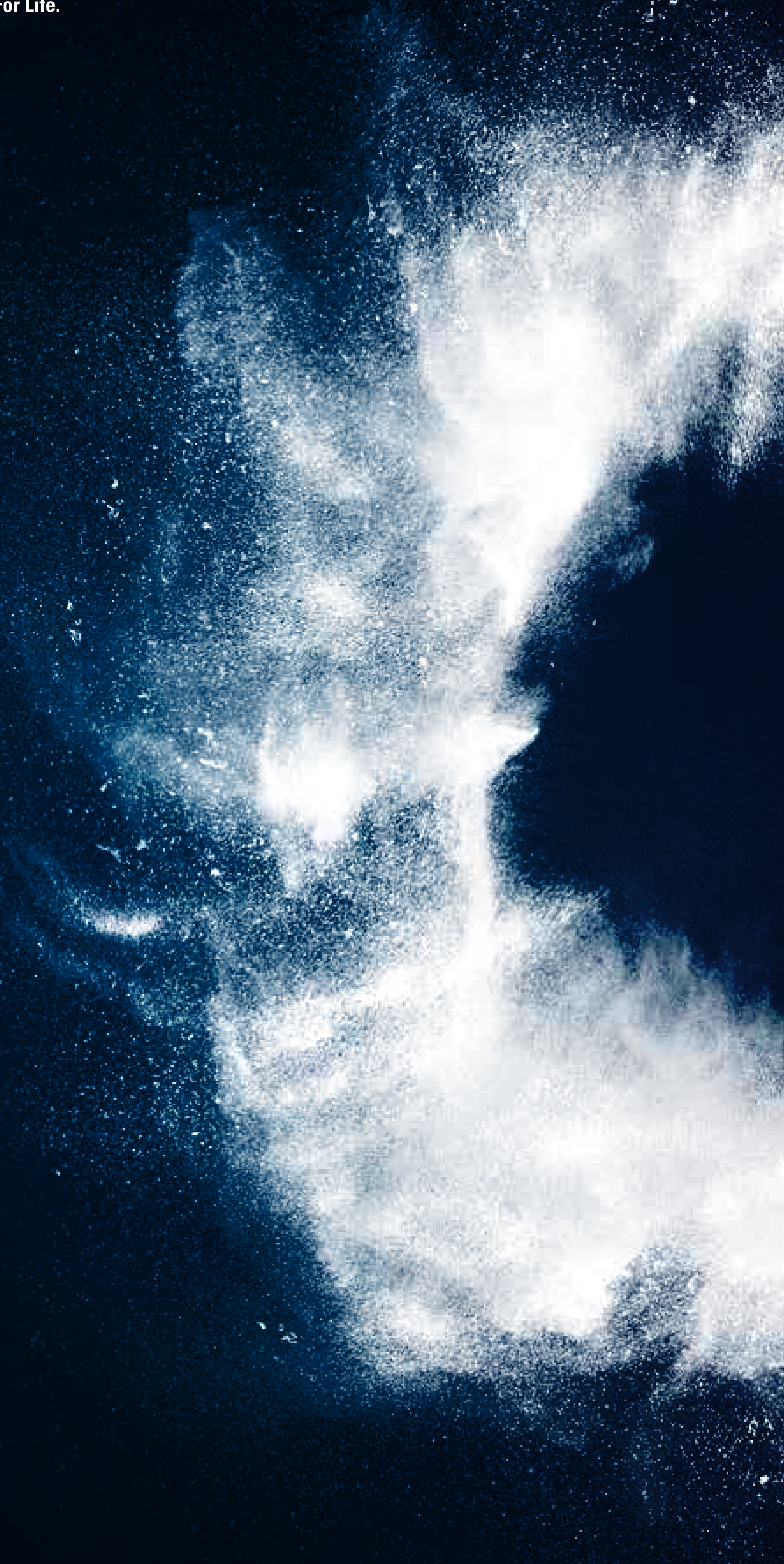
nanosonics
Infection Prevention. **For Life.**



# Infection Prevention. For Life.

2020 ANNUAL REPORT

# Our mission

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.

## OVERVIEW

Nanosonics (ASX:NAN) is an Australian infection prevention company that has successfully developed and commercialised a unique automated disinfection technology, trophon®, representing the first major innovation in high level disinfection for ultrasound probes in more than 20 years.

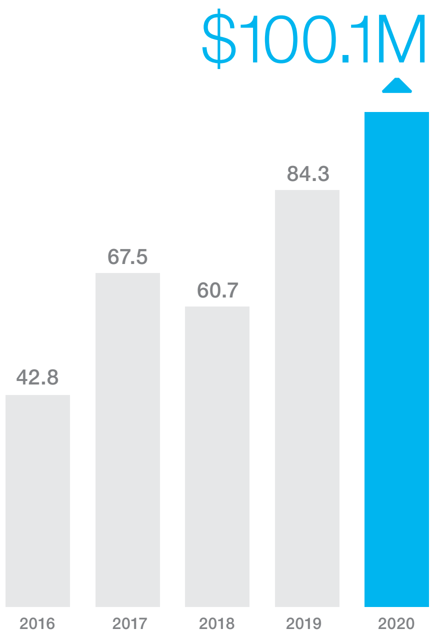
trophon is fast becoming the global standard of care for ultrasound probe disinfection. We will continue to drive trophon adoption through our ability to transform the way infection prevention practices are understood and conducted in existing markets and through continued geographical expansion.

Our commitment to innovation is reflected in our investment in research and product development as we look to expand our product portfolio and bring new infection prevention products to market.

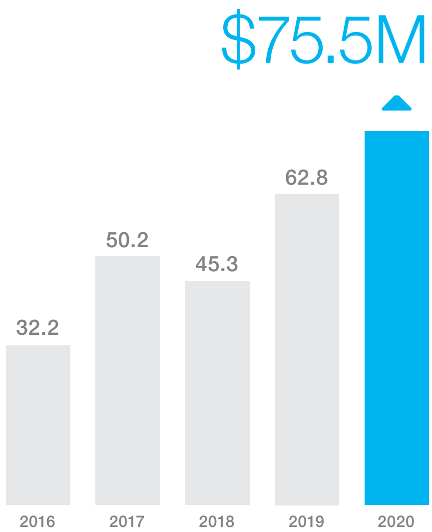
## CONTENTS

FINANCIAL HIGHLIGHTS

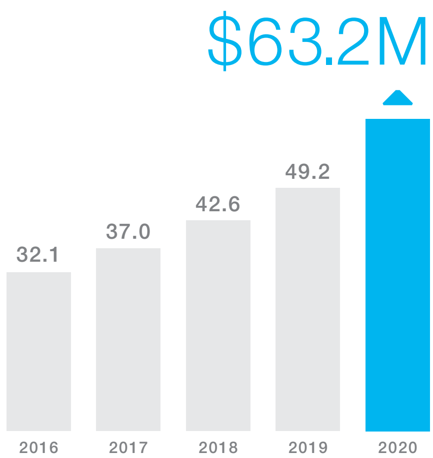
# Continued strong growth and strategic expansion



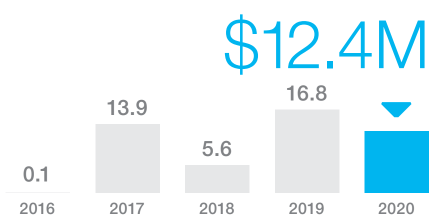

REVENUE ($M)



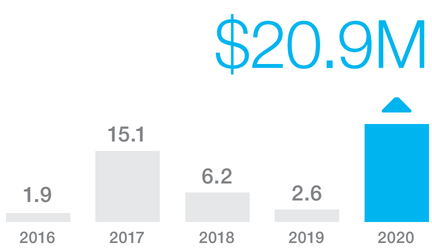

GROSS PROFIT ($M)



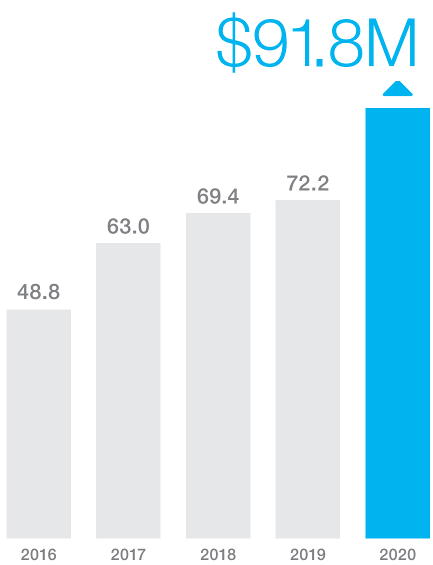

OPERATING EXPENSES ($M)




PROFIT BEFORE TAX ($M)




FREE CASH FLOW ($M)




CASH AND CASH EQUIVALENTS ($M)

"Total sales for the year were $100.1 million, up 19% on prior corresponding period. In the nine months to 31 March 2020, total sales were up 26% on PCP."

**MICHAEL KAVANAGH | CEO**

## 2011—2020 RESULTS

| $'000 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating revenue | 100,054 | 84,324 | 60,698 | 67,507 | 42,796 | 22,214 | 21,492 | 14,899 | 12,301 | 2,247 |
| Gross profit | 75,513 | 62,816 | 45,291 | 50,155 | 32,166 | 15,313 | 13,921 | 8,471 | 7,502 | 1,266 |
| Research and development expenses | (15,558) | (11,375) | (9,882) | (9,486) | (7,297) | (4,902) | (4,103) | (3,167) | (3,135) | (3,627) |
| EBITDA[1] | 16,233 | 17,642 | 5,861 | 14,140 | 950 | (4,732) | (1,845) | (5,366) | (4,982) | (11,963) |
| EBIT | 11,671 | 15,502 | 4,362 | 12,866 | (359) | (5,795) | (2,820) | (6,410) | (5,896) | (12,973) |
| Operating profit/(loss) before tax | 12,459 | 16,830 | 5,583 | 13,852 | 136 | (5,465) | (2,636) | (5,735) | (5,310) | (11,921) |
| Net income tax benefit/(expense) | (2,322) | (3,228) | 168 | 12,306 | (14) | 5 | 31 | (33) | 631 | 707 |
| Operating profit/(loss) after tax | 10,137 | 13,602 | 5,751 | 26,158 | 122 | (5,460) | (2,605) | (5,768) | (4,679) | (11,214) |
| **Operating profit/ (loss) after tax** | **10,137** | **13,602** | **5,751** | **26,158** | **122** | **(5,460)** | **(2,605)** | **(5,768)** | **(4,679)** | **(11,214)** |
| **Cash and cash equivalents** | **91,781** | **72,180** | **69,433** | **62,989** | **48,841** | **45,724** | **21,233** | **24,064** | **29,310** | **12,356** |

1. EBITDA is impacted by the change in lease accounting policy and no longer includes an expense for lease payments previously classified as operating lease. This resulted in an increase in depreciation of $1,042,000 and an increase in interest expense of $94,000 for the year ended 30 June 2020. Refer to Note 1.2 of the financial statements for further details.

CHAIRMAN'S LETTER

# Successfully adapting to the very real global challenges

FY20 has seen a continued expansion of Nanosonics activities and team while successfully adapting to the very real global challenges of the COVID-19 pandemic in the second half. Investment in our R&D and global expansion programs has continued as the Company has adapted to the "new norm" in the workplace.

As presented at our last AGM, Nanosonics continues to grow the installed base of trophon, whilst continuing to invest in active research and development programs directed at addressing multiple vectors of infection prevention, consistent with our core commitment of "infection prevention for life". Nanosonics is actively pursuing its commitment to being the emerging global leader in infection prevention. The work we do every day supports our core mission to improve the safety of patients, clinics, their staff and focuses on our positive environmental impact.

Whilst there has been significant disruptions to our customers in the second half, particularly in Q4, the Company has put in place a range of programs and activities to support the health care profession during their ongoing challenges. In this context I am pleased that Nanosonics has generated another year of strong underlying performance whilst actively investing in the future which your Company is well positioned to continue.

The Company performed very well against a broad range of its objectives, in particular in the first half of the year, demonstrating the true positive momentum of the business.

The second half has been dynamic due to COVID-19, which has resulted in a range of circumstances in different geographies impacting our customers in a variety of ways with those circumstances evolving on a continuing basis. Despite these challenges, taking the year as a whole, the Company experienced significant progress against its ongoing growth agenda, positioning itself as a trusted partner to the healthcare profession and its increasing infection prevention needs into the future.

During the year, sales increased 19% to $100.1 million and the Company returned another positive profit before tax outcome of $12.4 million in the context of a significant growth in investment in our strategic growth agenda. The Company's global installed base of trophon continued to grow, up 13% to 23,720 including approximately 21,000 units in North America across over 5,000 facilities, where it is clearly establishing itself as standard of care.

Nanosonics has generated significant capital reserves which position the Company to continue to pursue its broad growth agenda, notwithstanding these uncertain times. There are a range of exciting and important opportunities that are being assessed and indeed several currently being the subject of ongoing research and development effort. Our approach to managing the capital reserves is consistent with our focus on growth and market leadership and this is particularly important at a time of global uncertainty. Our Board and management are actively engaged in reviewing our priorities, the opportunities for investment and ensuring that Nanosonics is on track to deliver both improved social and healthcare outcomes. This remains entirely consistent with building shareholder value through the best use of the Company's free cash flow and capital reserves.

I wish to take this opportunity to recognise the outstanding efforts of the Nanosonics team who responded to the challenges of the COVID-19 pandemic by implementing responsible processes with a focus on ensuring customer support and continuity of supply.

I am proud to see the Company's values that are really driving our ongoing success through "Collaboration, Innovation, Discipline, Agility and the Will to Win", when the need for alignment behind common principles has been greatest. I am confident that whatever the future may hold, the Nanosonics team will be ready to create and inspire new standards of care in infection prevention.

FY20 saw Nanosonics pursue R&D programs addressing multiple new opportunities in infection prevention, backed by the largest investment in R&D that Nanosonics has made to date. The Company has also put in place focused resources to evaluate technologies and products that are strongly aligned with our targeted future product offerings. Our capabilities now span internal programs, external contracted research, scientific collaborations and potential acquisitions. In line with our ethos, Nanosonics regularly challenges its own staff to present innovative ideas and opportunities regardless of the role they may currently undertake in the Company. Innovation is encouraged at every level.

"The work we do every day supports our core mission to improve the safety of patients, clinics, their staff and focuses on our positive environmental impact."

**MAURIE STANG | CHAIRMAN**

I would again like to recognise the outstanding stewardship and commitment of our Board. FY20 saw the appointment of a new Director, Dr Lisa McIntyre, to further enhance the breadth and depth of our non-executive team. Dr McIntyre brings significant healthcare and commercial experience together with a commendable scientific insight and has already contributed to Nanosonics in a number of meaningful ways. Dr McIntyre sits on our R&D and Innovation Committee and our Audit & Risk Committee.

Nanosonics was founded on a belief that environmental, social and governance were core to our mission and our future success. This year I am pleased to see ESG being highlighted in a standalone report which showcases our approach to caring for our employees and customers, the broader community and the environment. I am particularly proud to see the strong diversity results across the Company and recognise the value and creativity that support our innovative and forwarding-looking business. I am pleased to see that your Company continues to meet its diversity targets and look to continued achievement in FY21 and beyond. Nanosonics has an active program of community contributions which was adopted by the Board during the past year to formalise and expand the Company's commitment to its community engagement.

Nanosonics has adapted successfully to the challenges of the second half of FY20 and indeed is growing its investment and commitment to an even greater contribution to healthcare outcomes and the success of its customers and their patients. Clearly the challenges the world is currently experiencing place a very clear focus on the need for new and successful approaches to infection prevention which underpin, universally, healthcare delivery.

The impact of the pandemic has been well managed in terms of our strategic plans and the Company, its team and its stakeholders share a common vision of the principles that what is good for society is good for business. Your Company has its eyes firmly on the future with an outstanding team, a true partnership with its customers worldwide, annuity revenue, a strong capital installed base and without doubt a will and commitment to win.

**Maurie Stang**
**Chairman**

25 August 2020

"During the year, sales increased strongly to $100.1 million"

CEO'S REPORT

# A successful year with many important milestones achieved

The 2020 financial year has been another year of significant achievement and progress, with many important milestones achieved against our strategic growth agenda. Excellent growth momentum was experienced in the first three quarters of the year, demonstrating the underlying strong fundamentals for the business. As expected, the implications of the COVID-19 pandemic impacted the momentum primarily in Q4, which saw the planned adoption of trophon being delayed in hospitals as their focus turned to the management of COVID-19. With healthcare procedures being postponed due to lockdown restrictions, some implications on consumables sales were also experienced in this period but commenced recovering towards Q1 to Q3 levels in June. Accordingly, in reviewing the year it is important to not only look at the overall results for the year but to review the achievements in the Q1 to Q3 period separately to Q4.

First and foremost, I would like to thank each Nanosonics employee for their resilience, flexibility, dedication and customer focus during what has been an unprecedented year. After a strong first three quarters, Q4 FY20 saw the business needing to respond, navigate and adapt to COVID-19 related challenges throughout the business and in the marketplace. Employees' safety and wellbeing were prioritised with safe work practices introduced. An Employee Assistance Program was also introduced and strategies developed to minimise the impact of the pandemic on our workforce.

Customers were supported through digital communication and engagement as access to various hospitals became limited. In addition, the Company ensured the supply chain was well positioned to meet customer requirements. As the effects of COVID-19 escalated, the Company continued to support frontline customers in emergency and ICU, where possible, by offering to provide trophon.

As an infection prevention company we are acutely aware of the impact of COVID-19. The pandemic only strengthens our resolve even further to truly deliver on 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.

I would also like to recognise all our customers, in particular the Infection Prevention community, who have worked, and continue to work, tirelessly on the frontline during the pandemic. Now more than ever, infection prevention has become a critical topic not only in the medical field but across the community and Nanosonics expects to play a major role moving forward across many dimensions of infection prevention.

## A YEAR OF ONGOING PROGRESS

As mentioned, there were many significant achievements across the business during the year. We continued to grow our investment across our product and market expansion activities, with significant growth in R&D investments and planned infrastructure investments in Europe and Asia Pacific where positive growth momentum was experienced in the first three quarters of the year. Revenue in Europe and the Middle East was up 43% in the first three quarters compared to prior corresponding period and revenue in Asia Pacific was up 27% in the same period, demonstrating the underlying opportunity for ongoing growth in these regions. In the same period, revenue in North America was up 25% on prior corresponding period, as trophon continued to be established as the standard of care. Our trophon®2 device represented over 90% of new installed base sales, demonstrating the strong value proposition of the product.

The fundamentals for adoption continued to strengthen, with new guidelines reinforcing the importance of high level disinfection being published by a number of important organisations, including the College of Intensive Care Medicine in Australia, Society of Maternal-Fetal Medicine in the USA, the Swedish Society for Obstetrics and Gynaecology and the Belgian Superior Health Council. In addition, as a result of COVID-19, the International Society for Ultrasound in Obstetrics and Gynaecology (ISUOG), as well as the World Federation for Ultrasound in Medicine and Biology (WFUMB), re-emphasised their position on the requirement for high level disinfection for semi-critical probes. The ongoing emergence of new guidelines and the re-emphasis of the importance of disinfection from international bodies further supports our geographical expansion plans and the overall opportunity for trophon.

"I would like to thank every Nanosonics employee for their resilience, flexibility, dedication and customer focus during what has been an unprecedented year."

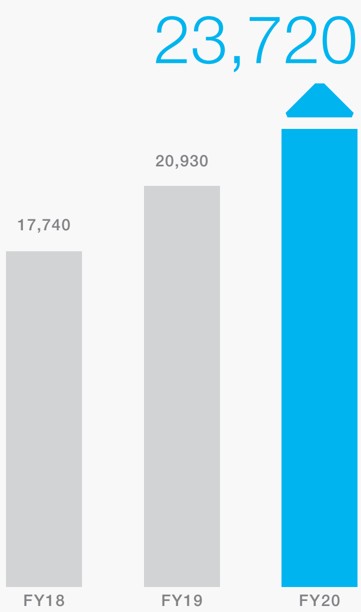
**MICHAEL KAVANAGH | CEO**

## INSTALLED BASE

During the year, the global trophon installed base (IB) increased 13% to 23,720 units. There was 13% growth in IB in North America to 20,990, where market penetration has reached over 50% of the current estimated 40,000 units opportunity [1]. In Europe and Middle East, the total IB grew by 27% to 1,120 units and in Asia Pacific, the total IB grew by 9% to 1,610 units. There was certainly positive growth momentum in IB during the first three quarters, with the number of new units installed in Europe and Middle East up 37% compared with the prior corresponding period reflecting the growth strategies implemented in the region. Similarly, the number of new units installed in Asia Pacific was up 56% compared with the prior corresponding period reflecting ongoing growth in ANZ as well as sales commencing in Japan. New IB in North America was tracking as expected, at similar levels to the prior year.

