INNOVATION
COLLABORATION
GROWTH

ANNUAL REPORT 2016

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

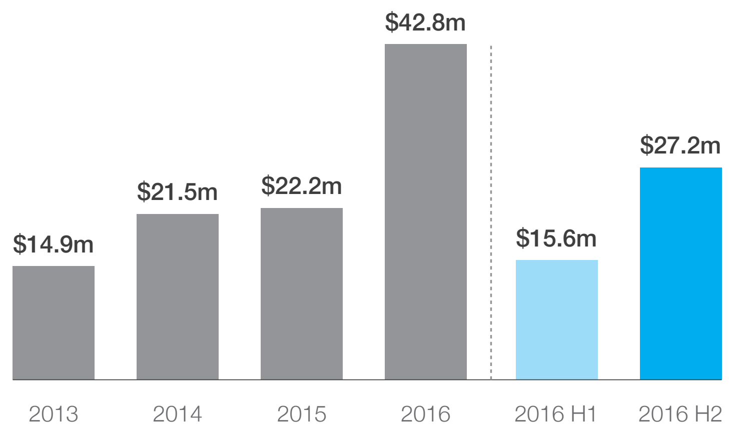
We improve the safety of patients, clinics, their staff and the environment by transforming the way infection prevention practices are understood and conducted, and introducing innovative technologies that deliver improved standards of care.

Financials 2016 At a glance

▲93%

SALES

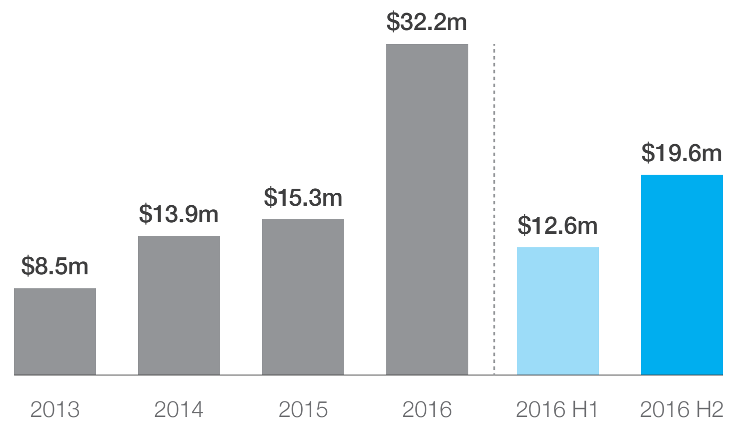
Total sales for the year were $42.8 million, an increase of 93% driven by the continued strong adoption of trophon in North America following the establishment of Nanosonics direct operations in 2015.



▲110%

GROSS PROFIT

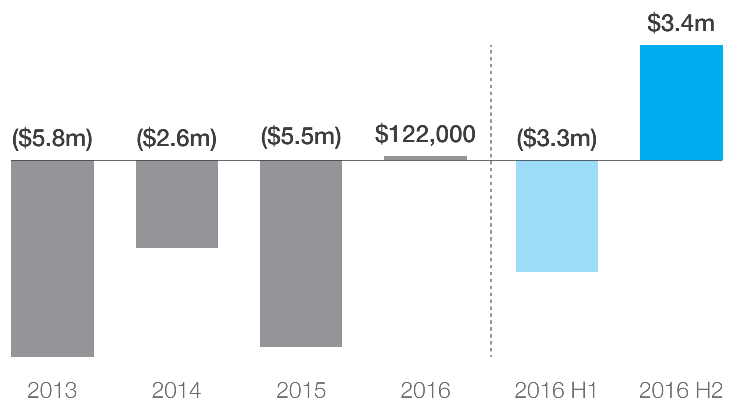
Gross profit increased 110% with improvement in gross profit rate by 6% reflecting higher margin direct sales in the US plus higher sales associated with consumables and service.



$122 THOUSAND

PROFIT/(LOSS) AFTER TAX

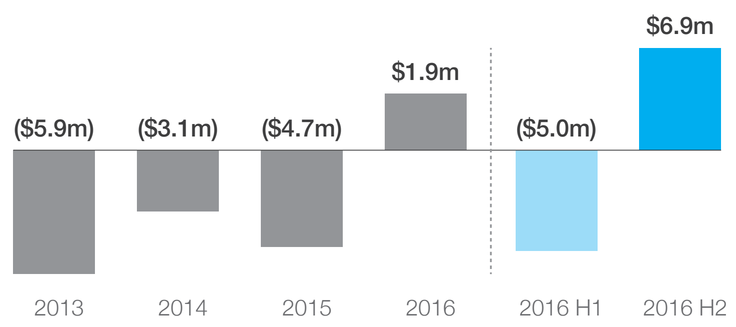
The Company recorded its maiden full year profit of $122,000.



$1.9 MILLION

FREE CASH FLOW

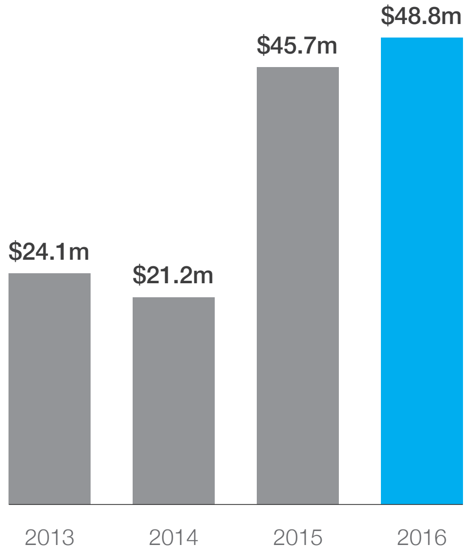
The Company recorded its first full year positive free cash flow of $1.9 million.



$48.8 MILLION

CASH AND CASH EQUIVALENTS

The Company ended the year with a strong balance sheet and cash reserves of $48.8 million to enable it to continue executing on its strategic growth agenda.



2009 - 2016 RESULTS

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

Chairman's letter

On behalf of Board of Directors, I am pleased to present Nanosonics' 2016 Annual Report.

The past year has seen Nanosonics emerge as a successful global technology business, as evidenced by a number of outstanding achievements. Sales of $42.8 million are up 93% compared with the prior year, which has been driven by continued strong adoption of the trophon EPR technology and has led to the Company reporting its maiden full year profit, a year ahead of expectations. Nanosonics delivered its first full year of positive free cash flow of $1.9 million ending the year with $48.8 million of cash and cash equivalents. The overall result for our shareholders has been pleasing with a 31% increase in the market value of the Company over the past 12 months and a growth for our shareholders of 248% over the last three years.

Globally, the installed base of trophon EPR has grown to an impressive 10,000 units and since we announced the launch of our North American direct sales operations in the second half of last year, the installed base in North America has increased by more than 4,700 units or 118% to over 8,700 units. This represents around 22% of the estimated 40,000 unit installed base potential in North America indicating that trophon is not only rapidly becoming the standard of care for the reprocessing of ultrasound probes, but increasing rates of adoption demonstrate the potential for further high levels of growth.

An important factor contributing to the sales momentum in North America has been the increased awareness of the issues associated with human papillomavirus (HPV) which is responsible for 99.7% of all cervical cancer cases as well as being linked to a range of other cancers. Clinical studies conducted by Prof. Craig Meyers from Penn State College of Medicine have shown that the toxic liquid disinfectants being used to high level disinfect ultrasound probes are totally ineffective against HPV and by contrast the trophon technology is totally effective. These and other studies are beginning to be understood in other markets and are providing motivation for the regulators in those markets to review current practices.

TROPHON® EPR BECOMING STANDARD OF CARE

THERE ARE NOW MORE THAN 10,000 TROPHON SYSTEMS IN USE GLOBALLY DRIVEN BY INCREASED AWARENESS AND STRENGTHENING FUNDAMENTALS FOR ADOPTION

Developments over the last year in our key European markets have been encouraging. The new guidelines in Scotland requiring high level disinfection of ultrasound probes used in semi-critical examinations has led to a significant increase in customer enquiries, as we saw when similar new guidelines were released in Wales. Importantly, new guidelines are due to be released by NHS England in which it is expected that the importance of effective high level disinfection of semi-critical devices will be emphasised.

Recently Nanosonics expanded its distribution footprint by entering into a new agreement for the sale and distribution of trophon in the Republic of Ireland and is in negotiations for distribution in a number of countries in the Middle East.

Business development activities in the important Japan market are progressing. Feedback received at the recent annual conference of the Japanese Society for Ultrasound in Medicine was very encouraging. Nanosonics is in discussions in relation to a number of other international markets targeting early market entry.

Nanosonics has increased its investment in Research & Development by approximately 49% over the last year.

Nanosonics' focus on innovation is directed at building on our disruptive Nano-Nebulant platform and developing new product streams to address potentially large scale infection and microbial control opportunities. Critically, the Company has engaged in a number of research programs that have enabled us to develop a deep understanding of our customers' needs in the area of infection prevention which, in turn, is directing our core R&D program. We are confident that the market for microbial control is large and growing and Nanosonics is ideally positioned to bring new and innovative products to market that meet unmet customer needs.

Nanosonics has grown to employ over 150 people located in Australia, the Unites States, Canada and across Europe. On behalf of the Board, I would like to thank all our employees for their contribution to the success of the Company over the last year. Similarly, I thank my fellow Board members for their important and ongoing efforts.

As recently announced, I am delighted to welcome Mr Steven Sargent as a Non-executive Director of the Board. Steve brings a wealth of experience and knowledge to Nanosonics with a broad insight into international, high growth businesses with a market leadership position. His background in overseeing large scale businesses for GE, including Healthcare, provides a valuable extension to the existing skills on Nanosonics' Board.

The objectives for the coming year are clear: build shareholder value by continuing to deliver rapid sales growth and develop new technologies that will position the Company as a leading player in the infection control market, delivering solutions that support our mission of "Infection Prevention. For Life."

Mr Maurie Stang

Chairman
Sydney
17 August 2016

"NANOSONICS' FOCUS ON INNOVATION IS DIRECTED AT BUILDING ON OUR DISRUPTIVE NANO-NEBULANT PLATFORM AND DEVELOPING NEW PRODUCT STREAMS."

CEO's report

I am very pleased to report that the 2016 financial year has been one of significant achievement and success for Nanosonics. Throughout the year the organisation consistently focussed on the execution of the core strategies defined by our strategic growth agenda. This focus and execution delivered excellent results as we advance in our mission to improve the safety of patients, clinics, their staff and the environment by transforming the way infection prevention practices are understood and conducted and introducing innovative technologies that deliver improved standards of care.

The Nanosonics strategic growth agenda is structured around five key growth pillars, namely:

1 **Customer Experience**
2 **Product Innovation**
3 **Operational Excellence**
4 **People Engagement**
5 **Value Creation**

The following outlines some of the key highlights of FY16 under each of these pillars.

Customer Experience

Our Customer Experience objective is focussed on establishing our offerings as new standards of care globally and providing customers with a convenient and consistent experience with our products and brand. Key highlights for the year include:

Growing the installed base in North America during the year by 74% to over 8,700 units where trophon is now represented in 48 of the top 50 hospitals in the USA and almost 3,000 facilities in total

This strong growth in the installed base forms a strong basis for establishing trophon as the new standard of care across the USA, both within hospitals who have already commenced with the trophon technology, as well as in new hospitals and clinics. Our US direct sales team and our distribution partner, GE Healthcare are to be congratulated on this great result.

The global installed base at the end of June 2016 was over 10,000 units.

Strengthening fundamentals for adoption in North America and key European markets

During the year, a number of pivotal clinical papers were published that clearly demonstrated the risks of cross contamination in the absence of effective High Level Disinfection (HLD). Government bodies such as the CDC and FDA in the USA reemphasised the importance of implementing effective HLD practice.

Central to the awareness and education campaigns conducted by Nanosonics were the outcomes of the pivotal clinical studies conducted by Prof. Craig Meyers from Penn State College of Medicine, who showed that the liquid disinfectants currently used to decontaminate ultrasound probes were totally ineffective in killing human papillomavirus (HPV) whereas the trophon technology using sonically activated hydrogen peroxide was totally effective. This important finding has been published in a number of key journals including the Medical Journal of Virology as well as a call to action paper in the American Journal of Obstetrics and Gynaecology. Today this is a core differentiator for Nanosonics as well as a key driver for adoption.

In the UK, new Scottish guidelines were published requiring high level disinfection for all semi-critical ultrasound examinations. New guidelines in England are also due in early FY17 which are also expected to emphasise the importance of HLD. In France, the subject of high level disinfection is also clearly on the agenda of the Ministry of Health and further progress on HLD requirements are expected to be made throughout FY17.

Market expansion activities

During FY16, Nanosonics entered into a new agreement for the distribution of trophon in the Republic of Ireland as well as commenced negotiations for entry into a number of countries in the Middle East. Our business and market development activities continued in Japan culminating in the trophon technology being presented at the Annual Japanese Society for Ultrasound in Medicine (JSUM) in May 2016. Further developments in these important markets will continue into 2017.

Product Innovation

Our Product Innovation objective aims to bring to market a portfolio of innovative products that address unmet customer needs.

Strategic R&D investment

Nanosonics is committed to strategic investment in R&D and grew this investment by approximately 49% to over $7.3 million in FY16. This investment was targeted towards design and development activities associated with future generations of our platform trophon technology as well as investment in research on novel new solutions directed at meeting what we consider considerable unmet needs in the infection prevention field.

Partnerships, collaborations and research

Throughout FY16, Nanosonics conducted a number of research programs to identify and confirm core customer needs in the area of infection prevention. Strategic partnerships were formed with associations such as the American Association for Professionals in Infection Control and Epidemiology (APIC). Partnerships such as these provide excellent insights and inputs through research with their membership. The outcome of this research has been central in guiding our R&D program.

