	$1.71	30-Sep-17		399,164		(4,558)	394,606	
ESOP	$0.00	Mar-15	$1.72	01-Oct-15		480,583		(10,235)	470,348	
Total					**6,525,597**	**1,413,303**	**(2,117,436)**	**(127,441)**	**5,694,023**	**25,000**

1 The performance conditions set in the the 2012 LTIS were not met. Accordingly, these performance rights did not vest and were subsequently forfeited in July 2015.

(d) Fair value of options and performance rights granted

The assessed fair value on the date options were granted was independently determined using an appropriate option valuation 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.

Terms and condition of the options and performance rights granted and the inputs to the valuations of options and performance rights granted and not expired to 30 June 2015 included:

Option type	Vesting Conditions	Exercise price	Grant date	Expiry date	Estimated share price at grant date	Valuation model	Expected price volatility of the company's shares	Expected dividend yield	Risk-free interest rate	Assessed fair value at grant date
Granted during the year:										
ESOP	Service Condition until exercise date	$0.00	Jul-14	30-Jul-15	$0.80	Binomial	44.78%	0%	2.54%	$0.80
ESOP (h)	Service Condition until exercise date	$0.00	Mar-15	1-Oct-15	$1.72	Binomial	45.00%	0%	2.10%	$1.72
ESOP (i)	Relative TSR performance and service	$0.00	Mar-15	30-Sep-17	$1.72	Binomial	45.00%	0%	1.88%	$1.36
ESOP (j)	FY17 Revenue and service	$0.00	Mar-15	30-Sep-17	$1.72	Monte Carlo	45.00%	0%	1.88%	$1.71
Granted in prior periods and unexpired at report date:										
ESOP (a)	FY15 Revenue, net profit after tax and service condition	$0.00	Nov-12	30-Sep-15	$0.55	Binomial	45.46%	0%	2.58%	$0.55
GSOP	Service Condition until first exercise date of each tranche	$0.51	Nov-12	24-Nov-16	$0.56	Binomial	54.96%	0%	2.71%	$0.27
GSOP	Service Condition until first exercise date of each tranche	$0.52	Dec-12	21-Nov-16	$0.49	Binomial	53.13%	0%	2.87%	$0.20
ESOP (a)	FY15 Revenue, net profit after tax and service condition	$0.00	Aug-13	30-Sep-15	$0.78	Binomial	45.49%	0%	2.35%	$0.78
ESOP (b)	Relative TSR performance and service condition	$0.00	Nov-13	30-Sep-16	$0.85	Monte Carlo	45.00%	0%	3.00%	$0.68
ESOP (c)	FY16 Revenue, net profit after tax and service condition	$0.00	Nov-13	30-Sep-16	$0.85	Binomial	45.00%	0%	3.00%	$0.85
ESOP (d)	Relative TSR performance and service condition	$0.00	Nov-13	30-Sep-17	$0.85	Monte Carlo	45.00%	0%	3.20%	$0.71
ESOP (e)	FY17 Revenue, net profit after tax and service condition	$0.00	Nov-13	30-Sep-17	$0.85	Binomial	45.00%	0%	3.20%	$0.85
ESOP (f)	Relative TSR performance and service condition	$0.00	Mar-14	30-Sep-16	$0.80	Monte Carlo	45.00%	0%	2.68%	$0.63
ESOP (g)	FY16 Revenue, net profit after tax and service condition	$0.00	Mar-14	30-Sep-16	$0.80	Binomial	45.00%	0%	2.68%	$0.80

Options marked as per below were granted to key management personnel. Further information is included in section 5 of the Remuneration report.

(a) 2012 LTIS granted to key management personnel. The performance conditions set out in the 2012 LTIS were not met. Accordingly, these performance rights did not vest and were subsequently forfeited in July 2015.
(b) 2013 LTIS – Tranche 1 granted to the CEO and the Executive Director.
(c) 2013 LTIS – Tranche 2 granted to the CEO and the Executive Director.
(d) 2013 LTIS – Tranche 3 granted to the CEO.
(e) 2013 LTIS – Tranche 4 granted to the CEO.
(f) 2013 LTIS – Tranche 1 granted to other key management personnel and senior employees.
(g) 2013 LTIS – Tranche 2 granted to other key management personnel and senior employees.
(h) 2014 Deferred STI granted to other key management personnel and eligible employees.
(i) 2014 LTIS – Tranche 1 granted to other key management personnel and senior employees.
(j) 2014 LTIS – Tranche 2 granted to other key management personnel and senior employees.

(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 assessed fair value of ESOP options granted is apportioned on a straight line monthly basis over the period between grant date and the date on which the options 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 a benefit if the options are exercised. The value of ESOP options expensed in any period is calculated as that portion of the assessed 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.

(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").

The EESP and DESP was established in 2007 and last approved at a general meeting of shareholders on 8 November 2013. Shareholder approval was also granted 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 issued 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.