Despite a strong sales pipeline, limited access to hospitals, together with various hospital department shutdowns throughout Q4, resulted in the timeline for adoption of new installed base being extended. During Q4 our focus moved to ensuring the necessary support was in place for our customers as well as offering frontline hospital departments support through the provision of trophon units for ICU and Emergency care where ultrasound was being used as an important diagnostic tool for respiratory complications due to COVID-19. Up to 100 trophons were provided to customers during this period, which are not counted in our official installed base numbers.

"During the year, the global trophon installed base (IB) increased 13% to 23,720 units."




**INSTALLED BASE (UNITS)** [1]

Approximately 20 million patients per year are protected, from the risk of ultrasound probe cross-contamination.

1. Internal estimate based on historical regional estimates of the installed base of ultrasound consoles and those associated with procedures where high level disinfection may be required.


## CEO'S REPORT (CONTINUED)

### PEOPLE AND CULTURE

Throughout the year we continued to expand our capacity and capability, with the total number of employees growing to 311. Nanosonics' strong and positive culture was a key priority during FY20, where the Company introduced "Our Core Values" and completed the executive team capability with the addition of the newly created role of Chief People & Culture Officer.

Our People focus was recognised with above industry results for the second consecutive year in the Company's Global Employee Engagement Survey where 94% of the employees "believe in the Company mission and purpose" and 91% "are proud to work for Nanosonics".

The Nanosonics workforce now represents over 29 different nationalities, with women representing 41% of employees and 32% of the senior management group.

This growth in our capability through diversity and our ability to attract excellent new talent underpins our ability to deliver on the short term and supports our long-term strategic growth objectives.

### HEADCOUNT AND GROWTH

311
EMPLOYEES
▲9%
INCREASE
ON FY19

MALE
59%
(185)

FEMALE
41%
(126)

FEMALES MAKE UP
32%
OF SENIOR MANAGEMENT POSITIONS


## RESEARCH AND DEVELOPMENT

During the year, Nanosonics continued to invest in its product expansion strategy. R&D investment increased 37% to $15.6 million, directed across a number of projects. Nanosonics' R&D interests span five key areas of infection prevention:

– Instrument cleaning
– Instrument disinfection
– Environmental decontamination
– Digital solutions for traceability and compliance
– Storage solutions

The R&D team achieved many important milestones throughout the year across a number of projects. As a result of ongoing international collaborations, the Company has identified a number of positive enhancements to our new lead technology platform that provide the possibility to deliver superior outcomes to those originally anticipated.

Inclusion of these enhancements, coupled with the uncertainties associated with COVID-19 on certain project milestones, means that commercialisation of the new technology is no longer expected to be in FY21 but will likely be in FY22, with the ultimate launch timing continuing to be dependent on the necessary technical milestones being met as well as the timing of individual market regulatory approvals. In addition to the new platform technology, a solution for further digital traceability and reporting is also in advanced development.

In addition to our internal R&D efforts, a new business development function was established, together with a new investment subsidiary, dedicated to identifying and assessing local and international opportunities for strategic acquisitions, product licensing and a range of potential collaboration opportunities to accelerate the growth of our infection prevention portfolio.

## FIVE CORE AREAS OF FOCUS

**Infection Prevention. For Life.**

### COMPLIANCE AND TRACEABILITY

Digitally-enabled tools to increase visibility and control around infection risk mitigation.

### INSTRUMENT CLEANING

Mandatory critical first step which sets up the effectiveness of all downstream disinfection procedures.

### ENVIRONMENTAL DECONTAMINATION

Novel technologies and chemistries to reduce cross-contamination risk coming from high contact surfaces and environment.

### INSTRUMENT DISINFECTION

High level and low level disinfection and sterilisation for medical devices before re-use with a patient.

### STORAGE SOLUTIONS

Assurance that reprocessed devices are not subsequently contaminated and are always available for next use.

# CEO'S REPORT (CONTINUED)

## FINANCIAL RESULTS

Revenue for the year was $100.1 million ($93.7 million in constant currency), up 19% on prior corresponding period. Revenue in North America was $90.2 million, up 18% on prior corresponding period. Revenue was up 37% in Europe and Middle East to $5.2 million and up 17% in Asia Pacific to $4.7 million.

In the first three quarters of the year, strong growth was experienced with total revenue increasing 26% on prior corresponding period. Q4 Revenue of $25.3 million was essentially flat compared to prior corresponding period (increase of 1%), driven largely by the expected implications of the COVID-19 pandemic with very limited hospital access and a temporary reduction in a range of healthcare procedures during this period.

While the overall FY20 financial performance for the business provided solid growth, comparing how the business was growing up to the end of Q3 with the prior corresponding period demonstrates an even more positive growth trajectory providing confidence in the underlying growth opportunity for the future. In the nine months to 31 March 2020, total sales were up 26% on PCP with North America up 25%, EMEA up 43% and Asia Pacific up 27%.

### CONSUMABLES AND SERVICE

During the year, revenue associated with consumables and service of $70.1 million was up 36% on prior corresponding period. In the first three quarters of the year, revenue was up 39% on prior corresponding period. In Q4, a reduction in the volume of ultrasound procedures was experienced due to COVID-19 restrictions. Despite this reduction in ultrasound procedures, consumables and service revenue grew 29% in Q4 compared to prior corresponding period. In June, as hospital departments resumed activities in many markets, global sales of consumables to end customers trended back to approximately 80% of Q1 to Q3 levels.

### CAPITAL

While sales to end customers increased during the year, overall capital revenue was down 9% on the prior corresponding period to $30 million. The key drivers for this reduction were:

- A reduction in the number of units purchased by GE Healthcare compared with the prior corresponding period. This reduction was due to significant destocking in H2 of FY18, resulting from the earlier than anticipated FDA approval of trophon2 and the subsequent restocking of inventory of trophon2 in FY19 upon the launch of trophon2.
- A delay in capital sales to customers during Q4 as a result of the COVID-19 pandemic.

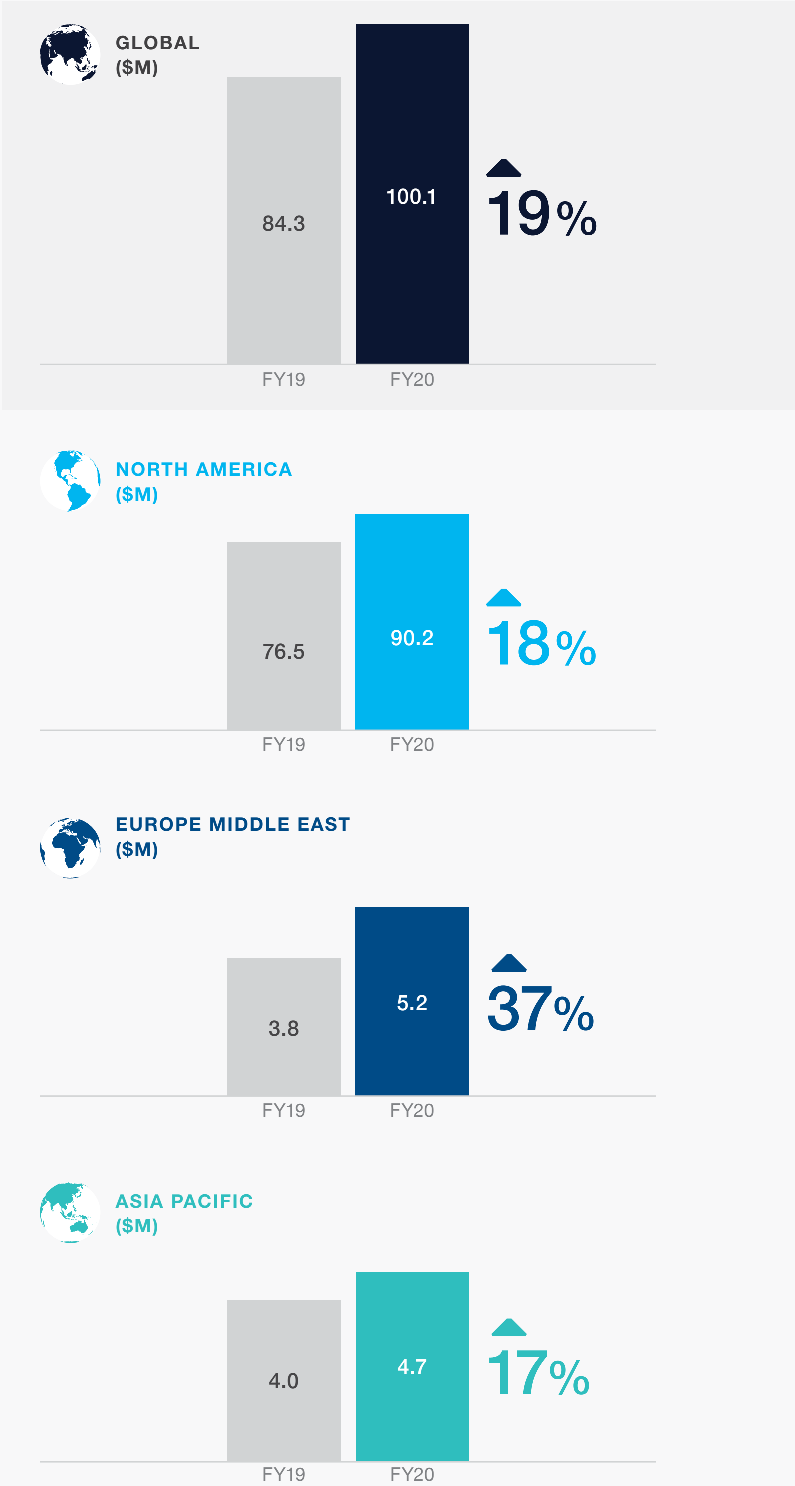
The Company continued to increase investments in its strategic growth agenda with operating expenses up 28% with $63.2 million, including $15.6 million in R&D, up 37% on the prior corresponding period.

As a consequence of the planned increase in investment in growth, as well as the impacts of COVID-19 on Q4 revenue, operating profit before tax was $12.4 million compared with $16.8 million in the prior corresponding period.

Cash and cash equivalents increased $19.6 million to $91.8 million as at 30 June 2020. This strong cash position coupled with negligible debt, provides a strong foundation to support accelerating investment in the growth of the business.

The Company's capital management is reviewed regularly. In light of an increasing global focus on infection prevention and the opportunities this presents for Nanosonics, investment in the broader strategic growth agenda of the Company is planned to continue actively and the capital reserves of the Company provide strong support for this.

**FY20 REVENUE REVENUE VS PCP**

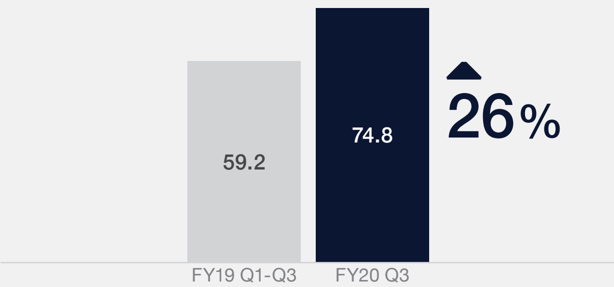


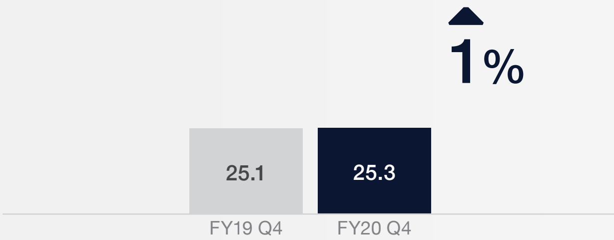

Graphs are not to scale and therefore not comparable.

"In reviewing the year it is important to not only look at the overall results for the year but to review the achievements in the Q1 to Q3 period separately to Q4."

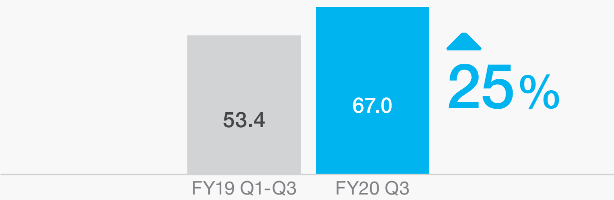
**Q1–Q3 REVENUE FY20 VS PCP** | **Q4 REVENUE FY20 VS PCP**

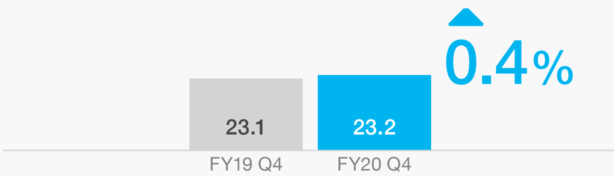
**GLOBAL ($M)**



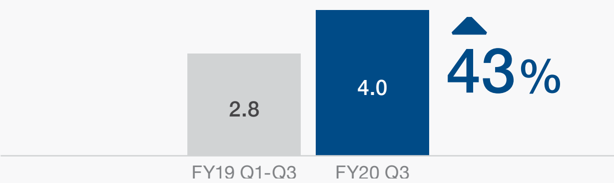



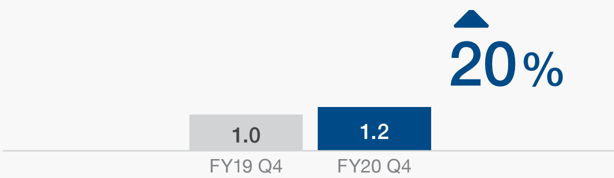

**NORTH AMERICA ($M)**



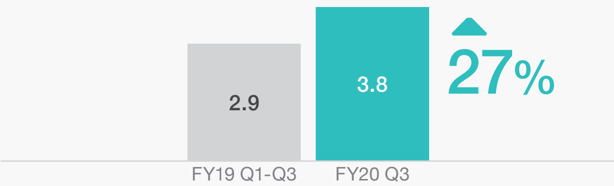



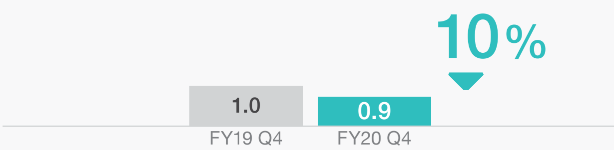

**EUROPE MIDDLE EAST ($M)**




**ASIA PACIFIC ($M)**




Graphs are not to scale and therefore not comparable.

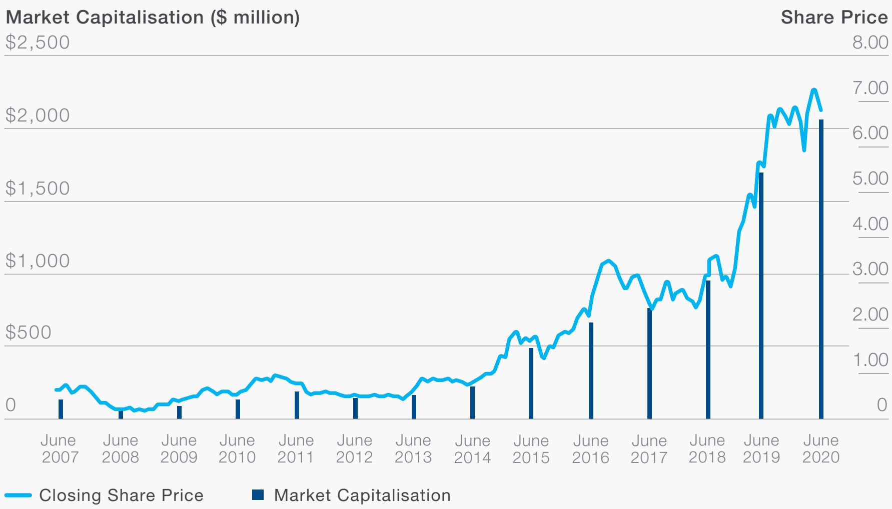
CEO'S REPORT (CONTINUED)

# Despite the ongoing uncertainties associated with the current COVID-19 pandemic, the fundamentals for the underlying business remain strong

## SHAREHOLDER RETURN

Over the last five years, shareholder value has grown at a Compound Annual Growth Rate of 32%. In the 12 months to 30 June, 2020, the share price of Nanosonics increased by 21% to $6.82. We very much appreciate the trust and confidence that our shareholders continue to have in the Company to deliver on our long-term growth strategy, especially in these times of uncertainty.

SHAREHOLDER RETURN




## BUSINESS OUTLOOK

The Company's strategic priorities continue to be focused on four core areas:

1. Continue to establish the trophon technology as the standard of care in those markets where trophon is currently available.
2. Expand and invest into new markets driving the awareness of the importance of high level disinfection of ultrasound probes and strengthening the fundamentals for adoption through market development, education and guideline establishment.
3. Expand our product portfolio across key vectors of infection prevention through internal R&D as well as external opportunities.
4. Maintain a strong financial position to support growth investments while delivering operational efficiencies, scale and leverage.

### TROPHON AS STANDARD OF CARE

- Support establishment of international guidelines.
- Provide awareness and education to highlight risks of cross-contamination for all semi-critical transducers.
- Ensure customers have a positive experience with all aspects of the product and brand.

### EXPAND GEOGRAPHIC FOOTPRINT

- Expand operations across Asia Pacific and EMEA with trophon plus new products.

### PRODUCT EXPANSION

- Expand portfolio of infection prevention solutions to address unmet needs.
- Leverage technology platforms for potential expanded indications.

### INVEST TO GROW

- Maintain strong financial position to support growth.
- Deliver operational efficiencies, scale and leverage.

## FY21 OUTLOOK

Despite the ongoing uncertainties associated with the current COVID-19 pandemic, the fundamentals for the underlying business remain strong as demonstrated again in FY20. While we continue to be faced with the immediate issues associated with the COVID-19 pandemic, we remain optimistic about the future.

Considering the inherent uncertainties and ongoing risks associated with the pandemic, in particular those associated with ongoing hospital access, emergence of second and possible further waves and potential further lock downs, it is not possible to provide specific guidance in respect of FY21, particularly on a region by region basis.

While installed base continues to grow, it is likely that in the first half of the year, trophon capital sales will be impacted by limited hospital access currently being experienced, in particular in North America. This has been the experience to date in FY21. It is expected that this will also have a flow-on effect to the capital equipment requirements of our main North American distributor partner, GE Healthcare. As such, it is anticipated that sales of trophon to GE Healthcare may also be reduced, in particular in the first half, due to the impact of delayed capital sales to customers in Q4 on their ending FY20 inventory, coupled with the ongoing impact of hospital access restrictions.

In June, global sales of consumables to end customers trended back to approximately 80% of Q1 to Q3 levels. External data suggests the volume of ultrasound procedures continues to recover and sales of consumables to date in FY21 to end customers is consistent with this. There are risks that if the number of ultrasound procedures decreases due to any new restrictions being implemented, then sales of consumables are likely to be impacted, as we saw in Q4 FY20.

The COVID-19 pandemic has reinforced the importance of infection prevention and given increased prominence to this important topic, not just amongst the medical community but in all communities. The Company considers that this can only be positive for the longer term fundamentals of the business.

Nanosonics' infrastructure, people capability and cash balance, provide a strong foundation for the future. Despite the current pandemic related uncertainties, the underlying fundamentals for the business remain strong. We maintain our commitment to continue to invest in our long term strategic growth agenda. As such, total operating expenses for the year are expected to be in the range of $75 million to $78 million, with increased investments being made across R&D, regional infrastructure and operational capability to support the organisation globally.

## BEYOND FY21

Despite the current challenges of the COVID-19 pandemic our longer term strategic growth agenda remains very much intact. Beyond FY21, Nanosonics is targeting:

- Continued growth in the trophon installed base across all regions.
- Growth in upgrades of trophon EPR to trophon2.
- Japan to become an important contributor to global installed base growth as well as further expansion into Asia Pacific including China.
- Broadening of our product portfolio through internal product development and opportunities for strategic acquisitions and product licensing.
- Ongoing investment in R&D, infrastructure, people and capability to drive the global strategic growth agenda.