Expanded indications

The indications for use for trophon were expanded beyond use with ultrasound probes in Europe and Australia. These expanded indications allow products such as Gamma Probes to be decontaminated using trophon. Further assessments of opportunities with other semi-critical instruments will be explored in FY17.

Ultrasound probe compatibility

The number of ultrasound probes approved for use with trophon passed 1,000 in FY16. This is an extremely important program and the organisation continues to partner with the majority of all ultrasound OEMs to ensure compatibility as new probes are brought to market.

Strengthening our IP position

Nanosonics' patent portfolio continued to make good progress in FY16 with 16 applications successfully passing examination to proceed to allowance or grant. Nanosonics was granted 6 US patents in that period.

Operational Excellence

Ensuring our organisation is agile and has scalable, compliant and performance focussed processes is an important directive for the organisation.

CEO's report (continued)

Successful first full year of North American direct operations

FY16 marked the first full year of our direct sales organisation and supporting operations being in place in North America. In the last 12 months this team played a pivotal role in generating awareness and demand resulting in the installed base growing 74% to over 8,700 units. During the last quarter of the year Nanosonics also established direct operations in Canada and these are expected to be fully operational in the first quarter of FY17.

New global headquarters and manufacturing facility

FY16 also marked the first anniversary at our new global headquarters and manufacturing facility in Lane Cove in Sydney. Throughout the year numerous certifications and regulatory approvals were achieved at our new facility and the opportunity was taken to refine and establish more scalable operating procedures and processes leveraging the facility's design and capabilities.

Enhanced global capabilities

To support our global expansion, a number of our core systems and processes were rolled out across the USA, UK, Germany and France. These included the expansion of the Company's global ERP systems, optimisation of the IT infrastructure and the standardisation of global service programs and processes.

Scalability of our operations globally continues to be an important strategic imperative across the organisation.

People Engagement

People Engagement is a fundamental driver to the success of our operations. This objective centres on building an organisation that attracts and retains the best people ensuring they are engaged and empowered to deliver on our corporate objectives.

As in previous years, our highly skilled and dedicated team across all functions and disciplines worked together as a group to deliver excellent results for the organisation. Through our strategic Human Capital planning our team grew by 18% to over 150 employees globally bringing diverse qualifications and experience to the company.

Value Creation

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

As a consequence of the positive outcomes achieved in FY16, significant value was created for our shareholders.

- Sales revenue increased 93% to $42.8 million
- A maiden full year profit was achieved, 12 months ahead of market expectations
- Market capitalisation grew 31% in the 12 months to 30 June 2016 and 248% over the last 3 years
- A strong cash balance was maintained to underpin our strategic growth investments for the future

Importantly, the foundations of the business were strengthened for the ongoing growth and success of the Company.

Outlook

Looking forward, our aim is to build on the success of FY16, continue to execute on our strategic growth agenda and leverage the positive and strengthening market fundamentals for the adoption of the trophon technology as the new standard of care in major markets around the world. In addition we will continue to invest in R&D programs to develop a diversified portfolio of products and solutions that meet real needs in the infection prevention market.

I would like to thank the Nanosonics team and our distributor partners for their considerable efforts in achieving the FY16 results and the support and encouragement of our shareholder community as they share and believe in our vision to establish Nanosonics as a major global leader in infection prevention.

Michael Kavanagh
CEO and President
Sydney
17 August 2016

Regional highlights

North America

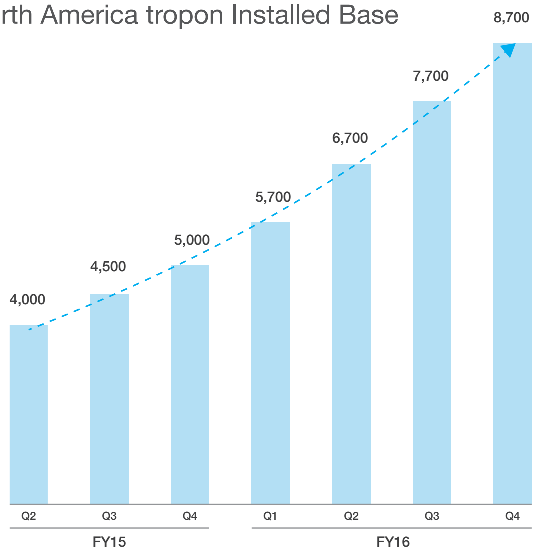
The fundamentals for adoption continued to strengthen throughout FY16 resulting in the installed base growing approximately 74% in the year to over 8,700 units. Sales in North America for the year grew a record 121% to $39.0 million. This excellent result reflects the superior value proposition of the trophon technology and the tremendous efforts of Nanosonics' direct sales organisation as well as continuing strong GE Healthcare sales.

Key highlights for FY16 included:

- Adoption of trophon has **now commenced in 48 of the top 50 hospitals** (US News and World Report) as **well as approximately 3,000 facilities** across North America.
- The fundamentals for adoption continued to strengthen throughout the year. In September 2015, the Centers for Disease Control and Prevention (CDC) and the FDA issued an alert notifying healthcare providers and facilities about the need to properly maintain, clean, and disinfect or sterilize reusable medical devices. **All healthcare facilities with reusable medical devices are being urged to immediately review their reprocessing practices** to protect patients and ensure they comply with current standards and guidelines[1]. This alert further strengthens the fundamentals for trophon adoption.
- **Successful contracts signed with a number of major Integrated Delivery Networks (IDNs).**
- **Commenced establishment of a Canadian corporate entity, Nanosonics Canada, Inc.,** with a direct operation to sell and service trophon. Canadian operations to commence full operation in FY17.
- Significant increase in pipeline of opportunities was created through participation in over 30 major and regional tradeshows as well as numerous educational events being conducted across North America.

1. CDC Health Alert Network September 11, 2015. Available from http://emergency.cdc.gov/han/han00382.asp

North America tropon Installed Base



Sanford Health installs trophon throughout its clinic network

Saving five minutes per ultrasound exam makes a big difference in patient throughput at a busy fertility clinic. This was just one of the benefits experienced by Sanford Health when it switched to Nanosonics' trophon system to disinfect its ultrasound probes.

One of the largest health systems in the U.S., Sanford Health has 43 hospitals and nearly 250 clinics in nine states and three countries.

While saving time is important, the trophon system was originally selected based on the outcome of research into disinfectant effectiveness against human papillomavirus (HPV). The study showed that trophon is the only high level disinfection system to kill human papillomavirus (HPV).

"We purchased some [trophon] units last year and wanted to install more, but we waited for the efficacy studies," said Sue Hohenthaner, Sanford Enterprise Director of Infection Prevention. "Primarily we were looking at trophon for vaginal ultrasound because of the effectiveness against HPV 16 and 18. We felt strongly that any location with vaginal probes should have a trophon unit."

While transvaginal examinations were the initial focus, Sanford has now installed more than 60 trophon systems in a range of facilities including radiology/imaging, emergency, OB, maternal fetal medicine, breast centers, urology centers, interventional radiology and family clinics.

Sanford Health was also positive about the smooth installation and training process delivered by Nanosonics and reports everyone loves the trophon system. "Waiting was the hardest part," said Ms Hohenthaner, "I can't tell you how many calls I received saying 'can we get trophon, we really want trophon, what's the hold up?' They were thrilled to get it."

Sue Hohenthaner, Sanford Health

Regional highlights (continued)

Asia Pacific

The Australian and New Zealand markets are excellent examples of trophon becoming standard of care.

Sales for the ANZ region grew 11% in the last 12 months to $2.54 million.

The combined installed base across both these markets is now in excess of 1,000 units. During the year Nanosonics worked closely with a number of the key associations including the Australian Society for Ultrasound in Medicine. A number of national educational programs were developed with ASUM focussing on the risk of cross contamination with human papillomavirus and these programs featuring Prof. Craig Meyers from Penn State College of Medicine are due to commence in the first quarter of FY17.

The commercialisation strategy for Japan also progressed during the year including the hiring of a country manager for Japan. trophon was displayed at the annual Japanese Society of Ultrasound in Medicine (JSUM) in Kyoto in May. Market development strategies to increase the fundamentals for adoption in the country will continue into FY17.

Five Years of Positive Use in Australia – The OMNI Experience

OMNI Ultrasound has 2 Sydney sites based in St Leonards and Penrith. OMNI is a dedicated Women's ultrasound practice and therefore performs a significant number of transvaginal examinations and procedures each year. Each practice has been using the trophon high level disinfection system for 5 years and it has proven to be a reliable and efficient method of disinfecting transvaginal transducers.

Prior to the introduction of the trophon OMNI was using a chemical based solution to clean transducers. This method has its limitations particularly the inability to clean the handle and cord insertion point which can be an area of contamination. The trophon system provides a quick and effective method for disinfecting the whole probe in a "closed system." The sonographers find this system much easier to use and do not need to worry about the potential health related issues that can be associated with chemical methods.

The trophon also provides a validation system in the form of the chemical indicators. Once a cycle is completed the operator has immediate feedback as to whether the probe has received the correct concentration of the cleaning agent. This allows the sonographers to confidently scan their patients knowing the probe has been disinfected to the highest of standards.

The use of the trophons also suits the workflow in the practice as the probes can be cleaned while the sonographers complete reports and prepare the room for their next patient. This provides efficient use of time and improved workflow.

Brendan Mein

Senior Sonographer

OMNI Ultrasound

Europe/rest of world

Significant progress was made in strengthening the market fundamentals for adoption in Europe throughout FY16. Underpinning these fundamentals are guidelines requiring high level disinfection of ultrasound probes used in semi-critical procedures.

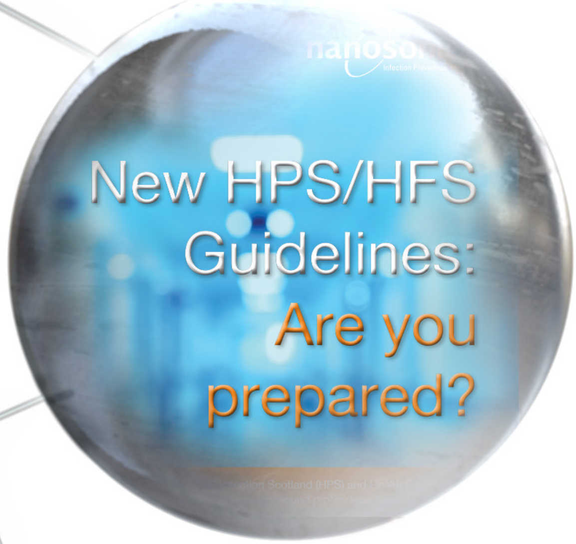
In the UK there are now 25 NHS Trusts with trophon with nine of these trusts to date following up their initial purchases with additional trophon systems.

- The Welsh guidelines published last year have resulted in all seven Health Boards in Wales adopting trophon. Broader usage across all relevant clinical settings in each of these trusts is now under evaluation.
- New Scottish guidelines were published in Q4 FY16. trophon EPR is well positioned to deliver on the requirements published in the guidelines and Nanosonics is in dialogue with the decontamination professionals in all 14 Health Boards in Scotland.
- New guidelines in England are expected in the first quarter of FY17.

In Ireland, Nanosonics signed a non-exclusive distribution agreement with Wassenburg Medical who are market leaders in washer disinfectors in the market. New guidance in the Irish market for the decontamination of probes is also underway.

In Germany, two key reference sites in the federal state of Schleswig-Holstein, Kiel and Lubeck adopted trophon in their Ob/Gyn departments. Installations into the private Ob/Gyn market also took place. Installations at key reference sites in Belgium, Italy and Denmark also took place during the year.

In France, the risk of cross contamination with HPV has brought the subject of decontamination of ultrasound probes to the attention of the Ministry of Health. An initial instruction from Direction Generale de la Sante was published identifying that systematic intermediate level disinfection (similar to HLD) is more efficient than current low level disinfection (LLD) because of the risk of non-compliance with the manual LLD. Strict compliance with LLD is now mandated and will be regularly audited. Further work on market development and guidelines will continue in France during FY17.



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: Safe. Versatile. Simple.

Nanosonics trophon® EPR addresses market needs for fast, safe, simple and environmentally friendly HLD of ultrasound probes.

Being fully enclosed means users are not exposed to harmful chemicals when they use a trophon system. This allows it to be placed at point of care where ultrasound exams are carried out which significantly enhances clinic workflows. The system is also fully mobile so it can be placed anywhere within close proximity to the exam area or in a utility room.

Many guidelines now recommend automated reprocessing over manual methods[1]. A key differentiator of trophon over traditional methods is its full automation, which makes the disinfection process simple for users and assures consistency in every cycle.

Compatible with a wide range of ultrasound probes

For healthcare providers, having an HLD system that is validated for use with its ultrasound probes is an important consideration. Nanosonics carries out extensive probe testing and trophon's list of validated ultrasound probes now is more than 1,000 from all major and many smaller ultrasound probe manufacturers.

Sonicated hydrogen peroxide dramatically increases disinfecting power

trophon's proprietary disinfectant (Sonex®/Nanonebulant®) has a high concentration of hydrogen peroxide that is sonically activated to dramatically increase its disinfecting power. The sonic activation results in a sub-micron particle mist which generates a high number of free radicals. These potent free radicals have superoxidative properties, which means the disinfectant can act quickly to destroy pathogens.

Traceability solution helps facilities meet audit and accreditation requirements

Traceability is a hot topic in infection control. Without monitoring or documentation of equipment reprocessing, it becomes difficult to track the use of equipment on a specific patient. This can complicate the patient notification process should an outbreak occur.

The trophon EPR's optional traceability solution provides documentation and reporting to link the probe and disinfection procedure to the patient.

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

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

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

9 trophon® Clean Ultrasound Probe Covers
Custom designed covers to protect high level disinfected intracavity and surface ultrasound probes from recontamination before they are used on the next patient.