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	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Employee Shares on issue as at 1 July	**1,125,469**	779,053	**–**	–	**1,125,469**	779,053
Granted during the year	**–**	–	**–**	–	**–**	–
Issued on exercise of zero-priced options during the year	**6,769**	1,207,442	**–**	–	**6,769**	1,207,442
Issued on share purchase plan allotment during the year	**–**	–	**–**	–	**–**	–
Withdrawn during the year	**(416,872)**	(861,026)	**–**	–	**(416,872)**	(861,026)
Forfeited during the year	**–**	–	**–**	–	**–**	–
Employee Shares on issue as at 30 June	**715,366**	1,125,469	**–**	–	**715,366**	1,125,469
Number of holders as at 30 June	**91**	40	**–**	–	**91**	40

(k) Expenses arising from share-based compensation transactions

	2015 $'000	**2014 $'000**
Options issued under ESOP	**1,025**	940
Options issued under GSOP	**13**	58
Shares issued under DESP	**–**	–
Total share-based compensation	**1,038**	998

Notes to the financial statements (continued)

For the year ended 30 June 2015

31. Parent entity information

As at and throughout the financial year ended 30 June 2015, the parent entity of the Group was Nanosonics Limited. Set out below is the supplementary information about the parent entity.

	2015 $'000	2014 $'000
Financial position of parent entity at year end		
Current assets	**53,862**	31,157
Total assets	**57,813**	33,147
Total current liabilities	**5,959**	4,567
Total liabilities	**9,139**	12,855
Total equity of the parent entity comprising of:		
Contributed Equity	**103,059**	74,410
Convertible Notes	**376**	376
Share option reserve	**4,554**	3,502
Accumulated losses	**(59,315)**	(57,996)
Total equity	**48,674**	20,292
Result of parent entity		
Profit or loss for the year	**(1,319)**	(2,448)
Total comprehensive income (loss)	**(1,319)**	(5,819)
Hire purchase commitment		
For acquisition of Manufacturing equipment	**18**	24

The consolidated financial statements include the financial statements of Nanosonics Limited and the subsidiaries listed in note 26.

Contingent liabilities

The parent entity had no contingent liabilities.

32. Events subsequent to reporting date

No other matter or circumstance has arisen since 30 June 2015 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.

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 53 to 98 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 2015 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
Director
Sydney
20 August 2015

Independent auditor's report to the members

UHY Haines Norton
Chartered Accountants

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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 (the Company), which comprises the consolidated statement of financial position as at 30 June 2015, 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 controls as the directors determine are necessary to enable the preparation of the financial report that 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.

UHY Haines Norton
Chartered Accountants

Independence

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

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 2015 and of its performance for the financial year ended on that date; and
   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(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 on pages 22 to 48 of the directors' report for the year ended 30 June 2015. 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.

Opinion

In our opinion, the Remuneration Report of Nanosonics Limited for the financial year ended 30 June 2015, complies with s 300A of the *Corporations Act 2001*.

UHY Haines Norton

Mark Nicholaeff

Partner

UHY Haines Norton

Chartered Accountants

Sydney

Date: 20 August 2015

Shareholder information

The shareholder information set out below was applicable as at 10 August 2015.

A. Equity security holders

Twenty largest holders of quoted equity securities

Ordinary shares	**Number of quoted shares held**	**Percentage**
J P Morgan Nominees Australia Limited	28,841,019	10.19%
Citicorp Nominees Pty Limited	25,745,893	9.10%
Mr Maurie Stang[1]	25,099,701	8.87%
Mr Bernard Stang	23,684,056	8.37%
National Nominees Limited	20,016,243	7.07%
HSBC Custody Nominees (Australia) Limited	18,094,268	6.39%
Mr Steve Kritzler	9,489,737	3.35%
BNP Paribas Noms Pty Ltd <Drp>	7,398,143	2.61%
National Nominees Limited <Db A/C>	5,114,740	1.81%
Link Traders (Aust) Pty Ltd	3,256,247	1.15%
Asia Union Investments Pty Ltd	3,069,091	1.08%
Armada Trading Pty Ltd	2,033,336	0.72%
Dr Harry Hirschowitz	2,010,000	0.71%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	1,638,277	0.58%
UBS Wealth Management Australia Nominees Pty Ltd	1,364,192	0.48%
Australian Shareholder Nominees Pty Ltd	1,225,000	0.43%
Avanteos Investments Limited <2349414 Hofbauer A/C>	1,200,000	0.42%
Bennelong Resources Pty Limited <John Egan Super Fund A/C>	1,200,000	0.42%
Warbont Nominees Pty Ltd <Unpaid Entrepot A/C>	1,093,421	0.39%
Mr John Charles Plummer	950,000	0.34%
Total top 20 holders	**182,523,364**	**64.49%**
Total all other holders	100,521,901	35.51%
Total shares on issue	**283,045,265**	**100%**

[1] Includes 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	156,667	3
Employee Share Options to take up unissued ordinary shares	3,433,001	79
Total options on issue	**3,589,668**	**82**