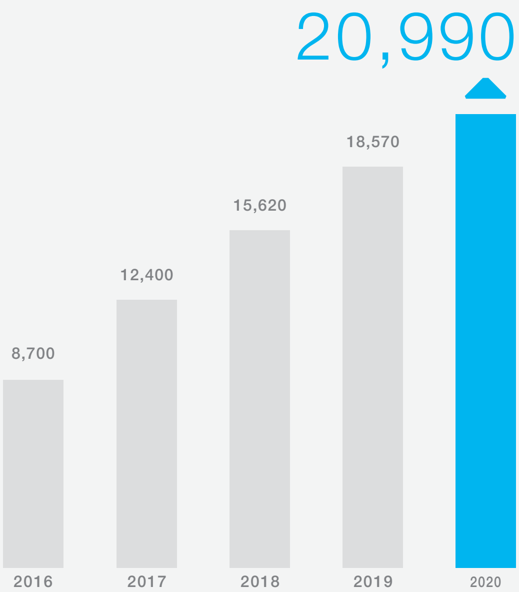
**Michael Kavanagh**
**CEO and President**

25 August 2020

REGIONAL HIGHLIGHTS

# North America

## TROPHON INSTALLED BASE



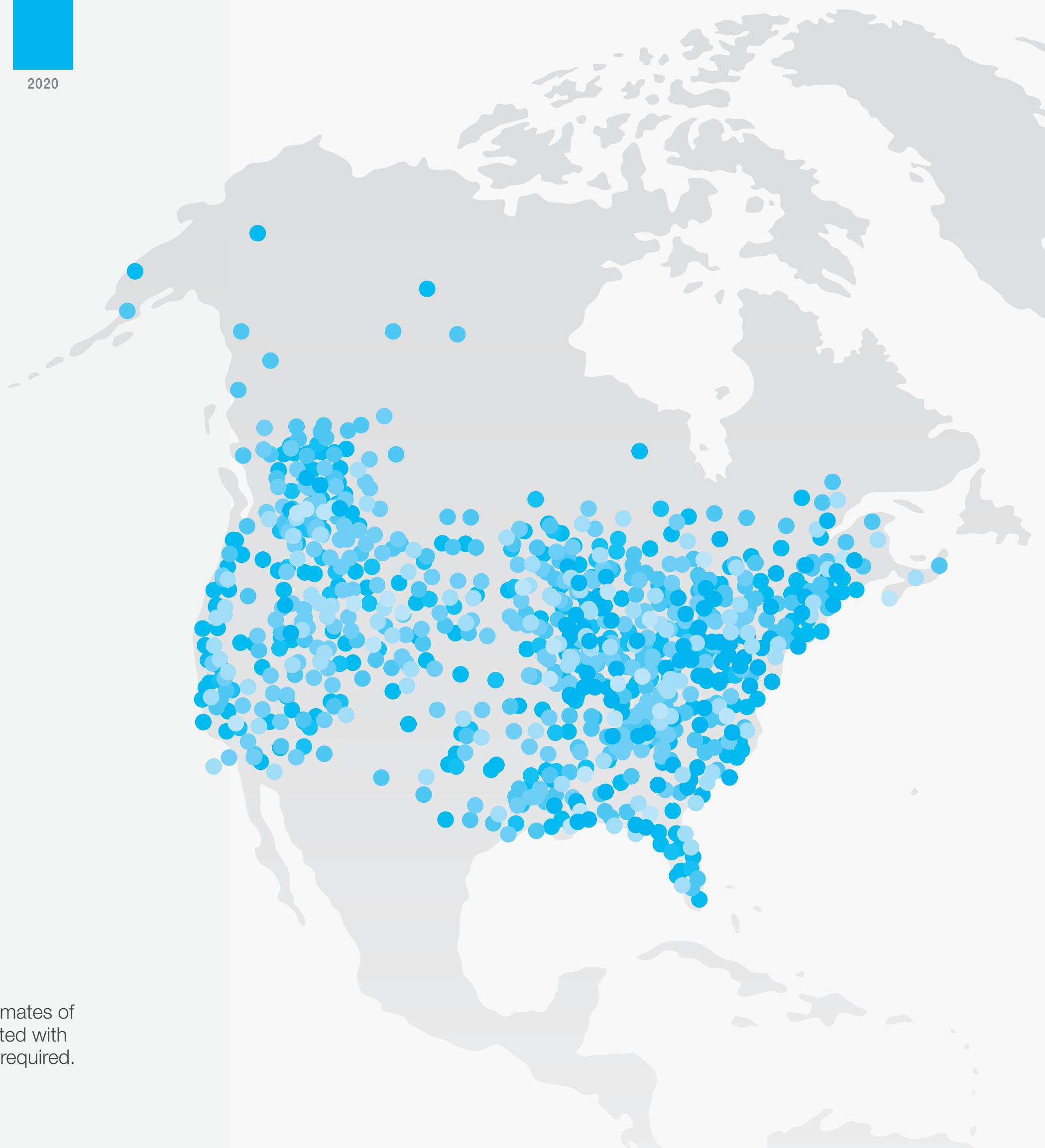

Installed base represents over

50%

of the estimated 40,000 units market opportunity[1]

Throughout FY20, trophon continued to establish itself as the standard of care in North America with the installed base growing 13% to 20,990 units.

This installed base now represents over 50% of the estimated 40,000 units market opportunity[1]. In the first three quarters of the year the North American installed base was growing as expected, delivering similar numbers compared with the previous year and on target to deliver approximately 3,000 units for the year. The implications of COVID-19, with lockdowns and restricted hospital access, impacted the rate of adoption of new installed base in Q4. Despite COVID-19, the underlying fundamentals have not changed, with a significant opportunity pipeline in place, and we remain optimistic that our growth will return to Q1 to Q3 levels once the current hospital restrictions are lifted.



1. Internal estimate based on historical regional estimates of the installed base of consoles and those associated with procedures where high level disinfection may be required.

## EXPANSION OF CAPABILITIES

During the year we realigned our sales force geographically and expanded our clinical applications capabilities. This realignment ensured we were able to provide customers with a superior service across sales, education, facility audits and technical service throughout the region. As a result of these changes, many existing trophon customers have purchased new devices and applied our technology to a broader set of departments and procedures, establishing trophon as the standard of care for high level disinfection across the facility. Our ongoing commitment and investment in clinical education aims to raise awareness of the standards and guidelines that necessitate the high level disinfection of all semi-critical probes in all hospital departments.

New customer tools were developed and implemented that enable Infection Prevention professionals and other hospital staff to audit their decontamination practices and identify deficiencies and opportunities for improvement. Hospital audits of current practice were also introduced as a service through our clinical applications team. Our digital capabilities expanded throughout the year enabling scalable education and awareness campaigns, a capability that became very prominent during the COVID-19 lockdowns.

## PARTNERSHIPS WITH ULTRASOUND COMPANIES

One of the important elements of our growth in FY20 was sales through our partnerships with ultrasound probe manufacturers (OEMs). Capital reseller agreements are now in place with all the major ultrasound companies. Supported by the Nanosonics team, our OEM partners are also educating their customers on the requirement for and importance of high level disinfection of ultrasound probes. Being recognised by our OEM partners reaffirms trophon technology as the optimal solution and standard of care for ultrasound probe high level disinfection.

*Nanosonics employee conducts a clinical site assessment in North America.*

## MANAGING THROUGH COVID-19

While COVID-19 continues to be a source of great uncertainty, a number of measures have been implemented to minimise this disruption. We have implemented new programs and technology to support our customers remotely; new customers are now guided through a virtual set-up and training program, virtual high level disinfection training courses with continuing education credits are available for healthcare providers, and our OEM partners and existing customers have access to virtual training programs. In addition, we have developed flexible purchasing options and trial solutions so that frontline departments (ICU, Emergency) without access to capital budgets can benefit from trophon technology when they need it.

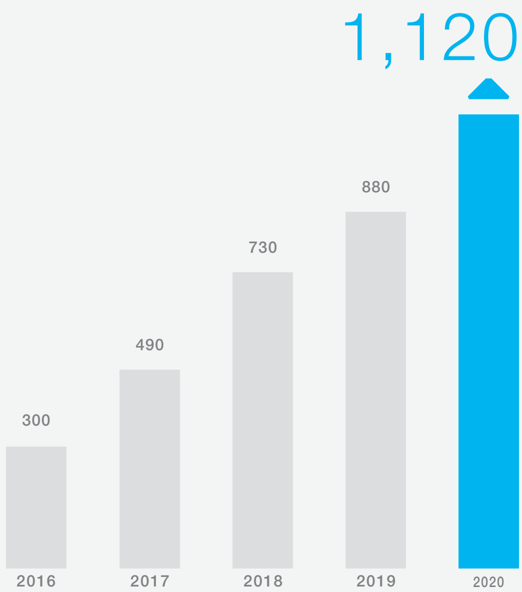
"We have implemented new programs and technology to support our customers remotely; new customers are now guided through a virtual set-up and training program."

*Virtual installation training has enabled staff to provide remote support for new customers.*

REGIONAL HIGHLIGHTS

# Europe and Middle East

## TROPHON INSTALLED BASE




Installed base grew over

**27%**

in Europe and Middle East

Our overall Europe and Middle East installed base grew 27% for the year. The strength of this result is underscored by the fact that the number of new installed units was up by 37% through the first three quarters compared with the prior corresponding period before this momentum was slowed in Q4 by the disruptions associated with COVID-19.

The fundamentals for adoption continue to strengthen across Europe. During FY20, we made significant investments in our European operational infrastructure and capabilities. To strengthen our geographical presence and accelerate this growth opportunity we strengthened our leadership team with the appointment of a Regional President, Ronan Wright.

The European team now includes business leaders to support our growing distribution network and a new clinical management capability to support clinical education, standards and guideline development across the region. A specialised local regulatory affairs capability has also been added to manage the complex and evolving pan-European and Middle East regulatory requirements, including new Medical Device Regulations. In the UK and Germany, we increased our field-based presence with increased sales resources to drive pipeline growth and broader geographical presence.

Our FY20 performance provides confidence in the underlying opportunity that is now emerging in Europe, supporting our ongoing increased investment in the region.

## UNITED KINGDOM

Awareness of the importance of decontamination in the ultrasound setting continued to grow this year with the release of several best practice guidances and education regarding the proper care and disinfection of ultrasound probes.

The installed base in the UK continued to grow in FY20, with many customers taking advantage of our managed equipment services program; an arrangement that enables customers to access trophon through consumable sales when capital expenditure is not available. trophon is the clear leader for automated high level disinfection of ultrasound probes in the United Kingdom.

Our opportunity pipeline continued to grow strongly to the end of Q3 through the introduction of new sales resources, the launch of a number of educational tools, and customer resources such as the Infection Prevention toolkit. This toolkit enables hospitals to perform a comprehensive review and audit of their high level disinfection practices and assess opportunities for the adoption of trophon. The onset of COVID-19 caused a decrease in conversion of our pipeline to new installed base during Q4. However, we remain confident that the underlying fundamentals for ongoing adoption remain strong.

## GERMANY

During FY20 we strengthened our geographical presence and account management capability throughout Germany with the addition of new staff to our sales team. Our service team has also grown to manage our increasing installed base. New sales and financing models have been well received by our customers and demonstrate our flexibility in providing unique solutions to meet the needs of different markets and healthcare systems.

Significantly, a Nanosonics customer from the Interdisciplinary Ultrasound Center at the prestigious Charité - Universitätsmedizin Hopsital, Berlin was awarded second prize in the highly regarded German patient safety awards for their implementation of a reprocessing procedure around the trophon2 system.

*Jo Seymour (Superintendent Sonographer, Worcester Royal Hospital) upon receipt of 17 trophon2 units for Worcestershire Acute Hospitals NHS Trust.*

The opportunity to supplement our direct sales model in Germany has progressed well in FY20 and in the year ahead we aim to appoint a number of business partners to focus on additional market segments.

## NEW MARKETS

We continued to expand our geographical footprint in EMEA during FY20 with the addition of new partners in Belgium, Switzerland, Austria and Estonia. A senior management position was established to manage and support this growing distributor network. As recognition of the importance of HLD for ultrasound reprocessing continues to grow across EMEA through ongoing education and market development efforts, we expect further expansion of our distribution network throughout FY21.

*The team from Interdisciplinary Ultrasound Center of Charité – Universitätsmedizin. From left, Professor Thomas Fischer, Dr Andreas Maxeiner, and Dr Markus Lerchbaumer.*

## CHARITÉ - UNIVERSITÄTSMEDIZIN BERLIN RECOGNISED WITH GERMAN PRIZE FOR PATIENT SAFETY

The Interdisciplinary Ultrasound Center of Charité – Universitätsmedizin Berlin was awarded second prize in the German Prize for Patient Safety awards for their implementation of the trophon®2 system.

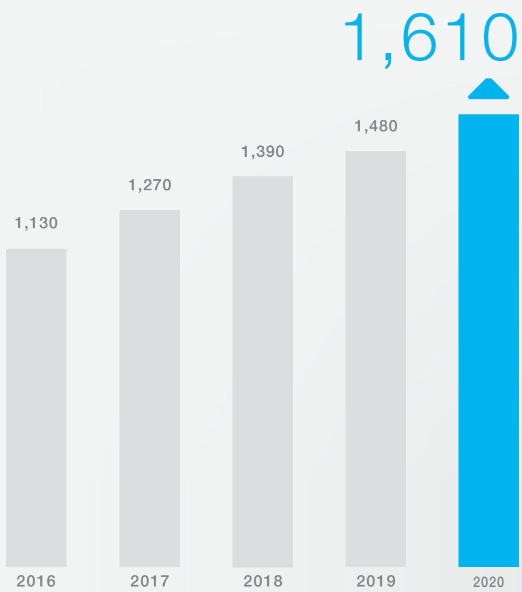
Under the direction of Professor Thomas Fischer, Charité – Universitatsmedizin's shift from manual wipes to an automated and validated system for the high level disinfection of ultrasound probes used for semi-critical procedures was recognised as a major advancement in patient safety.

Teaching and Research Coordinator, Dr Markus Lerchbaumer, explained the rationale of the project and benefits of their new protocol, **"The objective was… to replace existing hygiene standards with a practicable, automated solution for the disinfection of ultrasound probes and thus set a new standard in the reprocessing of ultrasound probes… By automating the disinfection process, we obtain reproducibly safe, microbiologically effective reprocessing results, since risks dependent on the "human factor" are avoided."**

REGIONAL HIGHLIGHTS

# Asia Pacific

## TROPHON INSTALLED BASE




trophon has been established as the

**standard of care**

in Australia and New Zealand and our total installed base continued to grow throughout FY20

During FY20 we continued our focus on developing a strong foundation for growth in Asia Pacific. This included continuing to increase our market penetration in Australia and New Zealand, while continuing to build our capability in Japan, and commencing our market entry strategy into China and other ASEAN markets.

## AUSTRALIA AND NEW ZEALAND

The trophon technology has been established as the standard of care in Australia and New Zealand and our total installed base continued to grow throughout FY20 as customers embrace the new features and benefits of trophon2. Together with our distributor partners we have delivered education programs demonstrating the importance and requirements for high level disinfection for semi-critical probes in accordance with standards and guidelines. Similar to other markets, the disruptions caused by COVID-19 delayed trophon adoption and impacted consumables consumption in Q4 due to lockdowns, limited hospital access and a decrease in elective procedure volumes.

## JAPAN

FY20 was a busy and productive year in Japan where we continued to build our capability and develop the market. During the past 12 months we have appointed a President of Nanosonics Japan and a Vice President of Sales to support a growing distribution network. We have now signed up many of the ultrasound OEMs as distributors of trophon in Japan, as well as many sub-distributors. We continue to build our direct team to drive market awareness and support our distributor partners.

Sales have commenced in Japan. However, the establishment of local guidelines remains a critical step in achieving the broad adoption of high level disinfection for ultrasound probes. We are working closely with relevant associations to provide information and education as they work towards establishing local guidelines.

It was encouraging to see that as a result of COVID-19 and the heightened awareness of the importance of decontamination, the Japan Society of Ultrasound Medicine (JSUM) has now posted on its website a Japanese translation of the World Federation of Ultrasound in Medicine and Biology (WFUMB) Position Statement which is supportive for HLD of ultrasound probes. During FY21 we will continue to support the local societies in their development of local guidelines.


*Nanosonics Japan representatives at the Japanese Society of Reproductive Medicine Exhibition in Kobe.*

## CHINA

During FY20, we completed our China market assessment, and have now commenced the execution of our market entry strategy. In the first half of this financial year we visited China a number of times to meet with the Chinese CDC, NMPA and many potential distribution partners. We have appointed a China regulatory consultant to assist our regulatory strategy and have also commenced the establishment of a Wholly Owned Foreign Enterprise (WOFE).

## ASEAN

During FY20 we completed an assessment of the ASEAN market. We are now in discussions with potential distribution partners in the following ASEAN markets: Malaysia, Indonesia, Thailand, Philippines and Vietnam and are working on the regulatory approval for these markets. Depending on the implications of COVID-19 we expect to enter some ASEAN markets in FY21.

*Sonographer prepares to high level disinfect ultrasound probe before diagnostic procedure in Osaka, Japan.*

## ENHANCED INFECTION CONTROL FOR PERINATAL DIAGNOSTIC PROCEDURES IN OSAKA

Highly respected Japanese obstetrician and gynaecologist, Dr Ritsuko K. Pooh, has introduced trophon2 to improve disinfection practices at the CRIFM Clinical Research Institute of Fetal Medicine PMC in Osaka, Japan.

Dr Pooh has found that the use of trophon2 during COVID-19 has been beneficial for staff and patients.

**"Due to the spread of COVID-19 infection, many pregnant women are coming to our foetal diagnostic centre with fear and anxiety about contracting the virus."Since implementing trophon2, our transvaginal ultrasound probes are disinfected after each examination. The system is easy for a single staff member to operate and can be easily transported to the examination room."**

**"Many patients have remarked that they are grateful and reassured that we use an automated and validated system to disinfection our ultrasound probes for their procedure."** said Dr Pooh.

OUR COMMITMENT TO ESG

# ESG performance is vitally important to the Company and we recognise it is an area of equal importance for the communities in which Nanosonics operates

This has been an unprecedented year from an ESG perspective in a number of ways. From an environmental perspective, the calendar year commenced with the bushfire crises along Australia's eastern seaboard, impacting many homes, communities and livelihoods. This saw increased recognition of the importance and urgency of climate change and other pressing sustainability issues. From a social standpoint, it is difficult to overstate the enormous impacts of the COVID-19 pandemic which Nanosonics and the communities in which we operate continue to manage. During the second half, like many healthcare companies, we have all been adapting to the new financial, operational and community impacts of this worldwide pandemic which has had an immense and lasting impact on the entire global community and the businesses that serve it, and has presented unique challenges for companies like us that serve the healthcare sector. The above factors are illustrative of the need for a company's governance practices to remain dynamic and relevant in order to navigate risks and issues as they change, and the path to the "new normal".

For Nanosonics, the pandemic itself is yet another reminder of the important role that infection control plays in ensuring the safety and wellbeing of all of Nanosonics' many and important stakeholders – in particular its healthcare customers who have been on the frontline and the patients they care for.

Throughout the year the presence of our technology has continued to grow around the world. It is in more countries, more hospital departments and more clinics than ever before. We are proud to offer technology that protects approximately 78,000 patients every day from the risk of acquiring an infection from ultrasound procedures, reducing the burden on the healthcare system in the communities in which we operate. The relevance of the Nanosonics mission has never been more important: 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.

In that context, it gives me great pleasure to announce the publication of Nanosonics' first extended ESG report as a separate report from the Annual Report. ESG performance is vitally important to the Company, and we recognise it is an area of equal importance for the communities in which Nanosonics operates.

Our ESG report outlines how we aim to improve the impact we have on our communities, environment and employees and reflects our commitment to high standards of corporate governance. We continue to be guided by the leading frameworks for ESG disclosure which have been developed over the past decade.

"For Nanosonics, the pandemic itself is yet another reminder of the important role that infection control plays"

**MICHAEL KAVANAGH | CEO**

We set formal diversity targets for FY20 and I am encouraged by the results against those targets. In a year where social inequality has been in the spotlight, I am pleased to see our new Code of Conduct and Ethics affirming our support for diversity and inclusion, and thrilled to see the full spectrum of diversity reflected in our expanded diversity targets for FY21.

It is clear to me that we are already showing we are living the new corporate values that were rolled out in FY20: Collaboration, Innovation, Discipline, Agility and a Will to Win.

I said last year that Nanosonics recognises that to achieve our ESG goals we must seek simultaneously to understand and minimise our environmental impacts; meet our social responsibilities to our employees, customers and the broader community; and maintain high standards of corporate governance. As we take stock on another year, it is pleasing to see the progress we have made in this extraordinary year and the positive and meaningful impacts this has had on our employees, suppliers, customers and the broader communities in which we operate.

**Michael Kavanagh**
**CEO and President**

25 August 2020

TROPHON

# trophon® – the global standard of care for ultrasound probe high level disinfection

## RECOGNISING THE RISK

Infection prevention has never been more important and the risk of cross-contamination associated with ultrasound procedures and the associated consequences are real.