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

Clinical research program

Driving trophon adoption through clinical evidence

Nanosonics' strategic investment in its clinical research program is making important contributions to the scientific and clinical knowledge base in infection prevention. In addition, this investment plays a key role in one of Nanosonics' key corporate objectives to strengthen the fundamentals to establish trophon as the standard of care and drive global adoption.

In the past two years a series of clinical studies have been conducted in various centres around the world, resulting in a number of publications which clearly demonstrate the superior disinfection efficacy of trophon[1-5]. Four of these studies have been published in peer-reviewed journals. The fifth one is pending journal submission and focuses on disinfecting surface ultrasound probes. This is an important area for Nanosonics as it expands the scope of use of trophon in a larger number of departments such as emergency, maternal foetal medicine, breast centres, interventional radiology and family clinics.

One of the four published studies, published in the *Journal of Medical Virology* in November 2015, has already had significant impact on awareness of trophon efficacy. In 2015, our clinical team worked closely with Distinguished Professor Craig Meyers of Penn State College of Medicine, PA to conduct a controlled clinical study to examine the efficacy of trophon against the highly resistant cancer-causing human papillomavirus (HPV). The results of the study clearly demonstrated trophon to be totally effective in killing HPV, which is now a unique differentiator compared to other commonly used disinfectants.

Professor Meyers had co-authored a previous paper showing that disinfectants commonly used on ultrasound probes don't work[6]. Both this and the trophon study were ground-breaking as they were the first of their kind to use "real" HPV as opposed to a surrogate virus. To date, no other disinfection system has such published evidence, which sets trophon well ahead of other systems. HPV accounts for 5% of all cancers worldwide and is responsible for almost all cases of cervical cancer plus is a leading cause of oral, throat, anal and genital cancers. While it is widely believed to be sexually transmitted, numerous studies have shown that this is not the case and that HPV is present in people with no prior sexual contact, and also exists on gynaecological equipment and surfaces despite routine cleaning[7-13].

In March 2016, an independent paper was published in the American Journal of Obstetrics Gynecology (AJOG) calling for changes to practices in order to reduce the risk of HPV transmission[14]. The paper recommended sonicated hydrogen peroxide [trophon's proprietary disinfectant technology] as a solution to achieve this.

The superior efficacy of trophon was again demonstrated in a study published earlier this year in *Ultrasound Obstetrics Gynecology*[1]. Conducted by the University Hospital Münster in Germany, the study compared the efficacy of trophon against a leading brand of disinfectant wipes used widely across most European countries. The results demonstrated a threefold higher risk of cross contamination with the manual wipe method. The study concluded that wipes are generally not used properly and that trophon is significantly more effective, increasing patient safety.

Further information about the risks of HPV and HPV disinfectant efficacy studies can be found at **www.hpvdisinfection.com**

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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 and a director of Japara Healthcare Limited (ASX:JHC) since April 2014. 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. From July 2011 to October 2013 Dr Weinberger was Managing Director and CEO and since October 2013, he has been President Technology Development/Commercialisation, responsible for the direction of the Company's technology. 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. Steven Sargent BBus, FAICD

Non-executive Director

Mr Sargent joined the Board in July 2016. He has extensive executive experience having worked across a range of industries spanning the US, Europe and Asia Pacific. Mr Sargent joined GE Capital in 1993 and was appointed Vice President and Officer of General Electric Company in 2008 and was a member of GE's Global Corporate Executive Council. Prior to his retirement from GE, Mr Sargent was President and Chief Executive Officer of GE Mining, GE's global mining technology and services business.

Mr Sargent has been a director of Origin Energy Limited (ASX:ORG) since May 2015 and was appointed director of OzForex Group Limited on 4 August 2016. He is also a director of the Great Barrier Reef Foundation and Chairman of The Origin Foundation. Previously, Mr Sargent was a director of Veda Group Limited (ASX:VED) from March 2015 to March 2016, a director of Bond University Limited and was on the board of the Business Council of Australia.

7. **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 20 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 (now PwC) in Australia and Europe.

8. **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 extensive experience in the medical device industry as a leader of development, engineering, production and operations teams. He has particular experience in the implementation of new products into manufacturing and rapid scaling of production to international market needs.

9. **Vincent Wang** BSc, MSc, MBA

Head of Global Customer Support and Technical 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. Prior to joining Nanosonics in May 2011, Mr Wang spent 11 years leading and managing the Technical Support, Services Repair and Customer Service Operations for Sonova Hearing Healthcare Group and Cochlear Ltd.

10. **Ruth Cremin** MSc

Regulatory Affairs Manager

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

Mrs Courtney joined Nanosonics in 2008 and has more than 18 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 across the full spectrum of medical device and technology product marketing. His career includes senior marketing roles in Australia, USA and Europe with blue chip companies including Cochlear and ResMed and 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 managing 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 healthcare 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 2016.

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 $42,796,000 (2015: $22,214,000), an increase of $20,582,000 or $93% driven by the continued strong adoption of trophon in North America. Sales in North America increased by $21,366,000 in significant part resulting from the establishment of the Company's direct operations in 2015. Sales in Australia and New Zealand increased by 12% compared with the previous year. Sales in Europe and other countries decreased by 46% compared with the previous year.

Other income amounting to $133,000 (2015: $2,308,000), which included: Export Market Development Grant $120,000 (2015: 119,000); reimbursement of costs by a distributor $Nil (2015: $1,200,000) and net foreign exchange gain on foreign currency forward contracts of $11,000 (2015: $Nil. Prior year also included $988,000 in foreign exchange gains). Foreign exchange losses are included in administration expenses.

Finance income amounting to $1,098,000 (2015: $928,000) relates to interest earned on cash investments.

Operating expenditure for the year amounted to $32,658,000 (2015: $23,416,000), an increase of $9,242,000 or 40% driven by higher staffing and related operating costs to support the growth of the business including the direct sales operations in North America.

Finance expense for the year of $603,000 (2015: $598,000) included borrowing costs on convertible notes of $532,000 (2015: 596,000) and interest on leases of $71,000 (2015: $2,000).

The consolidated profit after tax amounted to $122,000 (2015: loss after tax of $5,460,000).

The Group ended the year with $48,841,000 (2015: $45,724,000) of cash and equivalents. The Group has adequate cash to fund the operations of the business.

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

Significant changes in the state of affairs

During the year, the Company issued 12,299,726 shares on the conversion of convertible notes in accordance with the terms of the Convertible Note Deed Poll dated 28 June, 2012 at a price $0.75 per share.

In the opinion of the directors, other than the matters described above and in the review of operations on pages 6 to 11 of this report, 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.

Directors' report (continued)

Dividends – Nanosonics Limited

The directors do not recommend the payment of a dividend for the financial year ended 30 June 2016. No dividends were proposed, declared or paid during the financial year (2015: 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 2016 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 (EMS), which is currently certified to ISO14001.

Directors

During the year, the Board of Nanosonics Limited comprised of Maurie Stang, David Fisher, Richard England, Michael Kavanagh, and Ron Weinberger. Steven Sargent joined the Board on 20 July 2016.

As at the date of this report, Nanosonics Limited has the following committees of the Board: Audit and Risk, Remuneration, Nomination, and R&D and Innovation. Details of members of the committees of the Board during the year are included below and on page 21.

Information on the directors, company secretaries and senior management is a part of the Directors' report and can be found on pages 15 to 16 of the Annual Report.

Meetings of directors

The number of directors' meetings, including meetings of the committees, held during the year ended 30 June 2016, 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	4	4	1	1	4	4	1	1
Richard England	11	10	4	4	1	1	4	4		
David Fisher	11	10	4	3	1	–	4	3	1	1
Ron Weinberger	11	10							1	1
Michael Kavanagh	11	11							1	1

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 2016 and to the date of this report, the Company issued a total of 13,023,646 (2015: 19,087,064) new ordinary shares in Nanosonics Limited as detailed below. No amount was unpaid on any of the shares issued.

Shares issued	Number of shares issued
Shares issued on redemption of convertible notes	12,299,726
Share options exercised under Share Option Plans	723,920
Total new shares issued during the year and to the date of this report	**13,023,646**

As at 30 June 2016, there were 295,934,536 (2015: 282,910,890) ordinary shares in Nanosonics Limited on issue. At the date of this report, there were 295,934,536 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 under the terms and conditions of the Company's Employee Share Option Plan, for no consideration 1,446,710 (2015: 1,413,303) unquoted Performance Rights over unissued ordinary shares in Nanosonics Limited . Further information on the grants is in section 5 of the Remuneration report on pages 38 to 43 and in the Share-based payments note to the financial statements.

Shares under option

At the date of this report, there were 4,446,833 unissued ordinary shares of Nanosonics Limited under option as detailed below. As at 30 June 2016, there were 4,446,833 (2015: 5,694,023) unissued ordinary shares of Nanosonics Limited under option. Further information on the options is provided in the Share-based payments note to the financial statements.

Share option plan	Number of shares under option
Employee Share Option Plan (ESOP)	4,416,833
General Share Option Plan (GSOP)	30,000
Total shares under option at 30 June 2016 and to the date of this report	**4,446,833**

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.

Directors' report (continued)

Remuneration report – audited

Table of contents

1.0 Introduction

Nanosonics is a rapidly growing 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. At the completion of the 2016 Financial Year, the Board obtained advice from Egan Associates Pty Ltd in a review of fees, which were last reviewed in the 2014 Financial Year.

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 2016 (2016 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
Non-executive Directors		
Maurie Stang	Chairman	Full year
	Member, Audit and Risk Committee	
	Member, Remuneration Committee	
	Member, Nomination Committee	Appointed as Chairman on 20 July 2016
	Member, R&D and Innovation Committee	
Richard England	Director	Full year
	Chairman, Audit and Risk Committee	
	Chairman, Remuneration Committee	Retired on 20 July 2016
	Chairman, Nomination Committee	Retired as Chairman on 20 July 2016
David Fisher	Director	Full year
	Member, Audit and Risk Committee	
	Member, Remuneration Committee	
	Member, Nomination Committee	
	Chairman, R&D and Innovation Committee	
Steven Sargent	Director	Appointed on 6 July 2016
	Chairman, Remuneration Committee	Appointed on 20 July 2016
	Member, Nomination Committee	Appointed on 20 July 2016
Executive Directors		
Michael Kavanagh	Chief Executive Officer (CEO) and President, Managing Director	Full year
	Member, R&D and Innovation Committee	
Ron Weinberger	Director and President, Technology Development/Commercialisation	Full year
	Member, R&D and Innovation Committee	
Executive KMP		
McGregor Grant	Chief Financial Officer (CFO) and Company Secretary	Full year
Gerard Putt	Chief Operations Officer	Full year

Directors’ report (continued)

2.0 Remuneration governance

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

2.1 Role of the Board and the Remuneration Committee

The Board is responsible for Nanosonics’ remuneration strategy and policy. Consistent with this responsibility, the Board has established a Remuneration Committee which comprises a majority of independent Non-executive Directors. The members of the Remuneration Committee during the 2016 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.

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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

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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 2016, 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 FY2016	**Service Provided**	**Remuneration Consultant for the purposes of the *Corporations Act 2001***
John Egan, Remuneration Consultant, Egan Associates Pty Limited	Review of remuneration of Non-executive Directors, Long Term Incentive (LTI) and Employee Share Scheme (ESS) advisory services	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?	Egan Associates Pty Limited – Remuneration services $Nil; Other services – $10,710	
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 processes are appropriate. No remuneration recommendation has been provided this year.	

Directors' report (continued)

3.0 Non-executive Director remuneration

3.1 Non-executive Director remuneration philosophy

Principle	Comment
Fees are set by reference to key considerations	Fees for Non-executive Directors are based on the nature of the Directors' work and their responsibilities, taking into account the nature and complexity of the Company and the skills and experience of the Director. In determining the level of fees, survey data on comparable companies are considered. Non-executive Directors' fees are recommended by the Remuneration Committee and determined by the Board. Shareholders approve the aggregate amount available for the remuneration of Non-executive Directors.
Remuneration is structured to preserve independence 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 2016 is within the aggregate amount approved at a general meeting of the Company on 19 September 2006 of $500,000 a year. It is the Board's intention to seek approval to increase the fee pool to provide for further renewal and expansion.
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[1]	Board Chairman fee	$170,000
	Board Non-executive Director fee	$85,000
	Board Committee Chairman fee	$15,000
Post-employment benefits		
Superannuation	Superannuation contributions are included in the Board fees and are made at a rate of 9.5% of base fee (up to the 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. Following a review of Non-executive Director fees, the Board fees were implemented effective 1 July 2016. Previously, the Board Chairman's fee was $145,000, the Board Non-executive Director fee was $80,000 and there was no separate Board Committee Chairman fee.

3.3 Non-executive Director total remuneration

	Year	Fees ($)	Superannuation ($)	Total ($)
Maurie Stang	**2016**	**132,420**	**12,580**	**145,000**
	2015	132,420	12,580	145,000
Richard England	**2016**	**73,059**	**6,941**	**80,000**
	2015	73,059	6,941	80,000
David Fisher	**2016**	**73,059**	**6,941**	**80,000**
	2015	73,059	6,941	80,000
Steven Sargent[1]	**2016**	**–**	**–**	**–**
	2015	–	–	–
Total	**2016**	**278,538**	**26,462**	**305,000**
	2015	278,538	26,462	305,000

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

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.