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	717	26
1,001–5,000	1,860	29
5,001–10,000	1,017	2
10,001–100,000	1,580	14
100,001 and over	176	9
Total Holders	**5,350**	**80**

There were 165 holders of less than a marketable parcel of 286 ordinary shares

C. Substantial holders

Substantial holders in the Company are shown below:

	Number of ordinary shares	Percentage
Mr Maurie Stang[1]	25,099,701	8.87%
Allan Gray Investment Mgt	23,967,225	8.47%
Mr Bernard Stang	23,684,056	8.37%
Kinetic Investment Partners	19,486,214	6.88%

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

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
AIUM	American Institute of Ultrasound in Medicine
ANZ	Australia and New Zealand
APIC	Association for Professionals in Infection Control and Epidemiology
ASIC	Australian Securities and Investments Commission
ASUM	Australasian Society for Ultrasound in Medicine
ASX	Australian Securities Exchange Limited
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Company	Nanosonics Limited
Date of this report	20 August 2015
DESP	Deferred Employee Share Plan
EESP	Exempt Employee Share Plan
EMS	Environmental Management System
EPS	Earnings Per Share
ERP	Enterprise Resource Planning
ESOP	Employee Share Option Plan
Fiscal Year	Year to 30 June
FY	Financial year, eg. FY2015 is the financial year ended 30 June 2015
Group	Nanosonics Limited and its wholly owned subsidiary companies
GSOP	General Share Option Plan
GST	Goods and Services Tax
HAI	Healthcare Acquired Infection
HLD	High Level Disinfection – involves the complete elimination of all microorganisms in or on an instrument, except for small numbers of bacterial spores
HPV	Human papillomavirus
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IDN	Integrated Delivery Network
IFRS	International Financial Reporting Standards
ISO 13485	Quality Management System for Medical Devices – Requirements for Regulatory Purposes
ISO 14001	Environmental Management System – An international standard developed by the International Organisation for Standardisation through dedicated technical committees representing approximately 150 countries around the world. Its purpose is to enable organisation of any type or size to develop and implement a policy committing it to prevention of pollution, compliance with legal and other requirements and continual improvement
ISUOG	International Society for Ultrasound in Obstetrics and Gynaecology
KMP	Key management personnel
LEAN Program	Program designed to maximize customer value while minimizing waste
LTI	Long Term Incentives
LTIS	Long Term Incentive Scheme
MHRA	Medicines and Healthcare Products Regulatory Agency (MHRA)
MRSA	Methicillin resistant staphylococcus aureus, a bacterium resistant to broad-spectrum antibiotics
NanoNebulant®	The biocide used in Nanosonics' technological process
NED	Non-executive Director
NHS	National Health System
NRTL	Nationally Recognised Testing Laboratory *Ortho-*phthalaldehyde Chemical compound commonly used to disinfect semi-critical medical devices such as ultrasound probes
OHS	Occupational Health & Safety
PBT	Profit before tax
Q1, 2, 3, or 4	3-monthly periods beginning 1 July, 1 October, 1 January and 1 April respectively
R&D	Research and Development
Reporting period	Year to 30 June 2015
SHEA	Society of Healthcare Epidemiology of America
STI	Short Term Incentives
TEC	Total Employment Cost
TFR	Total Fixed Remuneration
TJC	The Joint Commission, an independent, non-for- profit organisation, that accredits and certifies more than 20,500 health care organisations and programs in the United States of America
TSR	Total Shareholder Return
TTR	Total Target Remuneration
trophon®	The brand representing Nanosonics' range of infection control solutions designed specifically for healthcare settings
trophon® EPR	The brand of Nanosonics' device specifically designed to disinfect intracavity and surface ultrasound probes. See also www.trophon.com
TÜV	TÜVs are German organisations that validate product safety and provide certification for international standards such as ISO9001
UK	United Kingdom
USA	United States of America
VAT	Value Added Tax
WAEP	Weighted Average Exercise Price

Corporate directory and information for investors

Nanosonics Limited ABN 11 095 076 896 incorporated 14 November 2000

Directors

Maurie Stang
Richard England
David Fisher
Michael Kavanagh
Ron Weinberger

Company Secretaries

McGregor Grant
Robert Waring

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Email: info@nanosonics.com.au

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Sydney NSW 2000 Australia

Legal Advisors

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

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

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

Bankers

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

United Kingdom: HSBC Bank plc

Germany: Deutsche Bank AG

United States: PNC Financial Services Group, Inc.

Stock Exchange Listings

Nanosonics Limited shares are listed on the Australian Securities Exchange

ASX code: NAN

Industry Group: Healthcare Equipment & Services

2015 Annual General Meeting

The 2015 AGM of Nanosonics Limited will be held:
At 11.00am on 6th November 2015
Brisbane Room, Sofitel Sydney Wentworth
61-101 Phillip Street, Sydney NSW 2000

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