A landmark study commissioned by UK National health authorities (Scotland) revealed an "unacceptable risk" of patient infection from ultrasound procedures. [1] Over a six-year period, the study followed almost one million people (982,911 patient journeys) through linked National Health databases. 330,500 of these patient journeys were gynaecological patients and 60,698 had undergone a transvaginal ultrasound. The study revealed that patients undergoing transvaginal ultrasound scans had a 41% greater risk of infection and a 26% greater risk of antibiotic prescription in the 30 days following their procedure. 91% of facilities were performing low level disinfection of transvaginal ultrasound probes during the study period. The study concluded that "Failure to comply with [HLD] will continue to result in an unacceptable risk of harm to patients".

Ultrasound technology continues to grow as an important medical diagnostic and therapeutic procedure throughout the world. It is routinely used in obstetrics and gynaecology, radiology, cardiology, critical care and the operating theatre, and many other specialty care areas.

Healthcare professionals and patients alike put their faith in institutions to implement procedures to ensure that medical equipment used to diagnose and treat patients has been effectively decontaminated, disinfected or sterilised.

High level disinfection, aligned with the Spaulding classification, has been adopted as the standard of care for all semi-critical probes and critical probes where sterilisation cannot be performed.

## TROPHON – MASTERFUL MICROBIAL DEFENCE

trophon technology has demonstrated microbial efficacy against the widest range of clinically relevant pathogens. This includes bacterial endospores, mycobacteria, fungi, vegetative bacteria and viruses, including enveloped and non-enveloped virus. This efficacy spectrum includes multi-drug resistant bacteria, blood borne viruses (Hepatitis B, HIV) and sexually transmitted infections such as chlamydia, gonorrhoea and human papillomavirus. While trophon has not been tested directly against SARS CoV-2, coronaviruses, including SARS-CoV-2, fall into the category of enveloped viruses, where trophon has been proven to be highly effective.

"Failure to comply with [HLD] will continue to result in an unacceptable risk of harm to patients"

## FAIL SAFE HLD WITH EVERY CYCLE

trophon patented technology provides a novel, effective way of delivering high level disinfection of ultrasound probes. trophon works by generating a sonically-activated hydrogen peroxide ($H_2O_2$) sub-micron mist within the chamber. This mist accesses all surfaces, including crevices and tiny imperfections of the probe and handle that is suspended within the sealed trophon chamber. This is important to ensure the total surface area of the probe can be decontaminated. Sensors monitor temperature, mist volume and flow rates, while sophisticated software controls all aspects of the process at all times to deliver effective disinfection – with every cycle.

trophon effectively delivers high level disinfection without damaging the sensitive probe surface, nor exposing patients, staff or the environment to dangerous chemicals.

Nanosonics has worked with all major and many specialised ultrasound equipment manufacturers to have more than 1,000 probes tested, approved, endorsed and recommended for reprocessing with trophon technology.

1. Scott D, Fletcher E, Kane H, et al. Risk of infection following semi-invasive ultrasound procedures in Scotland, 2010 to 2016: A retrospective cohort study using linked national datasets. Ultrasound. 2018;26(3):168-77

Every day approximately 78,000 patients are protected from the risk of ultrasound probe cross-contamination. This equates to around 20 million patients annually.

## EFFICIENT WORKFLOW INTEGRATION

Designed with the clinical workflow and the user in mind, trophon reduces the clinical workflow burden. With less than two minutes' hands-on time and a total seven-minute cycle designed to align with room turnover time, high level disinfection is delivered without disrupting the clinical workflow. The fully enclosed and compact trophon system means trophon can be placed at point of care where examinations are performed. This further maximises patient throughput and cost effectiveness.

To further support ultrasound reprocessing, Nanosonics produces a range of accessories and consumable products to support effective reprocessing. These include trophon Companion Cleaning wipes to remove soiling from the surface of the probes before the HLD process, specialised probe covers to provide effective probe storage between cycles, and connectivity solutions and services to facilitate automated disinfection record management.

## DEMONSTRATED EFFICACY AND COMPLIANCE

To further support clinical efficiencies, trophon increases user compliance and supports audit-readiness through automation and data capture across the entire reprocessing workflow. Leveraging data captured through the sophisticated software controls and AcuTrace® RFID technology, trophon captures and records user compliance across the reprocessing workflow and facilitates digital data records for compliance record management.

# THE BOARD

## 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.

## STEVEN SARGENT

**BBus, FAICD, FTSE**

**Non-executive Director, Deputy Chairman and Lead Independent Director**

Mr Sargent joined the Nanosonics Board in July 2016. He had a 22-year career with General Electric and has extensive global experience across a range of industries, including financial services and healthcare. He was Vice President and Officer of GE, a member of GE's Corporate Executive Council and CEO of GE Australia NZ. Mr Sargent is currently a Director of Origin Energy, Chairman of OFX Group, a Director of the Great Barrier Reef Foundation and Chairman of The Origin Foundation. Previously, Mr Sargent was a Director of Veda Group, a Director of Bond University and a Director of the Business Council of Australia.

## MICHAEL KAVANAGH

**BSc, MBA (Advanced)**

**CEO, President and Managing Director**

Mr Kavanagh joined Nanosonics as CEO and President effective October 2013. He was a Non-executive Director of the Board from July 2012 to October 2013. Mr Kavanagh has more than 26 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. In the last three years Mr Kavanagh has held no other directorships.

## MARIE MCDONALD

**BSc (Hons), LLB (Hons)**

**Non-executive Director**

Ms McDonald joined the Nanosonics Board in October 2016, bringing with her a strong background in corporate and commercial law, having practised for many years as a partner at Ashurst. Ms McDonald was Chair of the Corporations Committee of the Business Law Section of the Law Council of Australia (2012 to 2013) and was a member of the Australian Takeovers Panel from 2001 to 2010. Ms McDonald is currently a Non-executive Director of CSL Limited, Nufarm Limited and the Walter and Eliza Hall Institute of Medical Research.


## LISA MCINTYRE

**BSc (Hons), PhD**

### Non-executive Director

Dr McIntyre joined the Nanosonics Board in November 2019. Her executive background is in strategy, particularly in the areas of medical technology and healthcare, with many years as a partner at L.E.K. Consulting in the US and Australia where she led the Asia Pacific Health practice. Dr. McIntyre was a Director of the Garvan Institute of Medical Research for 12 years and is a Senate Fellow of the University of Sydney and on the advisory committee of the NSW Generations Fund. She is currently a Non-executive Director of HCF Group, Insurance for NSW (icare) and Studiosity Pty Ltd.

## 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 a founding partner of Brandon Capital Partners, a leading Australian venture capital provider. He has more than 35 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 has not held any directorships of other listed companies in the last 3 years.

## GEOFF WILSON

**ACID, BCom, ICCA, CPA, US CPA**

### Non-executive Director

Mr Wilson joined the Board in July 2019. He has a breadth of local and international executive leadership and director experience together spanning more than 37 years, including many years with KPMG in Australia, Hong Kong and the USA. He has a strong background in finance, audit and risk management, as well as in Asia Pacific markets. Mr Wilson is currently a Director of TOLL Holdings Limited, HSBC Bank Australia Limited, Future Generation Global Investment Company Limited, ipSCAPE, and Sydney Symphony Limited. He is also an Ambassador for the Australian Indigenous Education Foundation.

# EXECUTIVE TEAM

## MICHAEL KAVANAGH

**BSc, MBA (Advanced)**

**CEO, President and Managing Director**

Michael joined Nanosonics as CEO and President effective October 2013. He was a Non-executive Director of the Board from July 2012 to October 2013. Michael has more than 26 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.

## STEVEN FARRUGIA

**BE, PhD**

**Chief Technology Officer**

Steven joined Nanosonics as Senior Vice President, Design and Development, in September 2016 and was appointed to the role of CTO in February 2018. He has over 21 years' experience leading the development of medical devices. Prior to Nanosonics, Steven held a range of senior executive roles with ResMed, including VP of Technology and VP of Product Development. He is an inventor of almost 300 granted and pending patents and is an Adjunct Professor of Engineering at The University of Sydney.

## MCGREGOR GRANT

**BEc, CA, GAICD, FGIA, FCIS**

**Chief Financial Officer and Company Secretary**

McGregor joined Nanosonics in April 2011. He is responsible for the overall financial management of the Company and also serves as the Company Secretary. McGregor has more than 23 years' business experience in a number of senior roles in the medical device and healthcare industries located in Australia and the United States, and previously worked for Coopers & Lybrand (now PwC) in Australia and Europe.

## RENEE SALABERRY

**MBA, GAICD**

**Chief Marketing Officer**

Renee joined Nanosonics in January 2019. She is a highly experienced international marketer, having held senior executive roles including Executive Vice President and Worldwide Strategy Director for one of the world's largest advertising agencies, Leo Burnett based in Chicago, and as Worldwide Chief Strategy Officer for the Publicis Healthcare Communications Group based in Paris. Renee was Strategic Planning Director for Saatchi & Saatchi Health, APAC and Head of Marketing for Abbott Nutrition, ANZ. She has held marketing and finance roles for Merck, Sharp & Dohme and the Commonwealth Bank.

## ROD LOPEZ

**MBA, BEng (Hons), GAICD**

**Chief Operating Officer**

Rod joined Nanosonics in April 2019. He is an international operations executive with over 20 years of experience, having held critical roles in companies such as Cochlear and GM Holden. During his 13-year tenure at Cochlear, Rod held roles such as Global Head of Manufacturing and Chair of the Operational Excellence Strategy Group. At GM Holden, Rod held senior management roles across operations and global customer support. Rod is also an award-winning academic with continuing Adjunct Faculty appointments for over 12 years with MGSM, AGSM and the University of Sydney Business School.

## JODI SAMPSON

**GradCertBA(Exec), CPHR**

**Chief People and Culture Officer**

Jodi joined Nanosonics in April 2020. Jodi is an experienced human resources professional who has contributed to strategy, culture and business transformation at an executive level in the finance, telco and IT industries. Most recently, Jodi was Head of Human Resources with the Eclipx Group. She has also led international human resource functions as HR Director for Samsung and Head of Human Resources, Asia Pacific at Orange Business Services.

## RONAN WRIGHT

**BSc, Bus Management, BEng**

**Regional President for Europe, Middle East and Africa**

Ronan joined Nanosonics in September 2019 and is responsible for Nanosonics' continued expansion across Europe and the Middle East. He has more than 20 years' experience in infection prevention through senior sales, management and business development roles with Advanced Sterilization Products and Wassenburg Medical, a global leader in endoscope reprocessing. Most recently, Ronan was the Vice President of Global Sales and a Board member at Wassenburg Medical, where he had also served as Managing Director for Ireland and Director of Business Development for EMEA.

## KEN SHAW

**BSc Finance**

**Regional President for the United States, Canada and Latin America**

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

## DAVID MORRIS

**BBus, BAppSc, GAICD**

**Chief Strategy Officer and Regional President Asia Pacific**

David joined Nanosonics in February 2019. David has more than 25 years of executive leadership, international business development, and strategy experience. David was Chief Executive Officer and Managing Director at the Monash IVF Group, and prior to that he was an Executive at Cochlear Limited, where he was the Chief Strategy Officer, and the President of Bone Anchored Solutions. Prior to joining Cochlear Limited, David worked at Accenture in their Strategy practice.

# DIRECTORS' REPORT

Your Directors submit their report together with the Consolidated Financial Report of Nanosonics Limited and its subsidiaries (the Group or Nanosonics), for the year ended 30 June 2020, and the Auditor's Report thereon.

## PRINCIPAL ACTIVITIES

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

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

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

## REVIEW OF OPERATIONS AND FINANCIAL RESULTS

Revenue for the year amounted to $100,054,000 (2019: $84,324,000), an increase of $15,730,000 or 19%. North American revenue increased by $13,630,000 or 18% to $90,141,000 reflecting an 11% reduction in capital revenue and a 38% increase in consumables and service revenue. Revenue in Europe and Middle East increased by $1,400,000 or 37% to $5,202,000 with capital revenue increasing by 30% and consumables and service revenue increasing by 40%. Revenue in Asia Pacific increased $700,000 or 17% to $4,711,000, with capital revenue increasing by 40% and consumables and service revenue increasing by 12%.

Gross profit increased by 20% to $75,513,000 compared with $62,816,000 in the prior period. Gross margin as a percentage of sales was 75.5% compared with 74.5% in the previous year.

Selling, general and administration expenses (SG&A) were $47,624,000 (2019: $37,805,000). The increase in SG&A of $9,819,000 was mainly to support continued growth in North America, as well as significant investment in operational infrastructure for market expansion activities in Europe and Japan and expansion of internal operational capacity and capabilities to support a growing global organisation. Research and development expenses (R&D) for the year were $15,558,000 (2019: $11,375,000), an increase of 37%. This increase is consistent with the Company's commitment to strategic investment in product expansion efforts through organic R&D. It is also reflects the establishment of a dedicated business development function to focus on inorganic product expansion opportunities.

Other income for the period amounted to $10,000 (2019: $24,000).

Other net losses of $670,000 comprised mainly of net loss in foreign currency changes and derivative financial instruments compared with a net gain of $1,842,000 in 2019.

Finance income amounted to $1,132,000 (2019: $1,571,000) which related to interest earned on cash investments. Finance expense for the year of $344,000 related to interest on leases and the financing component on cash received in advance on customer contracts (2019: $243,000).

Income tax expense for the period was $2,322,000 compared with income tax expense of $3,228,000 in 2019. An assessment of the operations of the Group for the year ended 30 June 2020 confirmed that taxable profits will continue to be generated by the Australian and US entities against which tax credits and future deductible temporary differences will be utilised. It was also determined that it is probable that future taxable profits are likely to be generated by the Canadian and UK subsidiaries against which partially recognised carried forward tax losses and deductible temporary differences will be realised. Further information on the income tax expense and movements on net deferred tax assets are detailed in Note 3.

The consolidated profit after tax amounted to $10,137,000 (2019: $13,602,000).

The Group ended the year with $91,781,000 (2019: $72,180,000) in cash and cash equivalents, an increase of $19,601,000. The cash and cash equivalents balance provides a strong balance sheet for the Company to continue executing on its growth strategies.

Further information on the operations of the Group and its business strategies and prospects are included in the Chief Executive Officer's (CEO's) report and the Regional highlights on pages 6 to 19 of this Annual Report.

## MATERIAL BUSINESS RISKS

Nanosonics has a risk management framework to identify, assess and appropriately manage risks. Details of the risk management framework are set out in the 2020 Corporate Governance Statement, which is available on the Company's website. Nanosonics' material business risks and how they are addressed are outlined below. These are risks that may materially adversely affect the Group's business strategy, financial position or future performance. It is not possible to identify every risk that could affect the Group's business. Further the actions taken to mitigate these risks cannot provide absolute assurance that risk will not materialise. Other risks besides those detailed below or in the financial statements could also adversely affect Nanosonics' business and operations. Accordingly, the material business risks below should not be considered an exhaustive list of potential risks that may affect Nanosonics.

# DIRECTORS' REPORT

| Risk | Description and potential consequences | Strategies used by Nanosonics to mitigate the risk |
|---|---|---|
| COVID-19 | **Sales**<br>There is a risk that direct access to hospitals and other healthcare facilities will become more limited, which may extend the timeline for adoption of trophon by some customers.<br>It is too early to estimate the broader economic impacts of the COVID-19 pandemic and its impact on healthcare systems globally. There is a risk regarding the affordability of capital purchases in the event of a deep recession.<br>There is a risk that there may be a reduction in hospital procedures requiring ultrasound (for example, as part of a 'second wave' of COVID-19) which may impact demand for consumables. | **Sales**<br>Measures are in place for digital communication and engagement with customers. Nanosonics continues to provide on-site support for installation of new trophon devices while taking the necessary safety precautions. Programs have also been implemented where possible to support emergency and ICU departments where ultrasound is used.<br>The Company has introduced new selling models aimed at reducing the up-front capital outlay required to purchase trophon. |
| | **People**<br>The Company has transitioned many of its personnel globally to work from home arrangements. There remains a risk that the COVID-19 pandemic and/or government measures to contain it, could further impact the Group's employees. | **People**<br>The Company's Work Health & Safety and people policies have been updated to address COVID-19 related matters, including supporting mental health, work from home and return to work arrangements. Physical distancing measures and sanitizer stations were also introduced, together with widespread education on the importance of good hand hygiene.<br>The Group's priority remains taking care of its people and protecting its strong relationships with customers and suppliers. This risk is monitored closely in all markets. |
| | **Operations and supply chain**<br>There is a risk of COVID-19 related disruption to Nanosonics' operations, including its global supply chain. | **Operations and supply chain**<br>The supply chain is being closely managed and is currently well positioned to meet customer demand, having increased inventory and raw materials and finished goods for capital equipment and consumables. No major disruption has occurred to the Company's global supply chain arising from COVID-19 and this risk is actively managed. |
| Significant distribution customer | The Group's key distribution customer accounts for approximately 54% of the Group's revenue (see Note 2.2 of the financial statements), the majority of which is in the United States of America (USA), Nanosonics' largest market. Nanosonics is aware of the need to continue to closely manage its key distribution customer, including closely managing any changes in its commercial and contractual relationship with that distributor. | The Group continues to strengthen its own direct operations in North America and now has significant direct sales operations in place which can be scaled further. The Group also has its own operations and appointed other distributors and resellers in the USA (many of whom are ultrasound OEMs) and its other key markets.<br>The Group continues to invest in infrastructure in the North American market to assist the business to scale, as well as research & development with a view to diversifying its product portfolio. |
| Research & development and commercialisation | Nanosonics currently has a platform technology, trophon, and recognises the need to expand its product portfolio by creating new products. Development and subsequent commercialisation of any new product requires a significant amount of investment (time, money and resource commitment). Further, all research and new product development programs involve inherent risks and uncertainties which can impact commercialisation timelines. New products are also likely to require a range of regulatory approvals. | To manage these risks, the Company has a clearly defined framework to support the processes covering product ideation, development and subsequent commercialisation and has made the development of additional technologies a key strategic priority and investment.<br>Nanosonics also engages with a range of experts in relevant fields, as well as customers, to determine the focus of its R&D efforts. |
| Competition | The potential for increased competition exposes Nanosonics to the risk of losing existing and new market share. Nanosonics is also exposed to the risk of medical and technological advancement by competitors where alternative products or methods are developed and commercialised that will impact the rate of adoption of trophon, cause trophon to lose market share, or render trophon obsolete. | To address this risk, the Company has invested in R&D for the second generation of trophon, trophon2, and continues to invest in the trophon product roadmap. The trophon2 is now sold in many key markets, and regulatory approvals continue to be obtained in new markets. The Company also invests in its relationships with ultrasound OEMs, including its probe compatibility program, as well as considering product development opportunities. |

# DIRECTORS' REPORT

| Risk | Description and potential consequences | Strategies used by Nanosonics to mitigate the risk |
|---|---|---|
| Intellectual property | The Company relies heavily on its ability to maintain and protect its intellectual property (IP) including registered and unregistered IP.<br>Nanosonics recognises the potential risk of litigation for alleged infringement by Nanosonics, the need to prosecute third party infringers of Nanosonics' IP, the expiry of Nanosonics' registered IP, and the risk of being unable to register the underlying subject matter or processes in any new products. | Nanosonics seeks appropriate patent, design and trade mark protection and manages any identified IP risks. Nanosonics also recognises the significant value in unregistered IP. Along with internal personnel to manage IP opportunities and risks, Nanosonics works closely with specialists and advisors internationally to monitor and manage its IP portfolio, opportunities and risks.<br>The trophon, for example, is covered by 14 patent families. Most are active through to 2025, and in many cases beyond, including patents relating to the consumables which do not expire until 2029. Additional patents have been filed in respect of trophon2.<br>The Group has an active program to continue to protect the IP in its technology, having regard to its commercial strategy, as well as defensive purposes and maintaining other barriers to entry.<br>Nanosonics ensures that its projects, products and related activities include an appropriate assessment of any third party IP profile against its own IP profile. |
| Supply chain | The Group is highly aware of managing risks in the supply chain, particularly its dependence on critical suppliers for the supply of key materials which carries the risk of delay and disruption. Certain materials are available from sole suppliers and regulatory requirements could make substitution costly and time-consuming. | The Group regularly monitors its suppliers and their performance, and seeks to enter into agreements where appropriate to mitigate any supply risk. Inventories are managed in sufficient quantities to ensure continued product supply in the short term. |
| Regulation | The Group operates in a highly regulated industry. Medical devices are subject to strict regulations of various regulatory bodies where the products are sold. Regulatory bodies perform regular audits of Nanosonics' manufacturing sites as well as its third party suppliers and failure to satisfy regulatory requirements presents significant risks, including potentially compromising the Company's ability to sell products and/or result in an adverse event such as a product recall. | The Group has a highly developed worldwide Quality Management System to manage this risk and invests in suitably qualified personnel to oversee the implementation of that system. Nanosonics monitors the changing regulatory landscape in the countries in which it operates and ensures that its operations adjust to any changes which apply to it. The business is also subject to annual regulatory audits from key regulators. |
| Financial | The Group is exposed to foreign currency risk and credit risk in light of the international nature of its operation. | The management of these risks is guided by the Group's internal financial risk management policy. The Company obtains external advice as appropriate. Further information is available in Note 8 to the financial statements. |
| Product liability | The Company recognises the risk that its products (or their use) may cause damage to a third party, given the nature of the product and the industry the Company operates in. | The Group has product liability insurance and operates a compliant Quality Management System across all aspects of the design, manufacture and release of products to market. |
| Personnel | Nanosonics recognises that providing a safe and rewarding working environment is critical to its sustainability. Further, the Company operates in a competitive market in relation to attracting, recruiting and retaining key talent including scientific, medical device regulations, and engineering talent. | The Company has programs in place both for Workplace Health and Safety (WHS), and the attraction, recruitment and retention of talent. |
| Cyber security | Nanosonics recognises the risks associated with cyber security and the potential impact on the Company's operations. A cyber security incident could lead to a breach of privacy, loss of and/or corruption of commercially sensitive data, and/or a disruption of critical business processes. This may adversely impact customers and the Company's business activities and cause significant reputational damage.<br>The Company also recognises the need to ensure operations can continue in the event of a disaster impacting its critical IT systems. | Nanosonics has a cyber security strategy and disaster recovery plan which is regularly reviewed with a view to safeguarding the business against these risks. |

# DIRECTORS' REPORT

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, other than the matters described above and in the review of operations included in the CEO's report and Regional highlights on pages 6 to 19 of this report, there were no significant changes in the state of affairs of the Group during the financial year under review and to the date of this report.