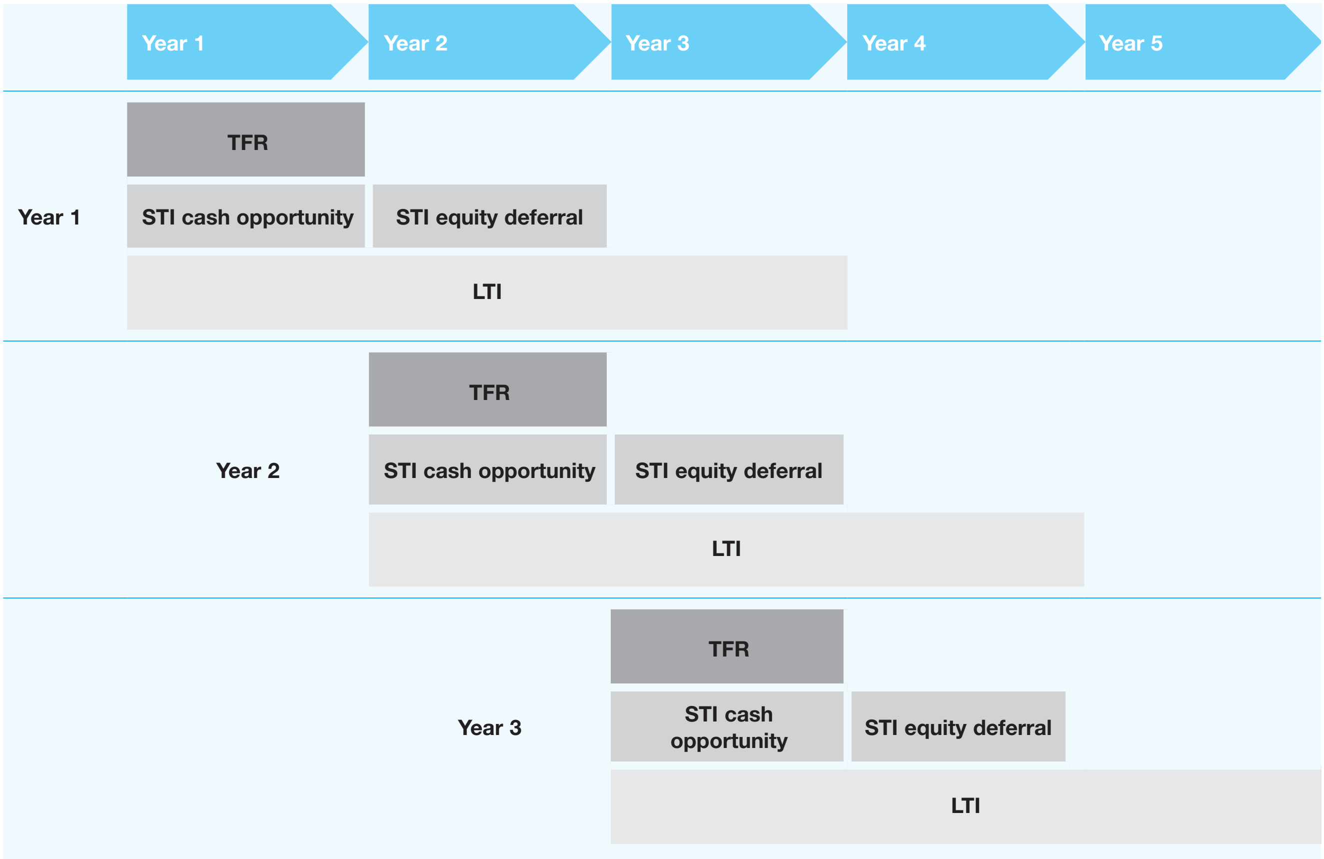
4.2 Remuneration mix and timing of receipt

4.2.1 Remuneration mix

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

4.2.2 Remuneration – timing of receipt of the benefit

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



Each year, fixed remuneration and benefits are paid (monthly) and short term incentives are awarded based on achievement of annual performance targets set. A portion of any STI earned is 'invested' in 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 varies across the leadership team and management with PBT having a weighting from 60% to 20% and individual performance goals from 40% to 80%. 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. Achieving the PBT target is generally required before STI awards are approved. Any anomalies or discretionary elements are approved and validated by the Board.
Rewarding performance	The actual STI awards for executive KMP in 2016 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 Performance Conditions including internal (Revenue) and external (relative Total Shareholder Return (TSR)).

4.4.2.1 CEO and President Long Term Incentives

Details of the vesting conditions associated with the Performance Rights granted to the CEO and President in respect of the 2015 and 2013 Long Term Incentive Schemes are summarised below.

CEO and President 2015 Long Term Incentive Scheme (2015 LTIS)

2018 Performance Conditions

Ranking of TSR vs. 2015 LTIS Comparator Group[1]		**Ranking of TSR vs. 2015 LTIS Comparator Group 2[1]**	
Tranche 1: 50% of total Performance Rights granted		Tranche 2: 50% of total Performance Rights granted	
Performance	% of Performance Rights to vest[2]	Performance	% of Performance Rights to vest[2]
< 50th percentile	0%	< 50th percentile	0%
50th to 75th percentile	30% to 100% pro-rata	50th to 75th percentile	30% to 100% pro-rata
At 75th percentile	100%	At 75th percentile	100%

1. TSR measurement period is 20 August 2015 to the date of the release of Nanosonics' FY18 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 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.

Directors' report (continued)

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 was made to Mr Kavanagh in respect of the 2014 LTIS.

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

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.

4.4.2.2 Other Executive KMP Long Term Incentives

Details of the vesting conditions associated with the Performance Rights granted to other Executive KMP in respect of the 2015, 2014 and 2013 Long Term Incentive Schemes are summarised below.

Other Executive KMP 2015 Long Term Incentive Scheme (2015 LTIS)

2018 Performance Conditions

Ranking of TSR vs. 2013 LTIS Comparator Group[1]		**Ranking of TSR vs. 2015 LTIS Comparator Group 2[1]**	
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%	< 50th percentile	0%
50th to 75th percentile	30% to 100% pro-rata	50th to 75th percentile	30% to 100% pro-rata
At 75th percentile	100%	At 75th percentile	100%

1. TSR measurement period is 20 August 2015 to the date of the release of Nanosonics' FY18 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 2014 Long Term Incentive Scheme (2014 LTIS)

2017 Performance Conditions

Ranking of TSR vs. 2014 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%	<$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' 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.

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

2016 Performance Conditions

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%	<$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' 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.

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 2016 STI awarded are set out in the table below:

Executive KMP	Position	Maximum STI % of 2016 TFR[1]	STI awarded as a % of potential[1]	Cash STI award in 2016 ($)[2]	Deferred equity STI award ($)[3]	% Forfeited[4]
Michael Kavanagh	CEO/President, Managing Director	46.4%	100.0%	112,923	112,923	–
Ron Weinberger	President, Technology Development/ Commercialisation	25.0%	95.0%	44,175	44,175	5.0%
McGregor Grant	CFO/Company Secretary	27.3%	98.0%	46,414	46,415	2.0%
Gerard Putt	Chief Operations Officer	29.8%	97.5%	37,848	37,849	2.5%

1. Relates to STI % both cash and deferred equity opportunity. The deferred equity will be awarded in the following year.

2. These amounts were finally determined on 2 August 2016 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 and relate to individual performance goals.

Short Term Incentives have been accrued in respect of the 2016 financial year because the performance conditions set by the Board have been met. The Board considers that the performance and accomplishments of the organisation for the 2016 Financial Year well exceeded the Board's expectation. Accordingly, the Executive KMP achieved at or close to the maximum of their annual incentive opportunity.

Directors' report (continued)

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, 2013, 2014, 2015 and 2016 is set out below.

Financial year	**Revenue $'000**
2016	42,796
2015	22,214
2014	21,492
2013	14,899

The revenue target under the 2013 LTIS has been achieved at 100%. In respect of the 2014 LTIS, Nanosonics would have to achieve an increase in revenue (2016 base year) of 16% 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 the 2013 LTI and 2014 LTI awards measures NAN's TSR against a selected group of comparator companies, as summarised below:

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		

The relative TSR for the 2015 LTI award measures NAN's TSR against two selected comparator groups, as summarised below:

2015 LTIS comparator group 1

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

2015 LTIS comparator group 2

The 2015 LTIS Comparator Group 2 is comprised of companies included in the S&P/ASX 300, but not in the S&P/ASX 100 Index and excludes companies in the following sectors:

- Materials (primarily resource companies);
- Energy;
- Utilities;
- Industrials;
- Telecommunications; and
- Consumer indexes.

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
	Year	Salary and fees ($)	Non-monetary benefits ($)	Other ($)	Superannuation ($)	Other long term benefits ($)	($)	Cash bonus[3] ($)	Options and performance rights[4] ($)	($)	($)	%
Executive Directors												
Michael Kavanagh	**2016**	**430,845**	**–**	**–**	**19,308**	**37,107**	**487,260**	**112,923**	**580,863**	**693,786**	**1,181,046**	**59%**
	2015	395,477	–	–	18,783	31,863	446,123	68,467	439,823	508,290	954,413	53%
Ron Weinberger	**2016**	**309,529**	**11,180**	**–**	**20,917**	**29,964**	**371,590**	**46,500**	**205,181**	**251,681**	**623,271**	**40%**
	2015	279,001	25,710	–	18,783	32,336	355,830	38,750	109,982	148,732	504,562	29%
McGregor Grant[1]	**2016**	**283,031**	**–**	**37**	**19,308**	**44,640**	**347,016**	**47,361**	**174,250**	**221,611**	**568,627**	**39%**
	2015	292,652	–	–	18,783	23,906	335,341	38,318	101,273	139,591	474,932	26%
Gerard Putt[2]	**2016**	**212,549**	**–**	**264**	**19,308**	**28,592**	**260,713**	**38,818**	**141,255**	**180,073**	**440,786**	**41%**
	2015	234,375	–	–	18,783	33,196	286,354	31,255	72,661	103,916	390,270	25%
Total	**2016**	**1,235,954**	**11,180**	**301**	**78,841**	**140,303**	**1,466,579**	**245,602**	**1,101,549**	**1,347,151**	**2,813,730**	**48%**
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. 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 in 2015.
2. 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 in 2015.
3. 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.
4. 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.

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.

		Fixed remuneration and cash incentive received		Past at-risk remuneration received	Actual remuneration received during year	Future at risk remuneration received during year	
	Year	Fixed remuneration ($)[1]	Incentives ($)[2]	Value of performance rights ($)[3]	($)	STI (deferred as equity) ($)[4]	LTI (Equity) granted ($)[4]
Michael Kavanagh	**2016**	**471,000**	**108,467**	**96,465**	**675,932**	**75,696**	**260,671**
	2015	429,999	65,305	–	495,304	121,231	–
Ron Weinberger	**2016**	**348,622**	**38,750**	**72,533**	**459,905**	**42,842**	**89,450**
	2015	354,494	49,104	–	403,598	91,155	154,371
McGregor Grant	**2016**	**335,087**	**38,318**	**52,810**	**426,215**	**42,364**	**91,108**
	2015	325,329	35,751	136,666	497,746	66,368	110,664
Gerard Putt	**2016**	**254,944**	**31,255**	**39,220**	**325,419**	**34,556**	**74,674**
	2015	266,735	26,551	54,666	347,952	49,289	91,314
Total	**2016**	**1,409,653**	**216,790**	**261,028**	**1,887,471**	**195,458**	**515,903**
	2015	1,376,557	176,711	191,332	1,744,600	328,043	356,349

1. Base salary, superannuation, non-monetary, and other cash benefits received during the year (excludes annual leave and long service leave accrual).
2. STI received as cash in respect of the previous Financial Year. The incentive paid to the CEO and President in 2016 includes a payment of $40,000 that was made at the discretion of the Board in respect of the 2015 Financial Year.
3. Intrinsic value at vesting date of options and performance rights issued in previous periods that vested during the year.
4. 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

1. This section provides:
2. A description of the Employee Share Schemes (ESS) Nanosonics uses to provide equity rewards to Nanosonics employees.
3. Disclosures required in relation to ESS grants provided to KMP.
4. Disclosures required about ESS instruments that Nanosonics has issued.
5. 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, 1,277,719 shares (from the exercise of ESOP options) have been issued to the Plan. As at the date of this report 1,010,585 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, 5,128,537 options have been issued, 3,107,719 options exercised, and 2,219,853 options lapsed. As at the date of this report 4,253,250 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, 735,000 options exercised and 50,000 options lapsed. There have been no new issues. As at the date of this report 30,000 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 2016 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 ($)	2017	2018	2019
Michael Kavanagh	2015 LTIS Tranche 1	Jan-16	30-Sep-18	$0.00	103,441		-			-	103,441	226,536			103,441
	2015 LTIS Tranche 2	Jan-16	30-Sep-18	$0.00	103,441		-			-	103,441	226,536			103,441
	2015 Deferred STI	Nov-15	01-Oct-16	$0.00	48,061		-			-	48,061	105,254	48,061		
	2014 Deferred STI	Mar-15	01-Oct-15	$0.00	70,479	70,479	100%	70,479	-	-	-	-			
	2013 LTIS Tranche 1	Nov-13	30-Sep-16	$0.00	375,000	-	-	-	-	-	375,000	821,250	375,000		
	2013 LTIS Tranche 2	Nov-13	30-Sep-16	$0.00	375,000	-	-	-	-	-	375,000	821,250	375,000		
	2013 LTIS Tranche 3	Nov-13	30-Sep-17	$0.00	375,000	-	-	-	-	-	375,000	821,250		375,000	
	2013 LTIS Tranche 4	Nov-13	30-Sep-17	$0.00	375,000	-	-	-	-	-	375,000	821,250		375,000	
Ron Weinberger	2015 LTIS Tranche 1	Jan-16	30-Sep-18	$0.00	35,496		-			-	35,496	77,736			35,496
	2015 LTIS Tranche 2	Jan-16	30-Sep-18	$0.00	35,496		-			-	35,496	77,736			35,496
	2015 Deferred STI	Nov-15	01-Oct-16	$0.00	27,201		-			-	27,201	59,570	27,201		
	2014 Deferred STI	Mar-15	01-Oct-15	$0.00	52,994	52,994	100%	52,994	-	-	-	-			
	2014 LTIS Tranche 1	Mar-15	30-Sep-17	$0.00	50,276	-	-	-	-	-	50,276	110,104		50,276	
	2014 LTIS Tranche 2	Mar-15	30-Sep-17	$0.00	50,275	-	-	-	-	-	50,275	110,102		50,275	
	2013 LTIS Tranche 1	Nov-13	30-Sep-16	$0.00	67,409	-	-	-	-	-	67,409	147,626	67,409		
	2013 LTIS Tranche 2	Nov-13	30-Sep-16	$0.00	67,409	-	-	-	-	-	67,409	147,626	67,409		
	2012 LTIS[1]	Nov-12	30-Sep-15	$0.00	1,220,000	-	-	-	1,220,000	100%	-	-			
McGregor Grant	2015 LTIS Tranche 1	Jan-16	30-Sep-18	$0.00	36,154		-			-	36,154	79,177			36,154
	2015 LTIS Tranche 2	Jan-16	30-Sep-18	$0.00	36,154		-			-	36,154	79,177			36,154
	2015 Deferred STI	Nov-15	01-Oct-16	$0.00	26,898		-			-	26,898	58,907	26,898		
	2014 Deferred STI	Mar-15	01-Oct-15	$0.00	38,584	38,584	100%	38,584	-	-	-	-			
	2014 LTIS Tranche 1	Mar-15	30-Sep-17	$0.00	36,041	-	-	-	-	-	36,041	78,930		36,041	
	2014 LTIS Tranche 2	Mar-15	30-Sep-17	$0.00	36,041	-	-	-	-	-	36,041	78,930		36,041	
	2013 LTIS Tranche 1	Mar-14	30-Sep-16	$0.00	47,888	-	-	-	-	-	47,888	104,875	47,888		
	2013 LTIS Tranche 2	Mar-14	30-Sep-16	$0.00	47,889	-	-	-	-	-	47,889	104,877	47,889		
	2012 LTIS[1]	Aug-13	30-Sep-15	$0.00	145,307	-	-	-	145,307	100%	-	-			
Gerard Putt	2015 LTIS Tranche 1	Jan-16	30-Sep-18	$0.00	29,632		-			-	29,632	64,894			29,632
	2015 LTIS Tranche 2	Jan-16	30-Sep-18	$0.00	29,633		-			-	29,633	64,896			29,633
	2015 Deferred STI	Nov-15	01-Oct-16	$0.00	21,940		-			-	21,940	48,049	21,940		
	2014 Deferred STI	Mar-15	01-Oct-15	$0.00	28,655	28,655	100%	28,655	-	-	-	-			
	2014 LTIS Tranche 1	Mar-15	30-Sep-17	$0.00	29,739	-	-	-	-	-	29,739	65,128		29,739	
	2014 LTIS Tranche 2	Mar-15	30-Sep-17	$0.00	29,739	-	-	-	-	-	29,739	65,128		29,739	
	2013 LTIS Tranche 1	Mar-14	30-Sep-16	$0.00	39,514	-	-	-	-	-	39,514	86,536	39,514		
	2013 LTIS Tranche 2	Mar-14	30-Sep-16	$0.00	39,515	-	-	-	-	-	39,515	86,538	39,515		
	2012 LTIS[1]	Aug-13	30-Sep-15	$0.00	119,898	-	-	-	119,898	100%	-	-			

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

5.2.2 Exercise of options granted as remuneration

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

	Number of shares	Amount paid per share ($)	Total amount paid ($)	Intrinsic value[1] ($)
Michael Kavanagh	70,479	–	–	96,465
Ron Weinberger	52,994	–	–	72,533
McGregor Grant	38,584	–	–	52,810
Gerard Putt	28,655	–	–	39,220
Total	**190,712**	**–**	**–**	**261,028**

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

There are no amounts unpaid on the shares issued as a result of the exercise of the options in 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	1,570,479	1,280,169	254,943	336,367	70,479	96,465	-	-	1,754,943	1,495,305
Ron Weinberger	1,508,363	1,019,614	98,193	132,291	52,994	72,533	1,220,000	671,000	333,562	389,751
McGregor Grant	351,750	358,934	99,206	133,472	38,584	52,810	145,307	113,339	267,065	312,698
Gerard Putt	287,060	290,696	81,205	109,229	28,655	39,220	119,898	93,520	219,712	257,116
Total	**3,717,652**	**2,949,413**	**533,547**	**711,359**	**190,712**	**261,028**	**1,485,205**	**877,859**	**2,575,282**	**2,454,870**

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.

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.

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 2016, 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($)
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 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
2015 Deferred STI	Service	Nov-15	01-Oct-16	1.58	–	Binomial	49.58%	2.11%	1.58
2015 LTIS Tranche 1 – CEO & KMP	Relative TSR performance and service	Jan-16	30-Sep-18	1.67	–	Monte Carlo	37.50%	2.00%	1.46
2015 LTIS Tranche 2 – CEO & KMP	Relative TSR performance and service	Jan-16	30-Sep-18	1.67	–	Monte Carlo	37.50%	2.00%	1.06

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 2016	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	22,599,701	–	49,493,345
Richard England	128,301	–	280,979
David Fisher	503,940	–	1,103,629
Executive Directors			
Michael Kavanagh	220,479	1,754,943	4,326,174
Ron Weinberger	104,994	333,562	960,438
Other Executive KMP			
McGregor Grant	633,584	267,065	1,972,421
Gerard Putt	128,751	219,712	763,134

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 2016 times the number of shares.
3. The intrinsic value of options calculated as at the closing NAN price on 30 June 2016 less the applicable exercise price times the number of options.

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	22,599,701	–
Richard England	128,301	–
David Fisher	503,940	–
Steven Sargent	66,000	–
Executive Directors		
Michael Kavanagh	220,479	1,754,943
Ron Weinberger	104,994	333,562
Other Executive KMP		
McGregor Grant	633,584	267,065
Gerard Putt	128,751	219,712

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	25,099,701	–	(2,500,000)	22,599,701
Richard England	128,301	–	–	128,301
David Fisher	953,940	–	(450,000)	503,940
Executive Directors				
Michael Kavanagh	150,000	70,479	–	220,479
Ron Weinberger	52,000	52,994	–	104,994
Other Executive KMP				
McGregor Grant[1]	645,578	38,584	(50,578)	633,584
Gerard Putt[1]	100,096	28,655	–	128,751

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

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	$520,000 p.a., inclusive of superannuation and reviewed annually.
Short-term Incentive	50% of Base Salary.
Long-term Incentive	60% of Base Salary. LTI arrangements in respect of 2013, 2014 and 2015 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.

7.0 Key Management Personnel transaction

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 2016 (2015: Nil).

7.2 Other transactions with KMP

Certain directors and KMP, or their personally-related entities (Related Parties), hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company in the 2015 and 2016 Financial Years. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with unrelated entities on an arms-length basis.

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

The following transactions occurred with entities controlled by Related Parties:

	2016 $	2015 $
Sale of products and services to Related Parties	**1,821,765**	1,748,033
Purchases of goods and services from Related Parties	**210,697**	344,923
Rent of premises and equipment from Related Parties and make good payments	**210,079**	177,093

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

	2016 $	2015 $
Current trade receivables (supply of goods and services)	**639,133**	501,246
Current trade payables (purchases of goods and services)	**–**	3,743

Indemnifying officers or auditor

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

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

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

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

Proceedings on behalf of the Company

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

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

Rounding

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

Non-audit services

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

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

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

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

The auditor of the Group, UHY Haines Norton 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 50 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 15 to 16), is made and signed in accordance with a resolution of directors, pursuant to section 298 (2)(a) of the *Corporations Act 2001*, on 17 August 2016.

Richard England
Director
Sydney
17 August 2016

Contents of the financial statements

For the year ended 30 June 2016

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

As auditor for the audit of Nanosonics Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

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

M Nicholaeff

UHY Haines Norton

Mark Nicholaeff
Partner

UHY Haines Norton
Chartered Accountants

Sydney
17 August 2016

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Sale of goods and services	2.1	42,796	22,214
Cost of sales		(10,630)	(6,901)
Gross profit		32,166	15,313
Selling and general expenses		(17,943)	(11,947)
Administration expenses		(7,418)	(6,567)
Research and development expenses		(7,297)	(4,902)
Other income	2.3	133	2,308
Results from operating activities		(359)	(5,795)
Finance income – interest		1,098	928
Finance expense – borrowing costs		(603)	(598)
Net finance income		495	330
Operating income/(loss) before income tax		136	(5,465)
Income tax benefit/(expense)	3.1	(14)	5
Net income/(loss) after income tax expense attributable to owners of the parent entity		122	(5,460)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on foreign currency translation		205	14
Income tax on items of other comprehensive income		–	–
Total items that may be reclassified subsequently to profit or loss		205	14
Total other comprehensive income		205	14
Total comprehensive income/(loss) for the period attributable to owners of the parent entity		327	(5,446)
Earnings/(loss) per share for losses attributable to ordinary shareholders of the company:		Cents	Cents
Basic earnings/(loss) per share	2.4 (a)	0.04	(2.03)
Diluted earnings/(loss) per share	2.4 (b)	0.04	(2.03)

The notes on pages 55 to 84 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 30 June 2016

	Notes	2016 $'000	2015 $'000
ASSETS			
Current assets			
Cash and cash equivalents	5.1	48,841	45,724
Trade and other receivables	5.2	7,734	3,871
Inventories	6.1	6,935	6,209
Derivative financial instruments	5.3	35	–
Prepayments and other current assets		1,050	636
Total current assets		64,595	56,440
Non-current assets			
Property, plant and equipment	6.2	3,304	3,568
Intangible assets	6.3	260	207
Other non-current assets		10	150
Total non-current assets		3,574	3,925
Total assets		68,169	60,365
LIABILITIES			
Current liabilities			
Trade and other payables	5.4	4,617	2,725
Deferred revenue		989	443
Employee benefit liabilities	4.2	2,238	1,823
Provisions	6.4	643	1,498
Borrowings	5.5	395	8,700
Total current liabilities		8,882	15,189
Non-current liabilities			
Trade and other payables	5.4	252	238
Deferred revenue		747	–
Employee benefit liabilities	4.2	205	181
Provisions	6.4	70	70
Borrowings	5.5	1,349	11
Total non-current liabilities		2,623	500
Total liabilities		11,505	15,689
Net assets		56,664	44,676
EQUITY			
Contributed equity	8.1(a)	112,698	103,059
Option premium on convertible notes	5.3(b)	–	376
Reserves		7,346	4,743
Accumulated losses		(63,380)	(63,502)
Total equity		56,664	44,676

The notes on pages 55 to 84 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2016

	Contributed equity	Option premium on convertible note	Reserves: Share-based payments	Reserves: Foreign currency translation	Reserves: Total reserves	Accumulated losses	Total equity
	Note 8.1(a) $'000	Note 5.3(b) $'000	$'000	$'000	$'000	$'000	$'000
At 30 June 2014	74,410	376	3,671	20	3,691	(58,042)	20,435
Loss for the period	–	–	–	–	–	(5,460)	(5,460)
Other comprehensive income	–	–	–	14	14	–	14
Total comprehensive income/(loss)	–	–	–	14	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	–	1,038	–	2,649
At 30 June 2015	103,059	376	4,709	34	4,743	(63,502)	44,676
Loss for the period	–	–	–	–	–	**122**	**122**
Other comprehensive income	–	–	–	**205**	**205**	**-**	**205**
Total comprehensive income/(loss)	–	–	–	**205**	**205**	**122**	**327**
Transactions with owners in their capacity as owners							
Shares issued	**9,601**	**(376)**	**–**	**–**	**–**	**–**	**9,225**
Transaction costs	**(28)**	**–**	**–**	**–**	**–**	**–**	**(28)**
Share-based payment	**66**	**–**	**2,398**	**–**	**2,398**	**–**	**2,464**
At 30 June 2016	**112,698**	**–**	**7,107**	**239**	**7,346**	**(63,380)**	**56,664**

The notes on pages 55 to 84 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**41,243**	26,873
Receipts from government grants		**120**	119
Payments to suppliers and employees (inclusive of GST)		**(39,138)**	(30,265)
Interest received		**1,004**	837
Income taxes refunded/(paid)		**(5)**	15
Net cash provided by/(used in) operating activities	**5.1(b)**	**3,224**	(2,421)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,087)**	(2,135)
Purchase of intangible assets		**(217)**	(176)
Proceeds from disposal of property, plant and equipment		**23**	–
Net cash used in investing activities		**(1,281)**	(2,311)
Cash flow from financing activities			
Proceeds from issue of shares		**66**	28,000
Share issue costs		**(27)**	(962)
Proceeds from exercise of options		**–**	1,611
Proceeds from borrowings		**2,048**	–
Repayments of borrowings		**(322)**	(8)
Interest paid on borrowings		**(71)**	–
Net cash provided by financing activities		**1,694**	28,641
Net increase in cash and cash equivalents		**3,637**	23,909
Cash at the beginning of the financial year		**45,724**	21,233
Effects of exchange rate changes on cash and cash equivalents		**(520)**	582
Cash and cash equivalents at the end of year	**5.1(a)**	**48,841**	45,724

The notes on pages 55 to 84 form an integral part of these consolidated financial statements.

Notes to the financial statements

For the year ended 30 June 2016

1. General accounting policies

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

1.1 Reporting entity

Nanosonics Limited (the Company or Parent Entity) is a publicly listed company, limited by shares, incorporated and domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as Nanosonics, the Group or the Consolidated Entity).

Nanosonics Limited is a for-profit entity for the purpose of preparing the financial statements. A description of the nature of the Group's operations and its principal activities is included in the review of operations on pages 6 to 11 and in the Directors' report on page 17, both of which are not part of this financial report.

1.2 Basis of preparation

(a) Statement of Compliance

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

The Board of directors approved the consolidated financial statements on 17 August 2016.