## DIVIDENDS – NANOSONICS LIMITED

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2020. No dividends were proposed, declared or paid during the financial year (2019: Nil).

The Board reviews the dividend policy regularly. The Company's dividend policy in the future will depend upon the profitability, the financial position and the capital allocation priorities of the Group atthe relevant time.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 18 August 2020, the Company issued 40,894 shares at $5.26 per share for a total of $215,000 under the Global Employee Share Plan (GESP).

No other matters or circumstances have arisen since 30 June 2020 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.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Comments on expected results of the operations of the Group are in the review of operations included in the CEO's report and Regional highlights on pages 6 to 19 of this Annual Report.

Considering the inherent uncertainties and ongoing risks associated with the pandemic, in particular those associated with ongoing hospital access, emergence of second and possible further waves and potential further lock downs, it is not possible to provide specific guidance in respect of FY21, particularly on a region by region basis.

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

## ENVIRONMENTAL REGULATION

The Group is subject to statutory environmental regulations. The Board believes that the Group has adequate processes in place to manage its environmental regulatory obligations and is not aware of any breach of those environmental regulations as they apply to the Group.

## DIRECTORS AND COMPANY SECRETARY

The directors of Nanosonics Limited during part or all of the year were Maurie Stang, David Fisher, Richard England (retired 31 August 2019), Michael Kavanagh, Steven Sargent, Marie McDonald, Geoff Wilson (appointed 17 July 2019) and Lisa McIntyre (appointed 13 December 2019). With the exception of Richard England, all have continued in office since the end of the year.

During the year, and to the date of this report, McGregor Grant is the sole Company Secretary.

Information on the Directors, Company Secretary and the executive team is a part of the Directors' Report and can be found on page 35 of the Annual Report.

As at the date of this report, Nanosonics Limited has the following committees of the Board: Audit & Risk, Remuneration & People, Nomination, and R&D and Innovation. Details of members of the committees of the Board during the year are included below and on page 35 of the Remuneration Report.

## MEETINGS OF DIRECTORS

The number of Directors' meetings, including meetings of the committees, held during the year ended 30 June 2020, and numbers of meetings attended by each of the Directors were as follows:

| | Full meetings of Directors | | Meetings of committees: Audit & Risk | | Nomination | | Remuneration & People | | R&D and Innovation [3] | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Held [1] | Attended | Held [1] | Attended | Held [1] | Attended | Held [1] | Attended | Held [1] | Attended |
| Maurie Stang | 15 | 15 | 4 | 4 | 1 | 1 | 6 | 6 | 4 | 4 |
| Richard England | 1 | 1 | 1 | 1 | — | — | 2 | 2 | — | — |
| David Fisher | 15 | 15 | 4 | 4 | 1 | 1 | 6 | 6 [2] | 4 | 4 |
| Steven Sargent | 15 | 15 | 4 | 4 | 1 | 1 | 6 | 6 | 4 | 4 |
| Marie McDonald | 15 | 15 | 4 | 4 | 1 | 1 | 6 | 6 | 4 | 3 [2] |
| Michael Kavanagh | 15 | 15 | 4 | 4 [2] | 1 | 1 [2] | 6 | 6 [2] | 4 | 4 |
| Geoff Wilson | 15 | 15 | 4 | 4 | 1 | 1 | 6 | 6 | 4 | 4 [2] |
| Lisa McIntrye | 11 | 11 | 2 | 2 | — | — | 2 | 2 [2] | 3 | 3 |

1. Indicates the number of meetings held which the Director was eligible to attend following their appointment or up to their retirement.

2. Attended in part or full in ex-officio capacity.

3. In addition to the R&D and Innovation Committee meeting held during the year, R&D matters were considered on a regular basis at Board meetings.

# DIRECTORS' REPORT

## SHARE-BASED PAYMENTS

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

## SHARES ISSUED

During the year ended 30 June 2020 and to the date of this report, the Company issued a total of 636,291 (2019: 622,200) new ordinary shares in Nanosonics Limited. These shares were issued pursuant to the exercise of performance rights and options under the share-based compensation plans.

No amount was unpaid on any of the shares issued.

As at 30 June 2020, there were 300,603,570 (2019: 299,967,279) ordinary shares in Nanosonics Limited on issue. At the date of this report, there were 300,644,464 shares on issue. Further information on issued shares is provided in the Share-based payments Note 4.3 and Capital reserves Note 9.1 to the financial statements.

## SHARE OPTIONS GRANTED

During the financial year and to the date of this report, the Company granted under the terms and conditions of the Nanosonics Omnibus Equity Plan for no consideration, 256,931 (2019: 498,134) unquoted performance rights and 922,444 (2019: 1,392,296) unquoted options over unissued ordinary shares in Nanosonics Limited. Further information on the grants is provided in Share-based payments Note 4.3 to the financial statements.

## SHARES UNDER OPTION

At the date of this report, there were 4,106,894 unissued ordinary shares of Nanosonics Limited under option as detailed below. As at 30 June 2020, there were 4,116,344 (2019: 4,003,629) unissued ordinary shares of Nanosonics Limited under option. Further information on the options is provided in the Share-based payments Note 4.3 to the financial statements.

| Share-based compensation plan | Number of shares under option |
|---|---|
| Omnibus Equity Plan | 3,863,238 |
| Employee Share Option Plan | 253,106 |
| Total shares under option at 30 June 2020 | 4,116,344 |
| Performance rights and options lapsed:<br>Omnibus Equity Plan | (9,450) |
| Total shares under option to the date of this report | 4,106,894 |

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.

## 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.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

## PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

## 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.

# DIRECTORS' REPORT

## 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, did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

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

b. None of the services undermines the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate of the Company or jointly sharing risks and rewards.

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

Details of amounts paid or payable to the auditor of the Group in relation to audit and non-audit services are disclosed in Note 10.5 to the financial statements.

## OFFICERS OF THE COMPANY WHO ARE FORMER AUDIT PARTNERS OF ERNST & YOUNG

There are no officers of the Company who were audit partners of Ernst & Young at the time when Ernst & Young undertook an audit of the Company.

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is included on page 57 of this report.

## AUDITOR

Ernst & Young was appointed auditor effective from 3 November 2017 and continues in office as auditor in accordance with section 327 of the Corporations Act.

## CORPORATE GOVERNANCE

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

## REMUNERATION REPORT

The Remuneration Report forms part of the Directors' Report.

This report, which includes the review of operations in the CEO's report and the Regional highlights (on pages 6 to 19) and the Information on the Board and the Executive Team (on pages 24 to 27) and the Remuneration Report (on pages 35 to 55), is made on 25 August 2020 and signed in accordance with a resolution of Directors, pursuant to section 298(2) of the Corporations Act.

Geoff Wilson
**Director**

Sydney, 25 August 2020

# REMUNERATION REPORT – AUDITED

## LETTER FROM THE CHAIR OF THE REMUNERATION & PEOPLE COMMITTEE

Dear Shareholders,

On behalf of the Remuneration & People Committee (RPC) and the Board, I am pleased to present the Remuneration Report for the year ended 30 June 2020 (FY20).

In the midst of the COVID-19 pandemic as we are, I am encouraged to see the Company's overall performance for FY20 demonstrating ongoing achievement of the Company's strategic growth agenda in a year of significant uncertainty and unprecedented challenges. Through this time, the business reported another year of growth increasing sales and the trophon installed base.

The Company has maintained a solid financial position through operational efficiencies combined with the Company's ability to be agile. The Board recognises and acknowledges the resilience, discretionary effort and commitment that the global team demonstrated during FY20 and their ability to deliver significant outcomes, despite the COVID-19 impact.

Notwithstanding the Company's excellent financial performance in the first three quarters and management's outstanding efforts in the fourth quarter, the Board decided not to exercise discretion to adjust any of the FY20 Company Performance Objectives that were impacted due to COVID-19. This has resulted in an overall STI outcome of 66% (FY19: 85%) for the Chief Executive Officer and President. Additionally, there will be no increases to the fees for the Non-executive Directors and any increases to base remuneration for the CEO&P and Executive KMP will be deferred and reviewed in December 2020.

Nanosonics' strong and positive culture continued to be a priority during FY20 and was supported by the introduction and implementation of the Global Core Values, the completion of the Executive Team with the addition of the newly created role of Chief People & Culture Officer, enhanced leadership capability and cross functional collaboration. This focus was recognised with above industry results for the second consecutive year in the Global Nanosonics Engagement Survey where 94% of the employees "believe in the Company mission and purpose" and 91% "are proud to work for Nanosonics".

I was pleased to welcome Geoff Wilson as a Member of the Remuneration & People Committee on his appointment to the Board on 17 July 2019. Geoff brings deep financial services and executive experience, as well as exposure to international business and sound judgment to the Committee, which have proven valuable in this year of change. I also welcome Jodi Sampson who joined in the newly created role of Chief People & Culture Officer in April 2020 to further support the Company's remuneration and people strategies at the executive level and across the global business.

**FY20 Remuneration & People Committee outcomes**

The RPC regularly reviews the Company's remuneration framework to ensure alignment between the interests of employees and shareholders whilst rewarding Company performance and individual achievements through remuneration outcomes. During FY20, the RPC engaged independent external remuneration consultants Godfrey Remuneration Group (GRG) to review the executive remuneration framework to identify refinements to the framework, quantum and structure with the objective of greater shareholder and executive alignment and a simplified fit-for-purpose remuneration model, to support the growth strategy for FY21.

The alignment of employees and shareholders' interests has been supported by the implementation of the Nanosonics Global Employee Share Plan offered to US employees and the Deferred Salary Sacrifice Share Scheme which was approved by the Remuneration & People Committee in FY19 and implemented in FY20, with 68% of the US workforce and 26% of Australian employees participating in the schemes.

**FY21 remuneration**

The review conducted by GRG, which took into consideration their benchmarking methodology for market competitiveness, indicated that Total Fixed Remuneration was low for the CEO&P and Executive KMP and that the variable component of remuneration for the CEO&P and Executive KMP was significantly under the market median. Having regard to the impact of COVID-19 on our customers and the broader community, the Board decided to defer any increase in Total Fixed Remuneration for the CEO&P and Executive KMP. This position will be reviewed in December 2020.

However, taking into account GRG's recommendation and the results of the benchmarking, the Board considers it is appropriate to increase the STI and LTI opportunity for the CEO&P and Executive Key Management Personnel (KMP). Accordingly, the Board has determined that it would be appropriate for the CEO&P's variable remuneration to be increased to a target STI opportunity of 60% (FY20: 50%) and a target 2020 LTI opportunity of 90% (2019 LTI: 60%). For the Executive KMP, the Board has determined that it would be appropriate for the variable components to be increased to a target STI opportunity of 50% (FY20: 30%), phased in over two years (FY21: 40% and FY22: 50%), and a target 2020 LTI opportunity of 50% (FY20: 30%). The financial metrics relating to the STI and LTI opportunity are aligned with shareholders' interests and aim to deliver and reward individual and group performance against the Company's key strategic priorities. Details of the anticipated changes are presented in section 5.9 and 5.10 of the Remuneration Report.

The focus for FY21 will be the continued alignment and simplification of the executive remuneration framework to drive and reward performance to support the Company's key strategic priorities during these unprecedented times with employees, customers and shareholders in mind.

On behalf of the Committee and the Board, I would like to thank shareholders for their ongoing belief in the Company's purpose and vision.

Steve Sargent
**Chairman, Remuneration & People Committee**

25 August 2020

# REMUNERATION REPORT – AUDITED

The Remuneration Report for the year ended 30 June 2020 (2020 Financial Year or FY20) forms part of the Directors' Report. It has been prepared in accordance with the Corporations Act 2001 (Cth) (the Act), Corporations Regulation 2M.3.03, in compliance with AASB124 Related Party Disclosures, and audited as required by section 308(3C) of the Act. It also includes additional information and disclosures that are intended to support a deeper understanding of remuneration governance and practices, for shareholders, where statutory requirements are not sufficient.

## REPORT STRUCTURE

The report is divided into the following sections:

| | |
|---|---|
| 1. People covered by this report | This section provides details of the Directors and Executives who are subject to the disclosure requirements of this report, together the Key Management Personnel (KMP). |
| 2. Remuneration link with Company performance and business strategy | This section provides an overview of the remuneration framework and the role of behaviours and values on the assessment of variable remuneration. |
| 3. Nanosonics' FY20 remuneration framework | This section details the elements of the remuneration framework, including market positioning, variable remuneration principles and plan designs, remuneration cycles/timing and the FY20 remuneration opportunities. |
| 4. Company performance and remuneration outcomes | This section summarises the Company's performance over the last five years and describes the variable remuneration outcomes in respect of FY20. A table summarising the actual remuneration received by Executive KMP during FY20 is also provided. |
| 5. Remuneration governance | This section describes how the Board and the RPC governs the remuneration process and includes a summary of the results of the remuneration governance review conducted by the Board together with a summary of the changes being proposed for FY21. |
| 6. Non-executive Director remuneration | This section outlines the principles and elements of Non-executive Director remuneration. |
| 7. Statutory tables and disclosures | This section includes statutory disclosures not addressed in other sections of the report. |

## 1. PEOPLE COVERED BY THIS REPORT

This report covers Key Management Personnel (KMP) which are defined as those who have the authority and responsibility for planning, directing and controlling the activities of Nanosonics. During the year the definition of KMP was reviewed and it was determined that the individuals identified in the table below were considered to be the KMP of the Company.

| | | | Committee membership | | | |
|---|---|---|---|---|---|---|
| Name | Role | Appointed | Nomination | Audit & Risk | Remuneration & People | R&D and Innovation |
| **Non-executive** | | | | | | |
| Maurie Stang | Chairman, Non-independent Director | 14 November 2000 | C | ✓ | ✓ | ✓ |
| Steve Sargent | Deputy Chairman, Lead Independent Director | 6 July 2016 | ✓ | ✓ | C | ✓ |
| Geoff Wilson | Independent Director | 17 July 2019 | ✓ | C | ✓ | |
| David Fisher | Independent Director | 30 July 2001 | ✓ | ✓ | | C |
| Marie McDonald | Independent Director | 24 October 2016 | ✓ | ✓ | ✓ | |
| Lisa McIntyre | Independent Director | 13 December 2019 | ✓ | ✓ | | ✓ |
| **Executive** | | | | | | |
| Michael Kavanagh | Chief Executive Officer & President (CEO&P) and Managing Director | 21 October 2013 [1] | | | | ✓ |
| McGregor Grant | Chief Financial Officer (CFO) and Company Secretary | 28 April 2011 | | | | |
| Steven Farrugia | Chief Technology Officer | 5 September 2016 | | | | |
| David Morris | Chief Strategy Officer and Regional President, APAC | 4 February 2019 | | | | |
| Rod Lopez | Chief Operating Officer | 4 March 2019 | | | | |

✓ = member, C = Chair

1. Mr Kavanagh was appointed Director on 30 July 2012 and appointed CEO&P on 21 October 2013.

# REMUNERATION REPORT – AUDITED

## 1. PEOPLE COVERED BY THIS REPORT continued

The following changes to KMP occurred during FY20 and to the date of this report:

- Geoff Wilson, appointed as an Independent Director on 17 July 2019 and became the Chairman of Audit & Risk Committee on 1 September 2019.
- Lisa McIntyre, appointed as an Independent Director on 13 December 2019.
- Richard England, Independent Director, Chairman of Audit & Risk Committee, Member of R&D and Innovation Committee and Member of Nomination Committee, retired effective 31 August 2019.
- Ken Shaw, Regional President, North America, was no longer considered to be an Executive KMP for the purposes of this report effective 1 July 2019.

## 2. REMUNERATION LINK WITH COMPANY PERFORMANCE AND BUSINESS STRATEGY

### 2.1 OVERVIEW OF NANOSONICS' EXECUTIVE REMUNERATION FRAMEWORK

Nanosonics' remuneration framework is designed to support the Company's strategy and reward executives for successful implementation and is outlined below. Additional information on the Nanosonics remuneration framework is provided in section 3.

The remuneration framework is intended to attract, motivate and retain talent to enable the Company to deliver on the growth strategy of the core business and to develop and implement the long-term strategy through significant investments to establish Nanosonics as a globally recognised leader in infection prevention.

**EXECUTIVE KMP REMUNERATION OBJECTIVES**

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

**TOTAL REMUNERATION (TR)**

| FIXED | VARIABLE | |
|---|---|---|
| Total Fixed Remuneration (TFR) | Short-Term Incentive (STI) | Long-Term Incentive (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 Total Shareholder Return outperformance measures. |
| **DELIVERY** | | |
| Base salary plus any fixed elements related to local markets, including superannuation or equivalents. | Part cash and part equity. The equity component is deferred to facilitate malus/clawback policies and to create a longer term aspect to the short-term incentive. | Equity is held subject to performance and service tests. The measurement period is three years to create a long-term focus. |
| **STRATEGIC INTENT AND MARKETING POSITIONING** | | |
| TFR will generally be positioned at the median compared to relevant market based data, considering expertise and performance in the roles. | Performance incentives are directed to achieving demanding growth targets. TFR + STI is intended to be positioned competitively when compared to groups of similar companies. | LTI is intended to align Executive KMP with the Company's long-term growth strategy and shareholders' interests. |

**TOTAL REMUNERATION IS INTENDED TO BE POSITIONED COMPETITIVELY WHEN COMPARED TO RELEVANT MARKET AND INTERNAL RELATIVITIES**

### 2.2 ASSESSMENT OF BEHAVIOURS AGAINST NANOSONICS' CORE VALUES

Nanosonics believes that the value created by desirable behaviours supports sustainable long-term value creation for shareholders. Our values and desired behaviours are taken into consideration when assessing individual performance which has implications on the modification of variable remuneration where appropriate.

## 3. NANOSONICS' FY20 REMUNERATION FRAMEWORK

### 3.1 TOTAL FIXED REMUNERATION (TFR) AND TOTAL REMUNERATION (TR) MARKET POSITIONING

Total Fixed Remuneration (TFR) comprises base salary plus any fixed elements relating to local markets, including superannuation or equivalents. In addition to base salary, executives may receive benefits in line with local practice, such as health insurance and a car allowance.

Executive KMP TFR is tested regularly for market competitiveness by reference to appropriate independent and externally sourced comparable benchmark information. Usually TFR adjustments are only made in response to individual performance, an increase in job responsibilities, changing market circumstances or promotion. Any adjustment to Executive KMP remuneration is approved by the Board, based on recommendations by the CEO&P and the Remuneration & People Committee.

Total Remuneration (TR) is intended to be comprised of an appropriate mix of remuneration elements including TFR, short-term and long-term variable components. The Target TR is generally intended to fall around the P62.5 of the peer group.