(b) Basis of measurement

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

(c) Basis of consolidation

Subsidiaries

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

Transactions eliminated on consolidation

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

(d) Functional and presentation currency

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

(e) Foreign currency

(i) Transactions and balances

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

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

(ii) Financial statements of foreign operations

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

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

- all resulting exchange differences are recognised in other comprehensive income - foreign currency translation reserve.

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

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

(f) Use of judgments and estimates

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

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

Note 3.2	Recognition of deferred tax assets
Note 4.2	Employee benefit liabilities
Note 4.3	Share-based payments
Note 6.4	Provisions
Note 7	Financial risk management

(g) Changes to the presentation of the financial statements and notes to the financial statements

The presentation of income and expenses shown in the consolidated statement of profit or loss and other comprehensive income has been changed from using a classification based on the nature of the income and expense items to a classification based on business function as it is considered that this provides information that is more relevant to the readers. The consolidated statement of profit or loss under the previous report presentation using a classification based on the nature of income and expense items is shown below:

	2016 $'000	2015 $'000
Sale of goods and services	**42,796**	22,214
Cost of sales	**(10,630)**	(6,901)
Gross profit	**32,166**	15,313
Other income	**1,231**	3,236
Operating expenses		
Staffing costs	**20,098**	13,906
Intellectual property	**474**	342
Quality & regulatory management	**349**	272
Business development	**2,981**	1,479
Premises, plant & equipment	**2,826**	2,885
External consultants & advisors	**2,707**	1,421
Other operating costs	**3,223**	3,111
Total operating expenses	**32,658**	23,416
Borrowing costs	**603**	598
Operating income/(loss) before income tax	**136**	(5,465)
Income tax benefit/(expense)	**(14)**	5
Net income/(loss) after income tax expense attributable to owners of the parent entity	**122**	(5,460)

Further, to make the financial statements and notes easier to understand, changes have been made to the location and wording used to describe certain accounting policies within the notes, certain sections have been reordered and immaterial disclosures removed. In applying materiality to financial statements, consideration was given to both the nature and amount of each item.

(h) Revenue recognition

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

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

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

(ii) Sale of services

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

(iii) Deferred revenue

Unearned service revenue is deferred and recognised as a liability in the consolidated statement of financial position.

Deferred revenue expected to be realised within twelve months after the reporting period is classified as current.

(iv) Interest income

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

(i) 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) Rounding

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

2. Performance for the year

2.1 Segment information

(i) Operating segment

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

(ii) Types of products and services

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

Notes to the financial statements (continued)

For the year ended 30 June 2016

(iii) Major customers

The Group has a number of customers to which it provides products and services. The most significant customer accounts for 55.2% (2015: 73.8%) of external revenue. The next most significant customer accounts for 8.0% of external revenue (2015: 7.9%).

(iv) Geographical information

Geographically, the Group operates in the global markets. Australia is the home country of the parent entity. Revenues are allocated based on the country in which the customer is located. Revenue from external customers by geographical location is detailed below.

	2016 $'000	2015 $'000
North America	**39,029**	17,663
Australia and New Zealand	**2,544**	2,282
Europe and other countries	**1,223**	2,269
Total revenue	**42,796**	22,214

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

	2016 $'000	2015 $'000
North America	**248**	127
Australia and New Zealand	**3,303**	3,768
Europe and other countries	**23**	30
Total assets	**3,574**	3,925

2.2 Individually significant items

The profit/(loss) from ordinary activities before income tax includes:

	2016 $'000	2015 $'000
Depreciation, amortisation and impairment	**1,322**	1,063
Research and development (R&D) costs	**7,297**	4,902
Rental expenses relating to operating leases	**895**	1,116
Bad debts provision	**9**	1
Inventories provision/write off	**195**	412
Loss on disposal of fixed assets	**4**	120
Unrealised (gain)/loss on foreign currency forward contracts	**(35)**	–
Realised loss on foreign currency forward contracts	**24**	496
Net foreign exchange losses/(gains)	**541**	(988)

2.3 Other income

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

	2016 $'000	2015 $'000
Government grants	**120**	119
Net foreign exchange gain on foreign currency forward contracts	**11**	–
Net foreign exchange gains	**–**	988
Other income	**2**	1,201
Total other income	**133**	2,308

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 government assistance.

Previous period other income included reimbursement of cost by a distributor of $1,200,000. The related costs were included in selling and general expenses.

2.4 Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

	2016 Cents	2015 Cents
(a) Basic earnings/(loss) per share		
Basic loss attributable to the ordinary equity holders of the company	0.04	(2.03)
(b) Diluted earnings/(loss) per share		
Diluted earnings/(loss) attributable to the ordinary equity holders of the company	0.04	(2.03)

	2016 $'000	2015 $'000
(c) Earnings/(losses) used in calculating EPS		
Net earnings/(losses) after income tax expense attributable to shareholders	122	(5,460)

	2016 Number	2015 Number
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	285,619,275	269,533,917
Adjustments for calculation of diluted earnings per share:		
Options and performance rights unvested	3,972,299	–[1]
Convertible notes	–	–[1]
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	289,591,574	269,533,917[1]

1. Options and performance rights granted under the ESOP and the GSOP and the Convertible notes are considered to be potential ordinary shares and have been excluded from the calculation of diluted loss per share in 2015 as the effect would have been anti-dilutive. These options and performance rights and convertible notes dilute basic earnings per share in 2016.

Notes to the financial statements (continued)

For the year ended 30 June 2016

2.5 Dividends

No dividends were proposed, declared or paid during the financial year and to the date of this report (2015: Nil).

3. Income taxes

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

3.1 Income tax expense

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

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

Reconciliation of income tax expense to prima facie tax payable

	2016 $'000	2015 $'000
Operating profit/(loss) from ordinary activities	**136**	(5,465)
The prima facie income tax (expense)/benefit applicable to the operating profit/(loss) is calculated at the Australian tax rate of 30% (2015: 30%)	**(41)**	1,640
Tax effect of amounts in calculating taxable income		
Other deductible items	**257**	4
Research and development expense	**(2,189)**	(1,471)
Other non-deductible expenses	**(723)**	(316)
Other temporary differences	**(315)**	(45)
Effect of tax rate in foreign jurisdictions	**(320)**	(166)
Sub-total	**(3,331)**	(354)
Utilisation/(derecognition) of deferred tax assets	**419**	(1,616)
Non-refundable current R&D tax offset	**2,919**	1,961
Adjustment in respect of current income tax of previous years	**(21)**	14
Income tax (expense)/ benefit	**(14)**	5

3.2 Deferred taxes

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.

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

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

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

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

	2016 $'000	2015 $'000
Unrecognised deferred tax assets include:		
Estimated tax losses carried forward (a)	**18,077**	17,061
Non-refundable R&D tax offset (b)	**–**	1,536
	18,077	18,597
(a) Estimated tax losses carried forward:		
Beginning of the year unrecognised tax losses carried forward	**56,423**	54,137
Adjustment in respect of unrecognised tax losses carried forward from previous year	**(354)**	(859)
Australian carried forward tax losses utilised	**(7,392)**	–
Tax losses for the year in foreign jurisdictions	**8,812**	3,145
Estimated tax losses carried forward at the end of the year	**57,489**	56,423

	2016 $'000	2015 $'000
(b) Estimated non-refundable R&D tax offset:		
Beginning of the year non-refundable R&D tax offset brought forward	**3,841**	3,438
Arose during the year	**7,297**	4,902
Utilised during the year	**(11,085)**	(3,727)
Adjustment in respect of non-refundable R&D tax offset carried forward from previous year	**(53)**	(772)
Estimated non-refundable R&D tax offset at the end of the year	**–**	3,841

4. Employee benefits

4.1 Staffing costs

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

	2016 $'000	2015 $'000
Salaries and wages	**15,713**	11,944
Superannuation and social security contribution	**1,515**	1,182
Workers compensation costs	**129**	96
Other employee benefits and staffing costs	**3,282**	2,520
Share based payments	**2,398**	1,038
Less : Staffing costs included in cost of sales	**(2,939)**	(2,874)
Total staffing costs	**20,098**	13,906

4.2 Employee benefit liabilities

(i) Wages, salaries and annual 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. The liability is calculated on remuneration rates as at the reporting date including related on-costs such as workers compensation insurance and payroll tax.

(ii) Long service leave

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

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

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

(iii) Bonuses

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

(iv) Termination benefits

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

Employee benefit liabilities as of the reporting date:

	2016			2015		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Provision for annual leave	**956**	**–**	**956**	856	–	856
Provision for long service leave	**272**	**205**	**477**	195	181	376
Provision for bonuses	**1,010**	**–**	**1,010**	772	–	772
Total employee benefit liabilities	**2,238**	**205**	**2,443**	1,823	181	2,004

4.3 Share based payments

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

(i) Share 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 at the 2013 Annual General Meeting 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.

Employee Share Option Plan

The ESOP is designed to provide the deferred equity component of the short-term incentive and long- term incentives for employees (including executive directors) to deliver long-term shareholder returns. All employees and directors are eligible to participate in the ESOP at the invitation of the Board. The maximum number of options able to be on issue under the ESOP during any five-year period is 5% of the total number of shares on issue. 1,446,710 share options were issued under the ESOP during the financial year (2015: 1,413,303 issued).

General Share Option Plan

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

No share options were issued under the GSOP during the financial year (2015: Nil issued).

(ii) 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 (iii) of this note.

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.

(iii) 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	
	2016		2015		**2016**		2015		**2016**	2015
	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	**5,537,356**	**–**	5,972,263	0.24	**156,667**	**0.51**	553,334	0.57	**5,694,023**	6,525,597
Granted during the year	**1,446,710**	**–**	1,413,303	–	**–**	**–**	–	–	**1,446,710**	1,413,303
Exercised during the year	**(597,253)**	**–**	(1,770,769)	0.79	**(126,667)**	**0.52**	(346,667)	0.60	**(723,920)**	(2,117,436)
Forfeited and lapsed during the year	**(2,133,563)**	**–**	(77,441)	–	**–**	**–**	(50,000)	0.52	**(2,133,563)**	(127,441)
Unexpired options as at 30 June	**4,253,250**	**–**	5,537,356	–	**30,000**	**0.51**	156,667	0.51	**4,283,250**	5,694,023

No options expired during the periods covered by the above table.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Option Plan	Exercise price ($)	Grant date	Assessed fair value at grant date ($)	Expiry date	Number at start of the year	Number granted during the year	Number exercised during the year	Number forfeited during the year	Number at end of the year	Number vested and exercisable at end of year
ESOP	0.00	Nov-12	0.55	30-Sep-15	1,220,000	–	–	(1,220,000)	–	–
GSOP	0.51	Nov-12	0.27	24-Nov-16	90,000	–	(60,000)	–	30,000	30,000
GSOP	0.52	Dec-12	0.20	21-Nov-16	66,667	–	(66,667)	–	–	–
ESOP	0.00	Aug-13	0.78	30-Sep-15	712,970	–	–	(712,970)	–	–
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	287,803	–	–	(38,693)	249,110	–
ESOP	0.00	Mar-14	0.80	30-Sep-16	287,814	–	–	(38,695)	249,119	–
ESOP	0.00	Jul-14	0.80	30-Jul-15	134,375	–	(134,375)	–	–	–
ESOP	0.00	Mar-15	1.36	30-Sep-17	394,622	–	–	(29,122)	365,500	–
ESOP	0.00	Mar-15	1.71	30-Sep-17	394,606	–	–	(29,121)	365,485	–
ESOP	0.00	Mar-15	1.72	01-Oct-15	470,348	–	(462,878)	(7,470)	–	–
ESOP	0.00	Nov-15	1.58	01-Oct-16	–	407,897	–	(19,955)	387,942	–
ESOP	0.00	Jan-16	1.46	30-Sep-18	–	519,399	–	(18,768)	500,631	–
ESOP	0.00	Jan-16	1.06	30-Sep-18	–	519,414	–	(18,769)	500,645	–
Total					**5,694,023**	**1,446,710**	**(723,920)**	**(2,133,563)**	**4,283,250**	**30,000**

(iv) Fair value of options and performance rights granted

The assessed fair value on the date options and performance rights 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.

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

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	Nov-15	1-Oct-16	1.58	Binomial	49.58%	0%	2.11%	1.58
ESOP	Relative TSR performance and service	0.00	Jan-16	30-Sep-18	1.67	Monte Carlo	37.50%	0%	2.00%	1.46
ESOP	Relative TSR performance and service	0.00	Jan-16	30-Sep-18	1.67	Monte Carlo	37.50%	0%	2.00%	1.06
Granted in prior periods and unexpired at report date:										
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
ESOP	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	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	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	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	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	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
ESOP	Relative TSR performance and service	0.00	Mar-15	30-Sep-17	1.72	Binomial	45.00%	0%	1.88%	1.36
ESOP	FY17 Revenue and service	0.00	Mar-15	30-Sep-17	1.72	Monte Carlo	45.00%	0%	1.88%	1.71

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

ESOP

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

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.

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

	2016 $'000	2015 $'000
Options issued under ESOP	**2,394**	1,025
Options issued under GSOP	**4**	13
	2,398	1,038

(vi) Employee share plans

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

The EESP and DESP were established in 2007 and last approved 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 DESP and the EESP in accordance with the *Corporations Act 2001*.

a) Deferred Employee Share Plan

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

b) Exempt Employee Share Plan

The EESP enables eligible employees, including directors, to acquire up to $1,000 worth of Nanosonics shares each year on a tax-exempt basis in accordance with enabling tax legislation.

c) Shares granted

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.

Recognition of expense of shares granted

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.

During the financial year there were no shares directly granted under the DESP (2015: Nil)

Share issued on the exercise of zero-priced performance rights 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.

Shares on issue under employee share plans

	DESP		EESP		All Share Plans	
Number of Shares	**2016**	2015	**2016**	2015	**2016**	2015
Employee Shares on issue as at 1 July	**715,366**	1,125,469	**–**	**–**	**715,366**	1,125,469
Granted during the year	**–**	–	**–**	–	**–**	–
Issued on exercise of zero-priced options during the year	**597,253**	6,769	**–**	–	**597,253**	6,769
Issued on share purchase plan allotment during the year	**–**	–	**–**	–	**–**	–
Withdrawn during the year	**(302,034)**	(416,872)	**–**	–	**(302,034)**	(416,872)
Forfeited during the year	**–**	–	**–**	–	**–**	–
Employee Shares on issue as at 30 June	**1,010,585**	715,366	**–**	**–**	**1,010,585**	715,366

5. Financial assets and financial liabilities

5.1 Cash and cash equivalents

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

(i) Cash and cash equivalents

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

	2016 $'000	2015 $'000
Cash at bank and on hand	**16,591**	1,886
Deposit on call	**750**	2,138
Short term deposits	**31,500**	41,700
Total cash and cash equivalents	**48,841**	45,724

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

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

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

	2016 $'000	2015 $'000
Operating profit/(loss) after income tax	**122**	(5,460)
Adjustments for:		
Depreciation, amortisation, and impairment	**1,322**	1,063
Share based payments expense	**2,398**	1,038
Borrowing costs	**603**	598
Unrealised foreign exchange (gains)/losses	**896**	121
Loss on disposal of fixed assets	**4**	120
Changes in assets and liabilities		
(Increase)/decrease in derivative financial instruments	**(35)**	–
(Increase)/decrease in trade and other receivables	**(4,075)**	1,873
(Increase)/decrease in inventories	**(965)**	(2,832)
(Increase)/decrease in other current assets	**(416)**	(205)
(Increase)/decrease in other non-current assets	**140**	(6)
Increase/(decrease) in trade and other payables	**2,286**	343
Increase/(decrease) in deferred revenue	**1,334**	134
Increase/(decrese) in employee benefit liabilities	**456**	290
Increase /(decrease) in provisions	**(855)**	493
(Increase) / decrease in net current tax assets	**9**	9
Net cash provided by/(used in) operating activities	**3,224**	(2,421)

(iii) Credit standby arrangements unused

	2016 $'000	2015 $'000
Facility limits:		
Borrowing facilities	**2,115**	115
Guarantee facility	**475**	475
Facility remaining available:		
Borrowing facilities	**365**	94
Guarantee facility	**14**	178

5.2 Trade and other receivables

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

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

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

	2016 $'000	2015 $'000
Trade receivables net of allowance for impairment loss	**7,092**	3,417
GST/VAT receivable	**286**	229
Interest and other receivables	**356**	225
Total trade and other receivables	**7,734**	3,871

Further information relating to loans to related parties and key management personnel is set out in note 9.2.

5.3 Derivative financial instruments – foreign currency forward contracts

The Group uses derivative financial instruments (foreign currency forward 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 profit and loss statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

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

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

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

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

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

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

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

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

As at 30 June 2016, the Group holds foreign currency forward contracts carried at fair value of $35,000 (2015: Nil).

5.4 Trade and other payables

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

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

	2016			2015		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Trade payables	**2,586**	**–**	**2,586**	1,034	–	1,034
Lease straight-lining liability	**10**	**252**	**262**	–	238	238
Other payables	**2,021**	**–**	**2,021**	1,691	–	1,691
Total trade and other payables	**4,617**	**252**	**4,869**	2,725	238	2,963

5.5 Borrowings

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

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

	2016			2015		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Finance leases - secured (Note (a))	**395**	**1,349**	**1,744**	7	11	18
Convertible notes - unsecured (Note (b))	**–**	**–**	**–**	8,693	–	8,693
Total borrowings	**395**	**1,349**	**1,744**	8,700	11	8,711

(a) Finance leases

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

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

	2016		2015	
	Minimum payments $000	**Present value of payments $'000**	Minimum payments $'000	Present value of payments $'000
Within one year	**472**	**395**	8	7
After one year but not more than 5 years	**1,460**	**1,349**	11	11
Total minimum lease payments	**1,932**	**1,744**	19	18
Less future finance charges	**188**	**–**	1	-
Present value of minimum lease payments	**1,744**	**1,744**	18	18

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

(b) 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. The carrying value of the convertible note approximates its fair value.

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

	2016 $'000	2015 $'000
Face value of notes issued	**–**	7,500
Option premium on convertibles notes	**–**	(376)
	–	7,124
Accumulated interest expense[1]	**–**	1,569
Liability	**–**	8,693

1. Interest expense is calculated by applying the effective interest rate of 7.364% to the liability component.

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 accrued 6% interest per annum on a simple interest basis calculated on each anniversary of issue date and were able to be converted at any time up until the maturity date at $0.75 per share, subject to certain adjustments. The noteholder elected to have all accrued interest form part of the face value of the note.

On 20 April 2016, the noteholder exercised its right to redeem the convertible notes. As a result, 12, 299,726 shares were issued on 28 April 2016 in accordance with the terms of the Convertible Note Deed Poll.

6. Operating assets and liabilities

6.1 Inventories

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

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

	2016 $'000	2015 $'000
Raw materials and stores	**2,608**	2,822
Work in progress	**832**	831
Finished goods	**3,495**	2,556
Total inventories	**6,935**	6,209

Inventories recognised as an expense (cost of sales) during the year ended 30 June 2016 amounted to $9,796,000 (2015: $5,671,000).

Write-downs of inventories during the year ended 30 June 2016 amounted to $195,000 (2015:$412,000). The expense has been included in selling and general expenses in the profit and loss statement.

6.2 Property, plant and equipment

(i) Owned assets

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

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

(ii) Leased assets

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

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

(iii) Depreciation

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

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

(iv) Impairment

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

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

Total property, plant and equipment at net book value

	Leasehold improvements $'000	Plant and equipment $'000	Capital work in progress $'000	Total $'000
Year ended 30 June 2015				
Opening net book amount	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 amount at 30 June 2015	2,032	1,360	176	3,568
At 30 June 2015				
Cost	2,059	4,250	176	6,485
Impairment	–	(92)	–	(92)
Accumulated depreciation	(27)	(2,798)	–	(2,825)
Net book amount at 30 June 2015	2,032	1,360	176	3,568
Year ended 30 June 2016				
Opening net book amount	**2,032**	**1,360**	**176**	**3,568**
Additions	**335**	**655**	**14**	**1,004**
Retirement and others	**–**	**(105)**	**–**	**(105)**
Impairment	**–**	**–**	**–**	**–**
Depreciation charge	**(378)**	**(785)**	**–**	**(1,163)**
Foreign currency translation effect (net)	**–**	**3**	**(3)**	**–**
Closing net book amount at 30 June 2016	**1,989**	**1,128**	**187**	**3,304**
At 30 June 2016				
Cost or fair value	**2,393**	**4,619**	**187**	**7,199**
Impairment	**–**	**(9)**	**–**	**(9)**
Accumulated depreciation	**(404)**	**(3,482)**	**–**	**(3,886)**
Net book amount at 30 June 2016	**1,989**	**1,128**	**187**	**3,304**

6.3 Intangible assets

(i) Research and development

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

(ii) Patents and Trademarks

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

(iii) ERP system and computer software

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

(iv) Amortisation

Amortisation is calculated to expense the cost of the intangible assets less its estimated residual values on a straight line basis over their estimated useful lives. The estimated useful lives for the current and comparative years are as follows: development costs five years and ERP system three years.
Amortisation is recognised in the profit and loss statement from the date the asset is available for use unless their lives are indefinite. Intangible assets with an indefinite useful live are systematically tested for impairment annually.

(v) Impairment

Intangible assets are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. No impairment of intangibles were assessed during the period (2015: Nil)

	Development costs $'000	ERP and computer software $'000	Total $'000
Year ended 30 June 2015			
Opening net book amount	–	137	137
Additions	–	176	176
Amortisation	–	(106)	(106)
Closing net book amount at 30 June 2015	–	207	207
At 30 June 2015			
Cost	201	1,055	1,256
Accumulated depreciation	(201)	(848)	(1,049)
Net book amount at 30 June 2015	–	207	207
Year ended 30 June 2016			
Opening net book amount	**–**	**207**	**207**
Additions	**–**	**217**	**217**
Amortisation	**–**	**(159)**	**(159)**
Foreign currency translation effect (net)	**–**	**(5)**	**(5)**
Closing net book amount at 30 June 2016	**–**	**260**	**260**
At 30 June 2016			
Cost or fair value	**201**	**1,267**	**1,468**
Accumulated depreciation	**(201)**	**(1,007)**	**(1,208)**
Net book amount at 30 June 2016	**–**	**260**	**260**

6.4 Provisions

(i) General

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used 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.

(ii) Provision for warranty

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

(iii) Provision for make good

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

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

(iv) Provision for onerous contracts

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

a. Provisions as at the reporting date follows:

	2016			2015		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Provision for warranty	**643**	**–**	**643**	1,004	–	1,004
Make good provision	**–**	**70**	**70**	382	70	452
Onerous lease	**–**	**–**	**–**	112	–	112
Total provisions	**643**	**70**	**713**	1,498	70	1,568

b. Movements in provisions

	Provision for warranty $'000	**Make good provision $'000**	**Onerous Lease $'000**	**Total $'000**
Carrying amount at start of year	1,004	452	112	**1,568**
Additional provision recognised	383	–	–	**383**
Amounts used during the year	(346)	(382)	(112)	**(840)**
Unused amount reversed during the year	(398)	–	–	**(398)**
Carrying amount at end of year	**643**	**70**	**–**	**713**

7. Financial risk management

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

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

(a) Market risk

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

(i) Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or 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.

Exposure

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

	2016			2015		
	USD $'000	GBP $'000	Euro $'000	USD $'000	GBP $'000	Euro $'000
Cash and cash equivalents	7,371	231	18	391	209	–
Trade and other receivables	1,721	135	100	651	200	100
Trade and other payables	(784)	(14)	–	(385)	(26)	(47)
Total exposure	8,308	352	118	657	383	53

Sensitivity

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

	Change in USD 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	Change in EUR rate	Effect on profit before tax and other comprehensive income €'000
2016	3%	641	3%	32	3%	2
	-10%	(2,136)	-6%	(64)	-6%	(5)
2015	3%	149	3%	13	3%	2
	-10%	(498)	-6%	(25)	-8%	(7)

Profit is more sensitive to movements in the Australian dollar/US dollar exchange rates in 2016 than 2015 because of the increased amount of US dollar denominated sales, trade receivables and bank balances. The sensitivity analysis above takes into account foreign currency denominated intercompany receivables and payables which do not form part of a net investment in foreign operations as although intercompany balances are eliminated in the consolidated balance sheet, the effect on profit or loss of their revaluation is not fully eliminated. The group's exposure to other foreign exchange movements is not material.

(ii) Interest rate risk

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

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

2016	**Notes**	**Floating interest rate $'000**	**Fixed interest rate maturing in: 1 year or less $'000**	**Over 1 to 5 years $'000**	**More than 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Financial assets							
Cash and cash equivalents	5.1	**17,341**	**31,500**	**–**	**–**	**–**	**48,841**
Trade and other receivables	5.2	**–**	**–**	**–**	**–**	**7,734**	**7,734**
Derivative financial instruments	5.3	**–**	**–**	**–**	**–**	**35**	**35**
Total financial assets		**17,341**	**31,500**	**–**	**–**	**7,769**	**56,610**
Weighted average interest rate		**0.11%**	**3.03%**	**–**	**–**	**–**	**–**
Financial liabilities							
Trade and other payables	5.4	**–**	**–**	**–**	**–**	**4,869**	**4,869**
Borrowings	5.5	**–**	**395**	**1,349**	**–**	**–**	**1,744**
Total financial liabilities		**–**	**395**	**1,349**	**–**	**4,869**	**6,613**
Weighted average interest rate		**–**	**5.01%**	**4.92%**	**–**	**–**	**–**
Net financial assets (liabilities)		**17,341**	**31,105**	**(1,349)**	**–**	**2,900**	**49,997**

2015	**Notes**	**Floating interest rate $'000**	**Fixed interest rate maturing in: 1 year or less $'000**	**Over 1 to 5 years $'000**	**More than 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Financial assets							
Cash and cash equivalents	5.1	15,524	30,200	–	–	–	45,724
Trade and other receivables	5.2	–	–	–	–	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	5.4	–	–	–	–	2,963	2,963
Borrowings	5.5	–	8,700	11	–	–	8,711
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

Sensitivity

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

	Impact on pre-tax profit	
	2016 $'000	2015 $'000
Interest rates – increase by 25 basis points (25 bps)	**118**	84
Interest rates – decrease by 25 basis points (25 bps)	**(118)**	(84)

(b) Credit risk

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

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

	2016 $'000	2015 $'000
North America	**5,617**	2,247
Australia and New Zealand	**872**	629
Europe and other countries	**603**	541
	7,092	3,417

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

	2016 $'000	2015 $'000
Distributors	**3,457**	1,908
End-user customers	**3,635**	1,509
	7,092	3,417

As of 30 June 2016, GE Healthcare Group and Regional Healthcare Group, combined, accounted for over 44% of the trade receivables (2015: GE Healthcare Group and Regional Healthcare Group, combined, accounted for over 41% of the trade receivables).

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

(i) Risk management

Credit risk is managed on a group basis. The Group invests only in deposits and floating rate notes offered by Australia's four main banks.

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

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

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

(ii) Credit quality

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

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

	2016 $'000	2015 $'000
External financial ratings at least 1A from Dun & Bradstreet	**2,163**	1,139
Covered by credit insurance	**1,834**	905
Other customers:		
Four or more years trading history with the Group	**554**	523
Less than four years of trading history with the Group	**51**	85
	4,602	2,652

Impaired trade receivables

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

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

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

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

As at 30 June 2016, trade receivables with a nominal value of $9,000 (2015: $5,000) were considered impaired.