### 3.2 FY20 SHORT-TERM INCENTIVE (STI)

A description of the STI award for FY20 is set out below:

| | |
|---|---|
| Purpose | To reward executives for the achievement against annual performance objectives which are set by the Board at the beginning of the performance period. |
| Performance conditions/ measures | The STI is dependent on meeting Company and Individual Performance Objectives as shown below. |

Company Performance Objectives X Individual Performance Objectives X Target STI % X Base salary = STI

Four weighted Objectives reviewed and set by the Board annually

| Payout | |
|---|---|
| Threshold | 50% |
| Target | 100% |
| Maximum | 120% |

| Payout | |
|---|---|
| Did not achieve | 0% |
| Achieved some | 1%–50% |
| Achieved most | 51%–90% |
| Over achieved some | 91%–110% |
| Over achieved most | 110%–125% |

| STI | |
|---|---|
| Min | 0% |
| Max | 150% |

The Board has a general right to exercise discretion in relation to the satisfaction of the performance conditions.

| | |
|---|---|
| Opportunity | CEO&P target opportunity is 50% of base salary with a maximum opportunity of 75% of base salary for outperformance. Other Executive KMP target opportunity is 30% of Base Salary with a maximum opportunity of 45% of base salary for outperformance. |
| Delivery | The STI is delivered as follows:<br>> 50% of STI paid in cash; and<br>> 50% of STI delivered as performance rights with a service vesting condition.<br>After one year, the performance rights vest and are automatically exercised and then held in a holding lock as restricted shares for a further year. |
| Allocation method | The equity component will be determined based on the Volume Weighted Average Price (VWAP) of Nanosonics' shares during the 20 business days from the date of announcement following the release of the Company's FY20 full year results. |
| Dividends | Performance rights do not carry any dividend or voting rights prior to exercise. |
| Service condition | Because the STI amount awarded as equity has already been earned, there are no further performance requirements attached to the performance rights. However, they are subject to service conditions until the vesting date. |

# REMUNERATION REPORT – AUDITED

## 3. NANOSONICS' FY20 REMUNERATION FRAMEWORK continued

### 3.3 LONG-TERM INCENTIVE (LTI)

A description of the 2019 LTI Plan (i.e for LTI awarded in FY20) is set out below. The details of the 2016 LTI award that vested in FY20 are provided in section 4.4.

| | |
|---|---|
| Purpose | To align a significant portion of executives' overall remuneration opportunity with the indicators or drivers of shareholder value creation over the longer term and to align executive interests with those of shareholders through opportunities for share ownership. |
| Opportunity | CEO&P maximum opportunity is 60% of base salary. Other Executive KMP maximum opportunity is 30% of base salary. |
| Timing and delivery | Grants are made each year after shareholder approval to issue securities to Directors has been obtained at the relevant AGM.<br>The LTI is delivered in the form of performance rights and options. A minimum of 20% of the LTI opportunity must be taken as performance rights and a minimum of 20% of the LTI opportunity must be taken as options. Each Executive is able to elect to take the remaining 60% of the LTI opportunity as either performance rights or options. |
| Allocation method | The target LTI $ value for each Executive is converted into a number of performance rights and options based on a valuation/methodology determined by an independent consultant at the commencement of the performance period using the volume weighted average price of Nanosonics shares a month from and including the date of the announcement of the Company's full year results, as follows:<br>– Performance rights allocated = LTI $ value / Black Scholes value; and<br>– Options allocated = LTI $ value / Black Scholes Option Pricing value. |
| Performance conditions/ measures | Equity grants to the Executive KMP are subject to performance conditions.<br>Each year the Board considers the most appropriate performance measure to use in order to align executives' variable remuneration with shareholders' expectations, taking into account the changing circumstances of the Company. For the 2019 LTI, the Board formed the view that share price growth will be primarily influenced by the continued expansion of the Company's installed base, successful geographical expansion into new markets and its ability to develop and launch new products in the infection prevention market. Accordingly, an Absolute Compounded Annual Growth Rate of Total Shareholder Return (Absolute CAGR TSR) hurdle was used with targets set. The Board has set a gate which requires PBT to be accretive over the measurement period before the equity grant will be eligible to vest (PBT Gate).<br>An assessment will be made at the end of the measurement period and if the average PBT of the Company for the last three financial years of the measurement period is greater than the PBT of the Company in the financial year ending 30 June 2019, the gate will open. If the PBT gate does not open, the performance condition will be deemed to have not been met, regardless of the Company's performance against the Absolute CAGR TSR set out below.<br>The purpose of the PBT Gate (calculated based on an average PBT over the three-year measurement period) is to ensure that there is a baseline requirement to generate PBT over the measurement period, which takes into account additional investment in research and development and new product launch activity in a given year of the measurement period.<br>Vesting of performance rights and options, subject to the Absolute CAGR TSR measure, is in the proportions summarised below. |

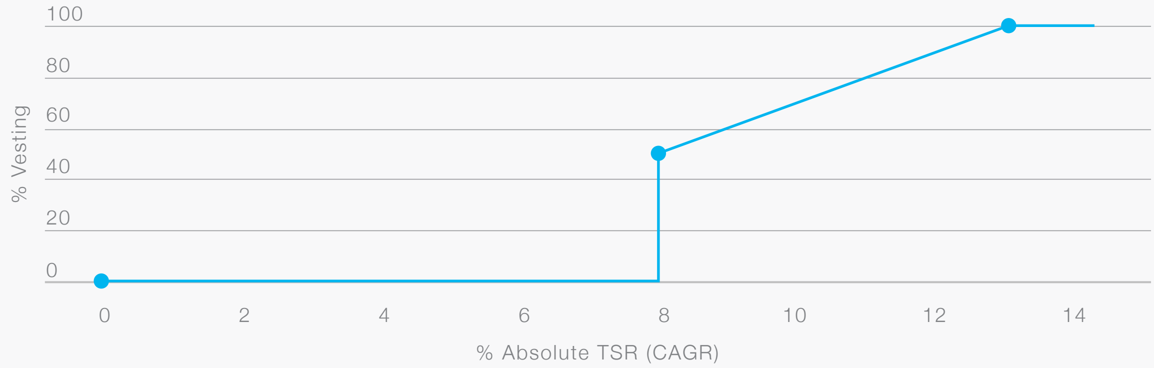
| Performance level | Absolute CAGR TSR | % of tranche vesting |
|---|---|---|
| Target | Reaches or exceeds 13% | 100% |
| Threshold | Reaches 8% but does not reach 13% | 50% to 100% (on a straight line basis) |
| Below threshold | Does not reach 8% | 0% |

# REMUNERATION REPORT – AUDITED

## 3. NANOSONICS' FY20 REMUNERATION FRAMEWORK continued

**Performance conditions/ measures** continued

The following diagram shows the vesting scale in graphical form:




The Absolute CAGR TSR for the 2019 LTI will be calculated based on the VWAP of the shares in the Company a month from and including the date of the release of the Company's 30 June 2019 results compared to the VWAP of the shares in the Company in the month from and including the date of the announcement of the Company's FY22 full year results.

A summary of the components of the performance measures associated with the 2019, 2018 and 2017 granted LTI awards is set out below.

| | Performance measure | | | |
|---|---|---|---|---|
| LTI year | Absolute CAGR TSR | TSR-1 | TSR-2 | Total |
| 2019 | 100% | — | — | 100% |
| 2018 | 100% | — | — | 100% |
| 2017 | — | 50% | 50% | 100% |

It should be noted that vesting conditions for the proposed 2020 LTI are disclosed in section 5 and include substantial changes.

Equity grants are tested against the performance measures set. The 2019 and 2018 LTI are subject to PBT gates. If the PBT gate does not open for 2019 and 2018 LTI, then the performance conditions will be deemed not to have been met regardless of the Company's performance against the Absolute CAGR TSR. If the performance hurdles are not met at the vesting date, performance rights and options lapse.

The Board has a general right to exercise discretion in relation to the satisfaction of the performance conditions.

**Performance measurement period**

The performance measurement periods for the 2019, 2018 and 2017 LTI plans are summarised below.

| LTI year | Measurement period |
|---|---|
| 2019 | 27 August 2019 to the date of the release of Nanosonics' FY22 financial statements |
| 2018 | 20 August 2018 to the date of the release of Nanosonics' FY21 financial statements |
| 2017 | 24 August 2017 to the date of the release of Nanosonics' FY20 financial statements |

**Dividends**

Performance rights and options do not carry any dividend or voting rights prior to exercise.

**Service condition**

In addition to the performance conditions, performance rights and options will only vest if the Executive KMP remains in continuous employment with Nanosonics in their current or equivalent position from the date of the grant to the respective vesting date of each grant.

The Board reviewed the LTI plan during FY20 and this will be replaced at the end of FY20. Details of the new LTI plan is provided in section 5.6.

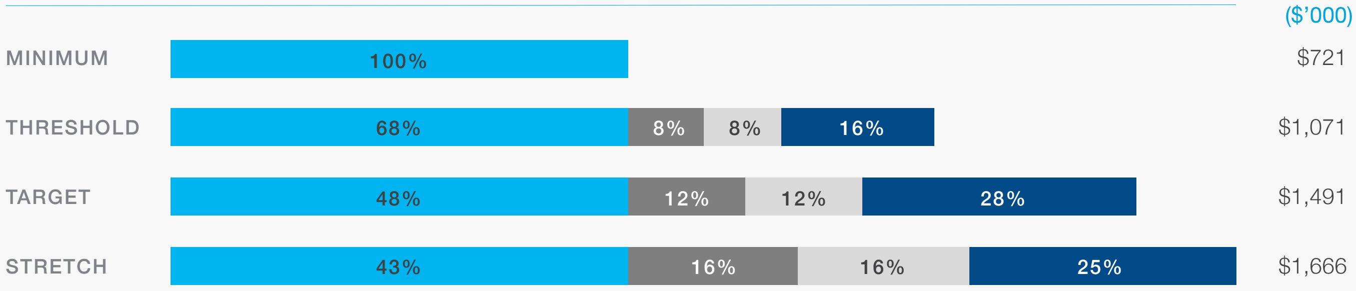
# REMUNERATION REPORT – AUDITED

## 3. NANOSONICS' FY20 REMUNERATION FRAMEWORK continued

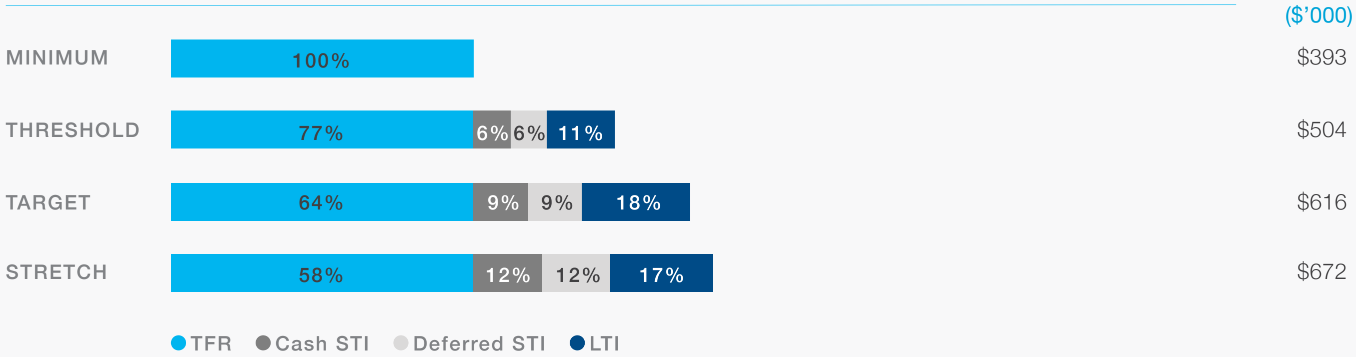
### 3.4 REMUNERATION RANGES AND MIX FOR EXECUTIVE ROLES IN FY20

The remuneration mix for each Executive KMP is weighted to provide an appropriate balance between fixed and variable performance-based remuneration to ensure focus on short, medium and longer term performance. The Board considers that this approach aligns Executive KMP remuneration with shareholders' interests and expectations. The following reflects the policy level of remuneration mixes that applied for FY20.

CEO&P REMUNERATION OPPORTUNITY MIX (POLICY) IN DOLLARS




OTHER DISCLOSED EXECUTIVE KMP REMUNERATION OPPORTUNITY MIX (POLICY) IN DOLLARS (AVERAGE)



REMUNERATION REPORT – AUDITED

## 4. COMPANY PERFORMANCE AND REMUNERATION OUTCOMES

### 4.1 RELATIONSHIP BETWEEN NANOSONICS' PERFORMANCE AND EXECUTIVE KMP VARIABLE REMUNERATION

Nanosonics' remuneration framework as detailed in section 3 is aimed at rewarding Executive KMP's for the achievement of sustainable business growth and for the creation of shareholder value in the short, medium and long-term. The table below provides quantitative performance indicators of the Company between FY16 to FY20 with comparative short-term and long-term remuneration outcomes. The table includes both statutory performance disclosures and indicators that have strong links to shared variable remuneration outcomes.

| Five-year performance history | FY20 | FY19 | FY18 | FY17 | FY16 |
|---|---|---|---|---|---|
| **Earnings and cash flows** | | | | | |
| Revenue ($'000) | **100,054** | 84,324 | 60,698 | 67,507 | 42,796 |
| Profit before tax ($'000) | **12,459** | 16,830 | 5,583 | 13,852 | 136 |
| Net profit after tax ($'000) | **10,137** | 13,602 | 5,261 | 26,158 | 122 |
| Pre-tax basic earnings per share (Pre-tax EPS) (cents) | **4.15** | 5.61 | 1.87 | 4.66 | 0.05 |
| Basic earnings per share (EPS) (cents) | **3.37** | 4.54 | 1.76 | 8.79 | 0.04 |
| Free cash flow ($'000) | **20,876** | 2,621 | 6,196 | 15,143 | 1,943 |
| **Returns** | | | | | |
| Share price as at 30 June ($) | **6.82** | 5.62 | 3.16 | 2.54 | 2.19 |
| Relative TSR percentile ranking | **tbd** [1,2] | 90.9/88.4 [3] | 94th/95th [4] | 78th/85th [5] | 91st [6] |
| Three-year rolling CAGR TSR% [7] | **39.0** | 36.9 | 23.0 | 47.6 | 54.0 |
| **STI award outcomes** | | | | | |
| Executive KMP outcome (Average % of $ target for the completed year) | **64.8** | 80.3 | 63.1 | 87.4 | 98.3 |
| **LTI outcomes** | | | | | |
| % that vested during the year | **tbd** [1,2] | 75 | 100 | 100 | 100 |

1. To be determined.
2. Relates to the 2017 LTI, refer to section 4.4 for additional information.
3. Relates to the 2016 LTI, refer to section 4.3 for additional information.
4. Relates to the 2015 LTI, Nanosonics was ranked in the 94th percentile of Comparator Group 1 and the 95th percentile of Comparator Group 2.
5. Relates to the 2013 LTI tranche 2 for the CEO&P and 2014 LT for the other Executive KMP. Nanosonics was ranked in the 85th percentile in respect of the award made to the CEO&P and in the 78th percentile in respect of the award made to Other Executive KMP.
6. Relates to the 2013 LTI.
7. Three-year CAGR TSR shown for the five years' performance period was calculated using the 30 June closing share price.

### 4.2 FY20 STI OUTCOMES

As explained in section 3.2, Nanosonics' STI is designed to reward executives for the achievement against annual performance objectives set by the Board at the beginning of the performance period. The payment of an STI is dependent on meeting Company and Individual Performance Objectives. The total STI award value and payout for each Executive KMP for the completed FY20 period is summarised in the table below.

| Executive KMP | Target STI (100%) $ | Company Performance Objectives % | Individual Performance Objectives % | STI achievement % | STI achievement $ | Cash $ | Equity portion deferred $ | Forfeited % |
|---|---|---|---|---|---|---|---|---|
| Michael Kavanagh | 350,000 | 60.0% | 110.0% | 66.00% | 231,000 | 115,500 | 115,500 | 34.0% |
| McGregor Grant | 112,621 | 60.0% | 97.5% | 58.50% | 65,883 | 32,942 | 32,941 | 41.5% |
| Steven Farrugia | 105,000 | 60.0% | 115.0% | 69.00% | 72,450 | 36,225 | 36,225 | 31.0% |
| David Morris | 123,600 | 60.0% | 100.0% | 60.00% | 74,160 | 37,080 | 37,080 | 40.0% |
| Rod Lopez | 105,000 | 60.0% | 115.0% | 69.00% | 72,450 | 36,225 | 36,225 | 31.0% |

REMUNERATION REPORT – AUDITED

## 4. COMPANY PERFORMANCE AND REMUNERATION OUTCOMES continued

The four Company Performance Objectives that were set by the Board for FY20 are financial and operational in nature and designed to strengthen alignment between management and shareholder objective. Details and the weighting of the Company Performance Objectives, which are shared by all employees who participate in the STI program, are summarised below:

- Profit before tax (40% weighting). Requires the Company to achieve a profit before tax, above a threshold,
- Installed base (20% weighting). Requires the Company to achieve an increase in the total installed base of trophon units, above a threshold,
- Product expansion (20% weighting). Requires the Company to achieve certain clearly defined milestones in relation to the development of new products, and
- Customer experience and culture (20% weighting). Requires the Company to achieve certain defined activities that impact customer experience and culture.

The overall achievement of the Company Performance Objectives for FY20 has been assessed at 60% by the Board. The impact of COVID-19 on the ability of the organisation to execute on planned activities around sales and marketing, R&D and clinical trials, as well as access to required materials, had a material impact on the achievement of a number of the corporate goals, in particular installed base. Board discretion associated with these matters was not exercised.

In addition to the Company Performance Objectives, each KMP is required to achieve Individual Performance Objectives that are set by the Board. The Individual Performance Objectives are aimed at achieving specific outcomes across a range of areas, including profitability, operational effectiveness, risk and compliance management, innovation and new product development, and people and culture.

Mr. Kavanagh's individual performance was assessed by the Board having regard to the Company Performance Objectives and the following individual Performance Objectives:

- Company strategy and risk management;
- Product expansion;
- Investor relations; and
- People, organisation, culture.

### 4.3 2016 LTI OUTCOMES

The performance conditions associated with the 2016 LTI award included 2 TSR hurdles that were associated with 2 Comparator Groups, TSR-1 and TSR-2, each representing 25% of the award and a Pre-tax EPS hurdle representing 50% of the award.

In relation to the Pre-tax EPS hurdle, the Company did not meet the threshold which the Board had set at 6.75 cents per share, which would result in 75% vesting of the performance rights and options associated with Pre-tax ESP hurdle. For the reasons explained at section 4.5 of Company's 2019 Remuneration Report, the Board exercised its discretion to treat the threshold as satisfied, but adopted a conservative position to allow 50% of the performance rights and options associated with the Pre-tax EPS hurdle to vest, rather than the threshold of 75%. The remaining 50% of the performance rights and options did not vest and were forfeited.

Following the release of the Company's FY19 financial statements, Nanosonics' relative TSR ranking was determined to be at the 90.9th percentile in relation to TSR-1 and at the 88.4th percentile in relation to TSR-2. These outcomes were above the 75th percentile required for TSR-1 and TSR-2 to vest at 100%. Accordingly, 100% of the performance rights and options associated with TSR-1 and TSR-2 vested.

Based on the above outcomes, 75% of the performance rights and options associated with the 2016 LTI vested in FY20.

## 4. COMPANY PERFORMANCE AND REMUNERATION OUTCOMES continued

### 4.4 2017 LTI OUTCOME

The performance conditions associated with the 2017 LTI included two TSR hurdles that were associated with two Comparator Groups, TSR-1 and TSR-2. To achieve 100% vesting, Nanosonics' TSR performance relative to the selected groups of comparator companies is required to be at or above the 75th percentile. As at 17 August 2020, Nanosonics' relative TSR ranking was estimated to be over the 75th percentile in respect of both TSR-1 and TSR-2 and therefore would result in 100% vesting. A final calculation will be conducted at the end of the measurement period in respect of the TSR-1 and TSR-2 hurdles.

The Comparator Groups were as follows:

**2017 Comparator Group 1 (TSR-1)**

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

**2017 LTI Comparator Group 2 (TSR-2)**

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

# REMUNERATION REPORT – AUDITED

## 4. COMPANY PERFORMANCE AND REMUNERATION OUTCOMES continued

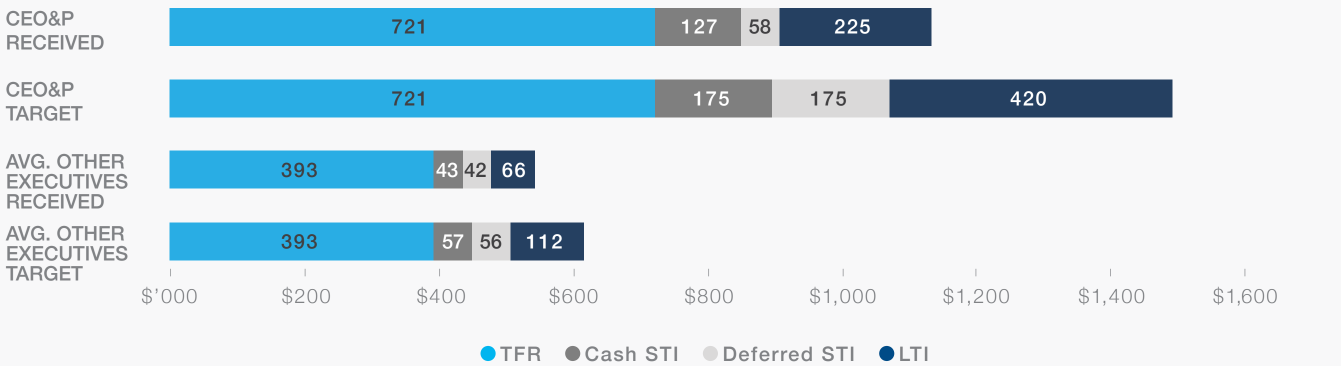
### 4.5 EXECUTIVE KMP REMUNERATION RECEIVED DURING THE PERIOD (UNAUDITED)

The figures in this table are different to the statutory disclosures in section 7, which are prepared in accordance with the accounting standards and therefore include the accounting value for all unvested deferred STI and LTI awards expensed in the year. The table below is provided voluntarily and represents the value to the Executive KMP of cash paid and vested equity awards (award value) received during the year, including any forfeited equity awards.

| Name | Year | Total fixed remuneration [1] $ | Cash STI [2] $ | Deferred STI vested [3] $ | LTI vested [4] $ | Actual remuneration received during the year $ | LTI forfeited [4] $ | Gain/losses on vested STI from change in value during deferral [5] $ | Gains/losses on vested LTI from change in value during vesting period [6] $ |
|---|---|---|---|---|---|---|---|---|---|
| Michael Kavanagh | **2020** | **721,003** | **127,387** | **58,054** | **225,176** | **1,131,620** | **75,056** | **52,014** | **591,017** |
| | 2019 | 620,000 | 116,105 | 111,962 | 271,015 | 1,119,082 | — | 48,244 | 457,209 |
| McGregor Grant | **2020** | **396,406** | **44,146** | **46,026** | **73,175** | **559,753** | **24,390** | **41,237** | **207,725** |
| | 2019 | 385,000 | 46,026 | 43,783 | 94,723 | 569,533 | — | 18,866 | 159,801 |
| Steven Farrugia | **2020** | **371,003** | **41,437** | **38,054** | **58,503** | **508,997** | **19,499** | **34,095** | **178,595** |
| | 2019 | 362,632 | 38,054 | 33,053 | — | 433,739 | — | 14,242 | — |
| David Morris | **2020** | **433,003** | **21,038** | **—** | **—** | **454,041** | **—** | **—** | **—** |
| | 2019 | 175,266 | — | — | — | 175,266 | — | — | — |
| Rod Lopez | **2020** | **371,003** | **14,698** | **—** | **—** | **385,701** | **—** | **—** | **—** |
| | 2019 | 123,050 | — | — | — | 123,050 | — | — | — |
| Ken Shaw | **2020** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| | 2019 | 474,095 | 42,818 | — | — | 516,913 | — | — | — |
| Gerard Putt | **2020** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| | 2019 | 199,428 | 35,945 | 35,343 | 77,637 | 348,353 | — | — | 208,613 |
| Total | **2020** | **2,292,418** | **248,706** | **142,135** | **356,853** | **3,040,112** | **118,945** | **3,787,806** | **977,337** |
| | 2019 | 2,339,471 | 278,948 | 224,140 | 443,376 | 3,285,935 | — | 4,232,400 | 825,622 |

1. Includes base salary, superannuation/pension and other cash and non-monetary 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.
3. Deferred STI vested in FY20 was from the FY18 STI award (FY19 was from the FY17 STI award). Value vested represents the STI allocation value (STI award value) for the relevant award year.
4. The value of the LTI vested/forfeited (2016 LTI in FY20, 2015 LTI in FY19) represent the LTI allocation value for the relevant award year (LTI award value) i.e. Black-Scholes valuation used at the beginning of the measurement period to determine the number of performance rights and options to be awarded multiplied by the number of performance rights and options that vested/forfeited following the end of the measurement period.
5. This is the difference in value at the time of vesting calculated as the number of performance rights multiplied by the market closing price on the day of vesting and the STI award value.
6. This is the difference between the estimated realised value assuming the performance rights and options were immediately exercised at vesting date and the LTI award value. The estimated realisable value is determined by multiplying the market share price at the time of vesting less any exercise price (for options) and the number of vested performance rights/options. Actual realised value at the point of exercise and sale of shares may vary.

The following chart shows the actual remuneration received in FY20 compared with the Target Remuneration for FY20.




'Received' remuneration refers to Total Fixed Remuneration received during FY20, Cash STI during FY20 in respect of FY19 performance, deferred FY18 STI and 2016 LTI which vested (using the award value) in FY20.

REMUNERATION REPORT – AUDITED

## 5. REMUNERATION GOVERNANCE

This section describes the role of the Board, the Remuneration & People Committee and the use of remuneration consultants when making remuneration decisions.

### 5.1 ROLE OF THE BOARD AND THE REMUNERATION & PEOPLE COMMITTEE (RPC)

The Board is responsible for Nanosonics' remuneration strategy and policy and has established a Remuneration & People Committee which is chaired by an independent Director and has a majority of independent Directors. Members of the Remuneration & People Committee are shown in section 1.

The Remuneration & People Committee oversees remuneration policies and strategies to ensure that performance is rewarded in a manner that is competitive and appropriate for the results delivered. The purpose of the Remuneration & People Committee is to assist the Board to discharge its responsibilities by:

– Supporting the development of people strategies, practices and culture to drive the Company's business objectives;
– Supporting and advising the Board on the Company's people policies and practices and its remuneration strategy, policy and structure, as well as monitoring their implementation; and
– Recommending to the Board a system of performance appraisal for executive management and the Company as a whole.

The Remuneration & People Committee's role and its interaction with the Board and internal and external advisors is illustrated below.

**THE BOARD**

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

**THE REMUNERATION & PEOPLE COMMITTEE**

The RPC operates under the delegated authority of the Board and 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 in relation to 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 targets and other vesting criteria |

**External consultants** | **Internal resources**

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

### 5.2 REMUNERATION ADVISORS

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

During FY20, the Board engaged independent remuneration consultants to provide Executive KMP remuneration recommendations directly to Non-Executive directors.

The independent remuneration consultants, Godfrey Remuneration Group (GRG), were engaged to provide the following services:

– Recommendations on executive remuneration quantum, including benchmarking data and structure;
– A review of and advice on STI and LTI design and plan documentation;
– A review of and assistance drafting the Company's Remuneration Report;
– A review of and assistance developing the Board's Remuneration & People Committee work program and associated calendar of remuneration activities.

The consultant made remuneration recommendations and the Company paid fees totalling $104,400 including GST for these services.

# REMUNERATION REPORT – AUDITED

## 5. REMUNERATION GOVERNANCE continued

To ensure that the advice was free from undue influence from the KMP that benefit from the remuneration recommendations, the Board adopted the following practices:

- KMP remuneration recommendations may only be received from consultants who have been recommended by the Remuneration & People Committee and approved by the Board;
- The consultants must be independent of KMP; and
- The Board controls engagements relating to remuneration recommendations. While allowing interactions between management and the consultant, the consultant must report directly to the Board. For these purposes, the Board delegated this responsibility to the Chair of the Remuneration & People Committee.

The Board is satisfied that the remuneration recommendations received were free from undue influence from KMP to whom the recommendations related.

### 5.3 RPC ACTIVITIES IN FY20

The RPC met formally six times during FY20. The activities addressed by the Committee are summarised below:

**Remuneration framework:**

- Reviewed and approved the FY20 Corporate Performance Objectives and the FY20 Personal Performance Objectives for the CEO&P and Executive KMP,
- Reviewed and considered the proposed changes for the FY21 STI plan and 2020 LTI plan for the CEO&P and Executive KMP; and
- Approval of the implementation of the Nanosonics Global Employee Share Plan and the Deferred Salary Sacrifice Share Scheme (Nanosonics Omnibus Equity Plan).

**Remuneration recommendations:**

- Reviewed and approved the achievement of the FY19 Corporate Performance Objectives and the FY19 achievement of Personal Performance Objectives for CEO&P and Executive KMP,
- Reviewed the 2016 LTI pre-tax EPS hurdle,
- Reviewed the 2017 LTI YTD status; and
- Reviewed the 2019 LTI Performance Conditions.

**Other remuneration matters:**

- Reviewed and approved the Employee Share Ownership policy,
- Reviewed the summary of the Employee Share Plans; and
- Sought external advice in relation to executive remuneration, future STI and LTI design plans and the development of remuneration calendar.

**Other people matters:**

- Awareness and feedback in relation to the development and the launch of the Global Core Values; and
- Review progress against the FY20 diversity targets.

### 5.4 BOARD DISCRETION AND CLAWBACK POLICY

Nanosonics has a policy that gives the Board discretion to clawback or reduce STI or LTI awards if it becomes aware of circumstances that have resulted in an unfair benefit to the Executive KMP, including a material misstatement of the Group's financial statements or misconduct of an Executive KMP. The Clawback Policy is available on Nanosonics' website, www.nanosonics.com.au under Investor Centre, Corporate Governance.

Further, prior to determination of variable remuneration outcomes or vesting, for FY20 the Audit & Risk Committee reviewed risk management (financial and non-financial) and compliance by Executive KMP during the year to determine whether any adjustments should be recommended to remuneration outcomes. The discussions held at the Audit & Risk Committee's review also informs any exercise of discretion concerning application of any clawback.

Under the STI and LTI rules, the Board also has discretion to modify awards or vesting if it forms the view that not to do so would produce an inappropriate outcome.

The Board is committed to transparency regarding the application of its discretion in relation to each of these matters. No discretion was exercised by the Board to modify performance assessment outcomes or awards in respect of STI or LTI relating to FY20 results.

### 5.5 SECURITIES TRADING POLICY

Under the Nanosonics Limited Securities Trading Policy and in accordance with the Corporations Act, securities granted under Nanosonics' equity variable remuneration schemes must remain at risk until vested, or until exercised, if options or performance rights. No schemes may be entered into by an individual or their associates that specifically protects the unvested value of shares, performance rights or options.

KMP 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.

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

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

### 5.6 MINIMUM SHAREHOLDING REQUIREMENTS FOR KMP

For Non-executive Directors and Executive KMP, the minimum share ownership is an equity holding equivalent to the previous year's Board fee or Base Salary fee and is expected to be met within four years of commencement or appointment.

Nanosonics encourages Executive KMP to acquire shares and supports the holding policy by awarding a substantial portion of variable remuneration in the form of equity, and supports participants to hold the equity long term through the design of the plans.

Progress towards compliance with the policy is outlined in section 7.3. It should be noted that vested but unexercised rights with a nil exercise price are counted towards holdings.

## 5. REMUNERATION GOVERNANCE continued

### 5.7 REMUNERATION GOVERNANCE REVIEW

During FY20 the Board identified opportunities to improve Executive KMP remuneration and governance as a result of a review of current market data and best practice. The key changes for FY21 are summarised below:

| Feature: | Rationale: |
|---|---|
| Increase both STI and LTI % opportunity of variable remuneration.<br>The STI and LTI % opportunity to be calculated on Total Fixed Remuneration (base salary plus superannuation). | Ensures market competitiveness when compared to groups of similar companies and meets the external benchmark at "target" and creates a focus on long-term alignment. |
| Defined variable remuneration achievements at threshold, target and stretch. | Improved clarity for shareholders and Executive KMP (participants) regarding the challenges associated with variable remuneration at threshold, target and stretch. |
| Metrics for STI Plan will be "discrete" rather than multiplied together and have a greater focus on group and financial performance. | Replacing the "multiplier" metrics with discrete metrics that operate independently improves clarity of the performance/reward link. An increased focus on group and financial performance for Executive KMP will help drive long term sustainable value creation for shareholders. |
| STI incentive awards will be deferred and delivered in service rights. | Deferred STI will be subject to a one year service condition and an additional one year exercise restriction.<br>Deferral of STI awards enables Executive KMP and shareholders' experience to be aligned to longer term outcomes. |
| LTI structure introduces two financial measures: an external market based metric (indexed TSR) and an internal earnings based metric (Underlying ROE). | Ensures recognition of multiple views of sustainable value creation for shareholders. The external market measure of an indexed TSR represents a Nanosonics specific risk-adjusted return relative to return of an index. The internal financial metric of Underlying ROE will support investment in new product development and growth. |
| A new Rights Plan has been developed, as detailed in section 5.10. | This allows for instruments such as restricted rights to be used to defer STI awards, and share appreciation rights, which are less dilutive than traditional options. |
| The new Rights Plan has removed the ability for Executive KMP to elect the mix of options and performance rights. | The fixing of the weighting of the metrics and association with a particular type of Right has reduced the risk of perceived market signalling. |
| Improved exercise restriction periods and malus clauses are incorporated in the new Rights Plan. | Enables and supports an effective execution of malus clauses and Clawback Policy. |
| Extensive review of the Remuneration Report. | Provides an opportunity to improve disclosures and adopt best reporting practice. |

### 5.8 FY21 REMUNERATION CYCLE

The Executive KMP remuneration cycle is illustrated below:

<table>
<tr><th>YEAR 1</th><th>YEAR 2</th><th>YEAR 3</th><th>YEAR 4</th></tr>
<tr><td>TFR</td><td></td><td></td><td rowspan="6">LTI gate check and vesting assessments</td></tr>
<tr><td rowspan="3">STI METRICS</td><td>Audit and STI assessment</td><td></td></tr>
<tr><td>50% awarded in cash</td><td></td></tr>
<tr><td colspan="2">50% awarded in restricted rights (two-year restriction)</td></tr>
<tr><td colspan="3">LTI METRICS – one third of value in share appreciation rights – iTSR Metric</td></tr>
<tr><td colspan="3">LTI METRICS – two thirds of value in performance rights – ROE metric</td></tr>
<tr><td colspan="4">LTI GRANTS are 100% exercise restricted until end of fourth year</td></tr>
</table>

The Board has the ability to claw back or cancel unexercised rights under the new approach to equity remuneration, including during periods of exercise restrictions. This may be necessary due to a triggering of the malus clauses in the relevant Plan Rules or of the Nanosonics Clawback Policy.

# REMUNERATION REPORT – AUDITED

## 5. REMUNERATION GOVERNANCE continued

### 5.9 FY21 SHORT-TERM INCENTIVE (STI) PLAN

A description of the STI to be implemented for FY21 is set out below.

| | |
|---|---|
| Purpose | To reward executives for the achievement against annual outcome metrics set by the Board at the beginning of the financial year. |
| Measurement period | The measurement period for performance assessment for the STI is the financial year of the Company. |
| Performance conditions/measures | The Board will set performance conditions in the form of weighted outcome metrics. Each outcome metric will be assessed each year following the audit of the financial statements. |
| Behaviour and values modifier | The new STI plan is subject to a behaviour and values modifier that may scale awards downwards when expectations are not met regarding an individual's behaviours and values, which will be assessed by the Board. The modifier may reduce awards to nil in extreme cases. |
| Opportunity | For the CEO&P, the FY21 target opportunity is 60% of TFR with a maximum opportunity of 90% of TFR for outperformance. For other Executive KMP, the STI target opportunity is 40% of TFR with a maximum opportunity of 60% of TFR for outperformance. |
| Delivery | The STI is delivered as follows:<br>– 50% is paid in cash; and<br>– 50% delivered as service rights subject to one year service condition and one year exercise restriction period. |
| Allocation method | The equity component will be determined based on the Volume Weighted Average Price of Nanosonics' shares during the 20 business days from the date of announcement following the release of the Company's FY21 full year results. |
| Dividends | Rights do not carry any dividend or voting rights prior to exercise. |
| Corporate actions | In the case of corporate actions, including a change in control, a demerger, delisting or major return of the capital, the Board has discretion to either determine any STI awards and terminate the plan for the remainder of the year, or to allow the plan to continue, subject to any alterations to outcome metrics and weightings that may be required such that participants are neither advantaged nor disadvantaged by the corporate action. |
| Termination of employment | To be eligible to receive the cash component, the participants must be employed by the Company and not working a notice period at the time the cash is paid.<br>To be eligible to receive the equity component, the participants must be employed by the Company and not working a notice period at the time the equity is granted and when it vests. |
| Board discretion | The Board retains discretion to modify STI award assessment outcomes, or the form of settlement, if it deems it appropriate in the circumstances that prevailed over the measurement period. The Board will disclose the application of such discretion to KMP STI awards, when applicable. |

### 5.10 2020 LTI PLAN (SUBJECT TO SHAREHOLDER APPROVAL)

The Board will be seeking shareholder approval at the 2020 Annual General Meeting (AGM) of new Rights Plan Rules and the proposed 2020 LTI award to the CEO&P. An outline of the proposed 2020 LTI award is set out below.

| | |
|---|---|
| Purpose | To align a significant portion of executives' overall remuneration opportunity with the indicators or drivers of shareholder value creation over the longer term and to align executive interests with those of shareholders. |
| Measurement period | The measurement period of the 2020 LTI will be three financial years from and including the year of grant unless otherwise noted i.e. FY21 to FY23. |
| Exercise restriction period | LTI grants may not be exercised for a period of four financial years from and including the year of grant, unless otherwise noted. |
| Performance and service conditions | Equity grants to the Executive KMP are subject to performance conditions. Each year the Board considers the most appropriate performance metrics to use in order to align executives' variable remuneration with shareholders' expectations, taking into account the changing circumstances of the Company. Equity grants are tested for vesting against the performance measures set. If the performance hurdles are not met at the testing date the equity grants will lapse.<br>Two performance measures are proposed to apply to 2020 LTI grants to Executive KMP:<br>– One third (at target) of the remuneration value of the grant will be based on Nanosonics' Total Shareholder Return (TSR), compared with the TSR of the ASX300 Industrials Index (excluding the energy and metal and mining industries) after taking into account a premium determined by the Board associated with Nanosonics' risk profile (iTSR). A gate will apply whereby Nanosonics must have a positive TSR before the iTSR award is eligible to vest; and<br>– Two thirds (at target) of the remuneration value of the grant will be based on the average annual Underlying ROE.<br>Continued service for the duration of the measurement period is required for grants of equity to be eligible to vest. |

## 5. REMUNERATION GOVERNANCE continued

| | |
|---|---|
| Delivery | Equity grants to the Executive KMP will be awarded as follows:<br>– The iTSR component will be awarded as share appreciation rights, which are cashless exercise options that have a notional exercise price equal to the share price at the start of the measurement period; and<br>– The Underlying ROE component will be awarded as performance rights with a nil exercise price. |
| Opportunity | For the CEO&P the target opportunity will be 90% of TFR with a maximum opportunity of 180% of TFR for outperformance. For other Executive KMP, the target opportunity will be 50% of TFR with a maximum opportunity of 100% of TFR for outperformance. |
| Exercise and settlement | Share appreciation rights or performance rights not exercised before the end of their term will lapse. For manual exercise, an Exercise Notice must be given to the Company by the participant. Upon exercise, the Board will calculate the exercised rights value as follows: Exercised Rights Value = Number of Rights Exercised x (Share Price at Exercise – Exercise Price).<br>The exercised rights value may be settled in the form of shares, restricted shares or cash at the discretion of the Board. Generally, settlement will be in the form of restricted shares or shares unless exceptional circumstances apply. Restricted shares may not be disposed of until all of the following cease to apply:<br>a. Specified disposal restrictions specified in the Invitation;<br>b. Disposal is prohibited by the Company's securities trading policy, including trading blackouts; and<br>c. Disposal is prohibited due to the insider trading restrictions contained in the Corporations Act. |
| Allocation method | The number of share appreciation rights or performance rights granted is calculated as follows:<br>Number of Rights = TFR x Target LTI value % x Tranche Weighting ÷ Target Vesting % ÷ Right Value.<br>The value of each share appreciation right or performance right is determined using a Black-Scholes model (prepared by an independent consultant), ignoring vesting conditions (i.e. no discounting applies). |
| Dividends | Share appreciation rights or performance rights do not carry any dividend or voting rights prior to exercise. |
| Term | The share appreciation rights or performance rights granted to Australian participants have a term of approximately seven years, being three years of measurement period, one further year of exercise restrictions (total of four years of exercise restriction) and three years for the participant to exercise the right, for a total term of approximately seven years.<br>For some international participants, such as in the USA, automatic exercise at the end of the exercise restriction period must apply in order to obtain appropriate tax treatment, and the term will therefore be approximately four years. |
| Corporate actions | In the case of a delisting, pro-rata time and performance vesting will apply, and the Board has discretion to vest or lapse the remainder as appropriate. Any rights that do not vest will lapse.<br>In the case of a demerger or major return of capital, either pro-rata time and performance vesting will apply, and the Board has discretion to vest or lapse the remainder; or the terms of unvested grants will be modified such that participants are neither advantaged nor disadvantaged by the corporate action. |
| Termination of employment | If the participant does not remain in continuous employment until the vesting date of 30 September 2023, 100% of the award is forfeited, subject to Board discretion. |
| Malus/Clawback | Plan rules incorporate the Company's Clawback Policy, and include a malus clause that allows the Board to determine that unexercised rights will be forfeited by a participant if they take certain actions deemed to harm the interests of the Company's stakeholders, whether before or after a termination of employment has occurred. This and the other rules of the plan cover traditional "Bad Leaver" circumstances, including dismissal for cause, and joining a competitor (subject to Board discretion) i.e. equity interests would be forfeited in these cases. |
| Board discretion | It should be noted that the Board has discretion to amend the plan rules, trigger vesting and/or make adjustments to vesting outcomes to ensure that inappropriate outcomes do not occur. |

# REMUNERATION REPORT – AUDITED

## 6 NON-EXECUTIVE DIRECTOR REMUNERATION

### 6.1 PRINCIPLES

The following outlines the principles that Nanosonics applies to governing Non-executive Director (NED) remuneration:

| Principle | Comment |
|---|---|
| Fees are set by reference to key considerations | Fees for Non-executive Directors are based on the nature of the Directors' work and their responsibilities, taking into account the nature and complexity of the Company and the skills and experience of the Director. In determining the level of fees, survey data on comparable companies is considered. External consultants may be used to source the relevant data and analysis. Non-executive Directors' fees are recommended by the Remuneration & People 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 variable remuneration payments and the level of their fees is not set with reference to measures of the Company's performance. |
| Aggregate Board fees are approved by shareholders | The total amount of fees paid to Non-executive Directors in the year ended 30 June 2020 is within the aggregate amount of $1,000,000 a year, approved at a general meeting of the Company on 4 November 2016. Grants of equity approved by shareholders, if any, are excluded in accordance with the ASX Listing Rules. |
| Flexibility in how fees are received | Non-executive Directors can elect how they wish to receive their total fees – i.e. as cash, superannuation contributions or charitable donations. |

### 6.2 REMUNERATION ELEMENTS

The elements of Non-executive Director remuneration available to be offered as part of a package each year:

| Remuneration element | Details | |
|---|---|---|
| Board fees per annum [1] | Chairman fee [2] | $225,000 |
| | Deputy Chairman fee | $135,000 |
| | Non-executive Director fee | $100,000 |
| | Committee chair fee [3] | $20,000 |
| | Committee member fee [3] | $10,000 |
| 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 contribution obligations. | |
| Equity instruments | Non-executive Directors do not receive any performance-related remuneration, options or performance shares. | |
| Other fees/benefits | Non-executive Directors are reimbursed for out-of-pocket expenses that are directly related to Nanosonics' business. | |

1. The Non-executive Director fees are reflective of the review undertaken in FY19, effective 1 July 2019. There were no proposed changes for FY21.
2. The Chairman does not receive separate Committee fees.
3. No Committee fees are payable in relation to the Nomination Committee.