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

	2016 $'000	2015 $'000
At 1 July	**5**	5
Provision for impairment recognised during the year	**9**	1
Receivables written off during the year as uncollectible	**(5)**	–
Unused amount reversed	**–**	(1)
At 30 June	**9**	5

Past due but not impaired

As at 30 June 2016, trade receivables of $2,490,000 (2015: $765,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The aging analysis of trade receivables is as follows:

	2016 $'000	2015 $'000
Neither past due nor impaired	**4,602**	2,652
Past due but not impaired		
< 30 days	**829**	692
30-60 days	**793**	72
>60 days	**868**	1
	7,092	3,417

(c) Liquidity risk

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

At the end of the reporting period the Group held short term deposits of $31,500,000 (2015: $41,700,000) that are expected to readily generate cash inflows for managing liquidity risk.

Maturities of financial liabilities

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

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

2016	**Less than 3 months $'000**	**3 to 12 months $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
At 30 June 2016					
Trade and other payables	**4,607**	**10**	**230**	**22**	**4,869**
Borrowings	**96**	**299**	**1,349**	**–**	**1,744**
Total financial liabilities	**4,703**	**309**	**1,579**	**22**	**6,613**
At 30 June 2015					
Trade and other payables	2,725	–	238	–	2,963
Borrowings	2	9,306	11	–	9,319
Total financial liabilities	2,727	9,306	249	–	12,282

8. Capital structure

8.1 Capital and reserves

(a) Contributed equity

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

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

Notes to the financial statements (continued)

For the year ended 30 June 2016

Movements in ordinary share capital

	Number of shares	$'000
Opening balance 1 July 2014	263,823,826	74,410
Exercise of options - proceeds received	2,117,436	1,611
Shares issued under share placement and Share Purchase Plan	16,969,628	28,000
	282,910,890	104,021
Less: Transaction costs arising on share issues	–	(962)
Balance 30 June 2015	282,910,890	103,059
Exercise of options - proceeds received	**723,920**	**66**
Shares issued on redemption of convertible notes	**12,299,726**	**9,601**
	295,934,536	**112,726**
Less: Transaction costs arising on share issues	**–**	**(28)**
Balance 30 June 2016	**295,934,536**	**112,698**

(b) Reserves

Share-based payments reserve

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

Foreign currency translation reserve

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

8.2 Capital management

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

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

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

9. Other notes

9.1 Commitments

Non-cancellable operating leases

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

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

	2016 $'000	2015 $'000
Within one year	**802**	922
Later than one year but not later than five years	**3,293**	3,241
Later than five years	**161**	977
	4,256	5,140

Capital commitments

As at 30 June 2016, the Group had commitments to purchase plant and equipment of $129,000 (2015: $294,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

9.2 Related party transactions

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

(a) Directors and key management personnel compensation

	Group and Company	
	2016 ($)	2015 ($)
Director fees	**278,538**	278,538
Short-term employee benefits	**1,493,037**	1,404,005
Long-term benefits	**245,606**	222,895
Termination benefits	**–**	–
Share based payments	**1,101,549**	723,739
Total directors and key management personnel compensation	**3,118,730**	2,629,177
Total compensation includes total remuneration for executive and non-executive directors of the parent entity	**2,109,317**	1,763,975

Detailed remuneration disclosures are provided in the remuneration report on pages 20 to 46.

(b) Transactions with other related parties

Certain directors and Key Management Personnel, or their personally-related entities (Related Parties), hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Details of the type of transactions that were entered into with Related Parties are as follows:

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

The following transactions occurred with entities controlled by Related Parties:

	2016 ($)	2015 ($)
Sale of products and services to Related Parties	**1,821,765**	1,748,033
Purchases of goods and services from Related Parties	**210,697**	344,923
Rent of premises and equipment from Related Parties and make good payments	**210,079**	177,093

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

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

	2016 ($)	2015 ($)
Current trade receivables (supply of goods and services)	**639,133**	501,246
Current trade payables (purchases of goods and services)	**–**	3,743

There were no provisions for impaired receivables in relation to any outstanding balances from Related Parties (2015: Nil) and no expense has been recognized during the period in respect of impaired receivables due from related parties.

(d) Loans to directors and Key Management Personnel

During the financial year and to the date of this report, the Group made no loans to directors and Key Management Personnel and none were outstanding at the year ended 30 June 2016 (2015: Nil).

(e) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Outstanding balances are unsecured and are repayable in cash.

9.3 Controlled entities

The consolidated financial statements of the Group include:

Name of controlled entity	Principal activities	Country of incorporation	Class of shares	Equity holdings 2016	2015
Nanosonics Europe GmbH	Provision of sales and customer support services to Nanosonics Limited in Germany	Germany	Ordinary	**100%**	100%
Saban Ventures Pty Limited	Owner of the registered intellectual property of the Group	Australia	Ordinary	**100%**	100%
Nanosonics, Inc.	Sales and distribution of Nanosonics' products and provision of sales and customer support services to Nanosonics Limited in the USA	USA	Ordinary	**100%**	100%
Nanosonics Europe Limited	Sales and distribution of Nanosonics' products in Europe	UK	Ordinary	**100%**	100%
Nanosonics UK Limited	Provision of sales and customer support services in Europe	UK	Ordinary	**100%**	100%
Nanosonics Canada, Inc.[1]	Sales and distribution of Nanosonics' products and services in Canada	Canada	Ordinary	**100%**	-

1 Nanosonics Canada, Inc. was incorporated in Canada on 7 January 2016.

9.4 Parent entity information

As at and throughout the financial year ended 30 June 2016, the parent entity of the Group is Nanosonics Limited which is based and listed in Australia. The individual financial statements for the parent entity show the following aggregate amounts:

(a) Summary financial information

	2016 $'000	2015 $'000
Statement of financial position		
Current assets	**78,227**	59,662
Total assets	**81,764**	63,613
Current liabilities	**7,267**	5,985
Total liabilities	**8,891**	14,939
Shareholders' equity		
Share capital	**112,697**	103,059
Value of conversion rights - Convertible Notes	**–**	376
Share based payments reserve	**6,953**	4,554
Accumulated losses	**(46,776)**	(59,315)
Total equity	**72,874**	48,674
Profit/(loss) for the year	**12,539**	(1,319)
Total comprehensive income/(loss)	**12,539**	(1,319)

(b) Guarantees entered into by the parent entity

During the period, the parent entity provided assurances to its controlled entities, Nanosonics Europe GmbH, Nanosonics Europe Limited and Nanosonics UK Limited that the intercompany debts will not be required to be repaid until such time as the controlled entities have sufficient funds available. No other guarantees were provided during the year. (2015: Nil).

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2016 or 30 June 2015.

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

As at 30 June 2016, the parent entity had commitments to purchase plant and equipment of $129,000 (2015: $294,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

(e) Accounting policies

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

9.5 Remuneration of auditors

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

(a) UHY Haines Norton

Audit and other assurance services	**2016 ($)**	2015 ($)
Audit and review of financial reports	**82,500**	59,200
Total remuneration of UHY Haines Norton	**82,500**	59,200

(b) Network firms of UHY Haines Norton

Audit and other assurance services	**2016 ($)**	2015 ($)
Audit and review of financial reports	**16,300**	–
Tax compliance services	**2,547**	–
Total remuneration of network firms of UHY Haines Norton	**18,847**	–
Total auditors' remuneration	**101,347**	59,200

9.6 Changes in accounting policies

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

9.7 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for financial years beginning after 1 July 2016 and have not been applied in preparing these consolidated financial statements. Of the new standards, only the following are expected to have an effect on the consolidated financial statements of the Group:

- AASB 9 Financial instruments, which becomes mandatory for Nanosonics' 2019 consolidated financial statements.
- AASB 15 Revenue from contracts with customers, which becomes mandatory for Nanosonics' 2019 consolidated financial statements.
- AASB 16 Leases, which becomes mandatory for Nanosonics 2020 consolidated financial statements.

The Group has yet to undertake a detailed assessment of these new standards. At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next financial years.

9.8 Events occurring after the reporting period

No matters or circumstances have arisen since 30 June 2016 that have significantly affected, or may significantly affect:

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

Directors' declaration

For the year ended 30 June 2016

In the directors' opinion:

1. the financial statements and notes set out on pages 51 to 84 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 2016 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
17 August 2016

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 2016, 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 1.2(a), 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 2016 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 1.2(a).

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 20 to 46 of the directors' report for the year ended 30 June 2016. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with s300A 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 2016, complies with s 300A of the *Corporations Act 2001*.

UHY Haines Norton

Mark Nicholaeff
Partner
Sydney
17 August 2016

UHY Haines Norton
Chartered Accountants

Shareholder information

The shareholder information set out below was applicable as at 8 August 2016.

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	40,934,183	13.83%
HSBC Custody Nominees (Australia) Limited	35,944,078	12.15%
Citicorp Nominees Pty Limited	27,680,106	9.35%
Mr Maurie Stang[1]	22,599,701	7.64%
National Nominees Limited	21,381,906	7.23%
Mr Bernard Stang	19,484,056	6.58%
BNP Paribas Noms Pty Ltd <Drp>	8,527,287	2.88%
Mr Steve Kritzler	8,489,737	2.87%
BNP Paribas Nominees Pty Ltd <Agency Lending Drp A/C>	6,609,639	2.23%
UBS Nominees Pty Ltd	6,377,501	2.16%
Asia Union Investments Pty Ltd	3,569,091	1.21%
Dr Harry Hirschowitz	2,010,000	0.68%
Australian Shareholder Nominees Pty Ltd	1,725,000	0.58%
Avanteos Investments Limited <2349414 Hofbauer A/C>	1,200,000	0.41%
Bennelong Resources Pty Limited <John Egan Super Fund A/C>	1,200,000	0.41%
AET SFS Pty Ltd <Nanosonics DESP A/C>	1,010,585	0.34%
Community Care Consulting Pty Ltd <Lim Family Super Fund A/C>	920,000	0.31%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	886,849	0.30%
CS Fourth Nominees Pty Limited <HSBC Cust Nom AU Ltd 11 A/C>	800,307	0.27%
Larinda Pty Ltd <BG Superannuation Fund A/C>	800,000	0.27%
Total top 20 holders	**212,150,026**	**71.69%**
Total all other holders	83,784,510	28.31%
Total shares on issue	**295,934,536**	**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	30,000	1
Employee Share Options to take up unissued ordinary shares	4,253,250	87
Total options on issue	**4,283,250**	**87**

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	1,593	26
1,001–5,000	2,351	33
5,001–10,000	1,073	-
10,001–100,000	1,481	17
100,001 and over	134	11
Total Holders	**6,632**	**87**

There were 208 holders of less than a marketable parcel of 183 ordinary shares

C. Substantial holders

Substantial holders in the Company are shown below:

	Number of ordinary shares	Percentage
JCP Investment Partners Ltd	24,829,090	8.39%
Mr Maurie Stang[1]	22,599,701	7.64%
Mr Bernard Stang	19,484,056	6.58%
Allan Gray Australia Pty Ltd	16,184,022	5.47%

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
AJOG	American Journal of Obstetrics Gynecology
ANZ	Australia and New Zealand
APIC	Association for Professionals in Infection Control and Epidemiology
ASIC	Australian Securities and Investments Commission
ASUM	Australasian Society for Ultrasound in Medicine
ASX	Australian Securities Exchange Limited
CDC	Centers for Disease Control and Prevention
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Company or Nanosonics	Nanosonics Limited ABN 11 095 076 896
Date of this report	17 August 2016
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
FCF	Free Cash Flow
FDA	Food and Drug Administration
Fiscal Year	Year to 30 June
FY	Financial year, eg. FY2016 is the financial year ended 30 June 2016
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
JSUM	Japanese Society for Ultrasound in Medicine
KMP	Key management personnel
LLD	Low Level Disinfection
LTI	Long Term Incentives
LTIS	Long Term Incentive Scheme
NanoNebulant®	The biocide used in Nanosonics' technological process
NED	Non-executive Director
NHS	National Health System
OEM	Original Equipment Manufacturer
PBT	Profit before tax
Q1, 2, 3, or 4	3-monthly periods beginning 1 July, 1 October, 1 January and 1 April respectively
R&D	Research and Development
Reporting period	Year to 30 June 2016
STI	Short Term Incentives
TEC	Total Employment Cost
TFR	Total Fixed Remuneration
TSR	Total Shareholder Return
TTR	Total Target Remuneration
trophon®	The brand representing Nanosonics' range of infection control solutions designed specifically for healthcare settings
trophon® EPR	The brand of Nanosonics' device specifically designed to disinfect intracavity and surface ultrasound probes. See also www.trophon.com
UK	United Kingdom
USA	United States of America
VAT	Value Added Tax
WAEP	Weighted Average Exercise Price

Corporate directory and information for investors

Nanosonics Limited ABN 11 095 076 896 incorporated 14 November 2000

Directors

Maurie Stang
Richard England
David Fisher
Steven Sargent
Michael Kavanagh
Ron Weinberger

Company Secretaries

McGregor Grant
Robert Waring

Registered Office

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

Share Register

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

Investor/Media Relations

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

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

Auditor

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

Legal Advisors

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

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

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

Bankers

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

United Kingdom: HSBC Bank plc

Germany: Deutsche Bank AG

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

Stock Exchange Listings

Nanosonics Limited shares are listed on the Australian Securities Exchange

ASX code: NAN

Industry Group: Healthcare Equipment & Services

2016 Annual General Meeting

The 2016 AGM of Nanosonics Limited will be held:
At 11.00am on 4th November 2016
Brisbane Room, Sofitel Sydney Wentworth
61-101 Phillip Street, Sydney NSW 2000

Website Address

www.nanosonics.com.au

Notes

Nanosonics Limited

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ABN 11 095 076 896