REMUNERATION REPORT – AUDITED

## 7 STATUTORY TABLES AND DISCLOSURES

### 7.1 EXECUTIVE KMP STATUTORY REMUNERATION FOR FY20

The following table outlines the statutory and audited (A-IFRS) remuneration of executives:

| | | Short-term | | Long-term | Post-employment | | | Variable Remuneration | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Base salary | Others [1] | Accrued leave benefits | Super-annuation/ pension [2] | TFR | | Cash STI [3] | | Deferred STI equity compensation [4] | | LTI equity compensation [4] | | Total remuneration |
| Name | Year | $ | $ | $ | $ | $ | % of TR | $ | % of TR | $ | % of TR | $ | % of TR | $ |
| Michael Kavanagh | **2020** | **651,539** | **—** | **108,092** | **21,003** | **780,634** | **56%** | **115,500** | **8%** | **150,087** | **11%** | **347,722** | **25%** | **1,393,943** |
| | 2019 | 578,719 | — | 73,328 | 20,531 | 672,578 | 58% | 127,387 | 11% | 108,500 | 9% | 255,419 | 22% | 1,163,884 |
| McGregor Grant | **2020** | **330,770** | **—** | **45,760** | **21,003** | **397,533** | **73%** | **32,942** | **6%** | **41,379** | **8%** | **75,813** | **14%** | **547,667** |
| | 2019 | 342,544 | — | 45,624 | 20,531 | 408,699 | 72% | 44,146 | 8% | 37,741 | 7% | 76,747 | 14% | 567,333 |
| Steven Farrugia [5] | **2020** | **310,962** | **—** | **31,856** | **21,003** | **363,821** | **68%** | **36,225** | **7%** | **40,971** | **8%** | **96,359** | **18%** | **537,376** |
| | 2019 | 319,905 | — | 32,059 | 20,531 | 372,495 | 72% | 41,437 | 8% | 33,150 | 6% | 68,260 | 13% | 515,342 |
| David Morris [6] | **2020** | **404,077** | **—** | **33,120** | **21,003** | **458,200** | **71%** | **37,080** | **6%** | **28,656** | **4%** | **124,195** | **19%** | **648,131** |
| | 2019 | 165,001 | — | 12,587 | 10,266 | 187,854 | 68% | 21,038 | 8% | 9,014 | 3% | 56,642 | 21% | 274,548 |
| Rod Lopez [7] | **2020** | **338,523** | **—** | **27,831** | **21,003** | **387,357** | **73%** | **36,225** | **7%** | **24,791** | **5%** | **81,829** | **15%** | **530,202** |
| | 2019 | 115,278 | — | 8,901 | 7,772 | 131,951 | 70% | 14,698 | 8% | 6,296 | 3% | 34,587 | 18% | 187,532 |
| Ken Shaw [8] | **2020** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| | 2019 | 430,294 | 28,216 | 31,838 | 15,585 | 505,933 | 77% | 45,265 | 7% | 39,579 | 6% | 68,446 | 10% | 659,223 |
| Gerard Putt [9] | **2020** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| | 2019 | 161,026 | — | 20,793 | 14,629 | 196,448 | 72% | 19,440 | 7% | 17,810 | 7% | 38,464 | 14% | 272,162 |
| Total | **2020** | **2,035,871** | **—** | **246,659** | **105,015** | **2,387,545** | **65%** | **257,972** | **7%** | **285,884** | **8%** | **725,918** | **20%** | **3,657,319** |
| | 2019 | 2,112,767 | 28,216 | 225,130 | 109,845 | 2,475,958 | 68% | 313,411 | 9% | 252,090 | 7% | 598,565 | 16% | 3,640,024 |

1. Other short-term benefits include non-monetary benefit relating to health insurance premium contribution and cash benefit relating to health fund contribution for the US based KMP.
2. Post-employment benefits include Superannuation for Australia based KMP and IRA Retirement Plan contribution for US based KMP.
3. Cash STI is for the performance during the respective financial year. 2020 amounts represents the Cash STI opportunity accrued related to the financial year based on the achievement of the Company Performance Objectives and Individual Performance Objectives.
4. The amount disclosed is the amount of the fair value of the performance rights and options recognised as an expense in each reporting period. The ability to exercise the performance rights and options is subject to vesting conditions.
5. Dr Farrugia received a special award of 23,747 performance rights in FY19 in addition to the Deferred STI and LTI grant. This special award is subject to a three year service vesting condition and is included in the LTI amount.
6. Mr. Morris joined Nanosonics on 4 February 2019. He received a sign on incentive of 60,837 performance rights subject to a three year service vesting condition and this is included in the LTI amount.
7. Mr Lopez joined Nanosonics on 4 March 2019. He received a sign on incentive of 35,621 performance rights subject to a three year service vesting condition and this is included in the LTI amount.
8. Mr Ken Shaw ceased being a KMP from 1 July 2019.
9. Mr Putt ceased being a KMP from 4 March 2019 and his remuneration included amounts to that date.

There were no termination payments to Executive KMP during this or the previous period.

# REMUNERATION REPORT – AUDITED

## 7 STATUTORY TABLES AND DISCLOSURES continued

### 7.2 NON-EXECUTIVE DIRECTOR REMUNERATION FOR FY20

The following table outlines the statutory and audited (A-IFRS) remuneration of NEDs:

| Name | Year | Board fees $ | Committee fees $ | Super-annuation $ | Total $ |
|---|---|---|---|---|---|
| Maurie Stang | **2020** | **203,997** | **—** | **21,003** | **225,000** |
| | 2019 | 155,251 | — | 14,749 | 170,000 |
| Steven Sargent | **2020** | **123,288** | **27,397** | **14,315** | **165,000** |
| | 2019 | 77,625 | 13,699 | 8,676 | 100,000 |
| Geoff Wilson | **2020** | **87,354** | **25,081** | **10,681** | **123,116** |
| | 2019 | — | — | — | — |
| David Fisher | **2020** | **91,324** | **27,397** | **11,279** | **130,000** |
| | 2019 | 77,625 | 13,699 | 8,676 | 100,000 |
| Marie McDonald | **2020** | **91,324** | **18,265** | **10,411** | **120,000** |
| | 2019 | 77,626 | — | 7,374 | 85,000 |
| Lisa McIntyre | **2020** | **50,159** | **10,032** | **5,718** | **65,909** |
| | 2019 | — | — | — | — |
| Richard England | **2020** | **15,221** | **4,566** | **1,880** | **21,667** |
| | 2019 | 77,625 | 13,699 | 8,676 | 100,000 |
| Total | **2020** | **662,667** | **112,738** | **75,287** | **850,692** |
| | 2019 | 465,752 | 41,097 | 48,151 | 555,000 |

REMUNERATION REPORT – AUDITED

## 7 STATUTORY TABLES AND DISCLOSURES continued

### 7.3 KMP EQUITY MOVEMENTS AND HOLDING POLICY STATUS

Movements in equity interests held during the financial year by KMP, including their personally-related parties, are set out below, as well as progress towards the holding policy requirement as a result of holdings as at the end of FY20.

| | | Held at open 2020 | Granted FY20 | | Forfeited during FY20 | Vesting during FY20 | FY20 Shares received from exercising | FY20 Purchased/ other | FY20 Sold | Held at close 2020 | % of Holding policy met [1] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Instrument | Number | Date granted | Number | Number | Number | Number | Number | Number | Number | Percent |
| Michael Kavanagh | Shares | 1,018,363 | | — | — | — | — | — | — | 1,018,363 | 100% |
| | Vested rights | 252,395 | | — | — | 48,106 | — | — | — | 300,501 | |
| | Unvested rights | 121,774 | 18 Nov 19 | 32,457 | (10,534) | (48,106) | — | — | — | 95,591 | |
| | Vested options | — | | — | — | 158,480 | — | — | — | 158,480 | |
| | Unvested options | 838,615 | 18 Nov 19 | 178,914 | (52,826) | (158,480) | — | — | — | 806,223 | |
| McGregor Grant | Shares | 587,372 | | — | — | — | 170,976 | 15,000 | (100,000) | 673,348 | 100% |
| | Vested rights | 90,106 | | — | — | 20,786 | (110,892) [2] | — | — | — | |
| | Unvested rights | 46,433 | 5 Feb 20<br>2 Apr 20 | 6,774<br>3,462 | (2,567) | (20,786) | — | — | — | 33,316 | |
| | Vested options | — | | — | — | 60,084 | (60,084) [3] | — | — | — | |
| | Unvested options | 250,299 | 2 Apr 20 | 47,975 | (20,028) | (60,084) | — | — | — | 218,162 | |
| Steven Farrugia | Shares | — | | — | — | — | 83,257 | — | (83,257) | — | 0% |
| | Vested rights | 13,436 | | — | — | 14,923 | (28,359) [2] | — | — | — | |
| | Unvested rights | 65,246 | 5 Feb 20<br>2 Apr 20 | 6,359<br>9,683 | (1,368) | (14,923) | — | — | — | 64,997 | |
| | Vested options | — | | — | — | 54,898 | (54,898) [3] | — | — | — | |
| | Unvested options | 200,456 | 2 Apr 20 | 22,365 | (18,299) | (54,898) | — | — | — | 149,624 | |
| David Morris | Shares | — | | — | — | — | — | — | — | — | 0% |
| | Vested rights | — | | — | — | — | — | — | — | — | |
| | Unvested rights | 66,747 | 5 Feb 20<br>2 Apr 20 | 3,229<br>3,800 | — | — | — | — | — | 73,776 | |
| | Vested options | — | | — | — | — | — | — | — | — | |
| | Unvested options | 81,116 | 2 Apr 20 | 52,652 | — | — | — | — | — | 133,768 | |
| Rod Lopez | Shares | — | | — | — | — | — | — | — | — | 0% |
| | Vested rights | — | | — | — | — | — | — | — | — | |
| | Unvested rights | 40,636 | 5 Feb 20<br>2 Apr 20 | 2,256<br>3,228 | — | — | — | — | — | 46,120 | |
| | Vested options | — | | — | — | — | — | — | — | — | |
| | Unvested options | 68,835 | 2 Apr 20 | 44,729 | — | — | — | — | — | 113,564 | |

1. The % of holding policy met is determined by reference to the intrinsic value of shareholding interests divided by previous year's base salary. If shareholding interest's equal or exceed the previous year's base salary, the minimum shareholding requirement is 100% met. The intrinsic value of shareholding interests includes full shares and vested unexercised rights with nil exercise price held at the end of the financial year multiplied by the closing share price for the year.
2. Performance rights were exercised at nil price.
3. For options exercised, the amount paid per option was the exercise price of $2.85.

# REMUNERATION REPORT – AUDITED

## 7 STATUTORY TABLES AND DISCLOSURES continued

The following outlines changes in Non-Executive Director equity interests during FY20:

| Name | Instrument | Held at open Number | FY20 Purchased / other Number | FY20 Sold Number | Held at Close Number | % of Holding policy met[1] Percent |
|---|---|---|---|---|---|---|
| Maurie Stang[2] | Shares | 19,006,517 | — | — | 19,006,517 | 100% |
| Steven Sargent | Shares | 107,000 | — | — | 107,000 | 100% |
| Geoff Wilson | Shares | — | 19,902 | — | 19,902 | 100% |
| David Fisher | Shares | 413,940 | — | — | 413,940 | 100% |
| Marie McDonald | Shares | 19,600 | — | — | 19,600 | 100% |
| Lisa McIntyre | Shares | — | — | — | — | — |
| **Total** | | **19,547,057** | **19,902** | **—** | **19,566,959** | |

1. The % of holding policy met is determined by reference to the intrinsic value of shareholding interests divided by previous year's board fees. If shareholding interest's equal or exceed the previous year's board fees, the minimum shareholding requirement is 100% met. The intrinsic value of shareholding interests include full shares held at the end of the financial year multiplied by the closing share price for the year.
2. Includes shares held by close family members.

Richard England who retired during the period held 13,000 shares at the beginning of the period and up to his retirement date.

The following outlines potential future costs of equity remuneration granted during FY20 for Executive KMP:

| Name | Plan | Grant date | Vesting date | Expiry date | Exercise price $ | Fair value $ | Total value awarded[1] $ | Total fair value at grant[2] $ | Value expensed in FY 20 $ | Max value to be expensed in future years $ |
|---|---|---|---|---|---|---|---|---|---|---|
| Michael Kavanagh | 2019 LTI options[3] | 18 Nov 19 | 30 Sep 22 | 30 Sep 25 | 6.51 | 2.36 | 336,000 | 422,237 | 91,142 | 331,095 |
| | 2019 LTI performance rights[3] | 18 Nov 19 | 30 Sep 22 | 30 Sep 25 | — | 4.06 | 84,000 | 52,440 | 11,320 | 41,121 |
| | FY19 Deferred STI performance rights | 18 Nov 19 | 31 Aug 20 | 31 Aug 20 | — | 7.23 | 127,387 | 141,325 | 75,871 | 10,885 |
| McGregor Grant | 2019 LTI options[3] | 02 Apr 20 | 30 Sep 22 | 30 Sep 25 | 6.51 | 1.51 | 90,097 | 72,538 | 166 | 65,372 |
| | 2019 LTI performance rights[3] | 02 Apr 20 | 30 Sep 22 | 30 Sep 25 | — | 2.81 | 22,524 | 9,728 | 961 | 8,767 |
| | FY19 Deferred STI performance rights | 05 Feb 20 | 31 Aug 20 | 31 Aug 20 | — | 6.89 | 44,146 | 46,673 | 23,159 | 3,595 |
| Steven Farrugia | 2019 LTI options[3] | 02 Apr 20 | 30 Sep 22 | 30 Sep 25 | 6.51 | 1.51 | 42,000 | 33,816 | 3,341 | 30,475 |
| | 2019 LTI performance rights[3] | 02 Apr 20 | 30 Sep 22 | 30 Sep 25 | — | 2.81 | 63,000 | 27,209 | 2,688 | 24,521 |
| | FY19 Deferred STI performance rights | 05 Feb 20 | 31 Aug 20 | 31 Aug 20 | — | 6.89 | 41,437 | 43,814 | 21,753 | 3,375 |
| David Morris | 2019 LTI options[3] | 02 Apr 20 | 30 Sep 22 | 30 Sep 25 | 6.51 | 1.51 | 98,880 | 79,610 | 7,865 | 71,745 |
| | 2019 LTI performance rights[3] | 02 Apr 20 | 30 Sep 22 | 30 Sep 22 | — | 2.81 | 24,720 | 10,678 | 1,055 | 9,623 |
| | FY19 Deferred STI performance rights | 05 Feb 20 | 31 Aug 20 | 31 Aug 20 | — | 6.89 | 21,038 | 22,248 | 11,521 | 1,714 |
| Rod Lopez | 2019 LTI options[3] | 02 Apr 20 | 30 Sep 22 | 30 Sep 25 | 6.51 | 1.51 | 84,000 | 67,630 | 6,681 | 60,949 |
| | 2019 LTI performance rights[3] | 02 Apr 20 | 30 Sep 22 | 30 Sep 25 | — | 2.81 | 21,000 | 9,071 | 896 | 8,175 |
| | FY19 Deferred STI performance rights | 05 Feb 20 | 31 Aug 20 | 31 Aug 20 | — | 6.89 | 14,698 | 15,544 | 8,051 | 1,197 |
| **Totals** | | | | | | | **1,114,927** | **1,054,561** | **273,468** | **672,608** |

1. The total value awarded is calculated in reference to the value of the LTI award (determined as the LTI entitlement rate % multiplied by current year base salary) and the 50% deferred component of the FY19 STI.
2. Total fair value at grant is calculated as the number of options or performance rights issued multiplied by the accounting fair value per options or performance rights at grant date.
3. The 2019 LTI grant of options and performance rights are subject to Absolute CAGR TSR and service condition. It is also subject to PBT gate. The average PBT for the Company in each of the three financial years of the measurement period has to be greater than the PBT for the financial year ended 30 June 2019 for the gate to open. If the PBT gate does not open, the performance condition will be deemed to have not been met, regardless of the performance against the Absolute CAGR TSR. Further details on the LTI grant are provided in Section 3.3.

The minimum value to be expensed in future years for each of the above grant made in FY20 is nil. A reversal of previous expense resulting in a negative expense in the future may occur in the event of an Executive KMP departure or failure to meet non market-based conditions, including failure for the PBT gate to open.

REMUNERATION REPORT – AUDITED

## 7 STATUTORY TABLES AND DISCLOSURES continued

### 7.4 KMP SERVICE AGREEMENTS

#### 7.4.1 Executive KMP

The following outlines current Executive KMP service agreements:

| Name | Duration of contract | Period of notice: By company | Period of notice: By KMP | Termination payments* |
|---|---|---|---|---|
| Michael Kavanagh | On-going employment until notice is given by either party. | Nine months' written notice | Nine months' written notice | By Nanosonics: all unvested LTI benefits are forfeited and a pro-rata portion of the unvested STI are paid to the period up to the date of termination; and all vested but unexercised STI or LTI benefits are forfeited (immediately or after 30 days subject to the terms of the award) following cessation of employment.<br>By KMP: all unvested STI or LTI benefits are forfeited and a prorated portion of the unvested STI are paid to the period up to the date of termination; and all vested but unexercised STI or LTI benefits are forfeited (immediately or after 30 days, subject to the terms of the award) following cessation of employment. |
| McGregor Grant | On-going employment until notice is given by either party. | Four months' written notice | Four months' written notice | All unvested STI or LTI benefits are forfeited; and all vested but unexercised STI or LTI benefits are forfeited (immediately or after 30 days subject to the terms of the award) following cessation of employment. |
| Steven Farrugia | On-going employment until notice is given by either party. | Three months' written notice | Three months' written notice | All unvested STI or LTI benefits are forfeited; and all vested but unexercised STI or LTI benefits are forfeited (immediately or after 30 days subject to the terms of the award) following cessation of employment. |
| David Morris | On-going employment until notice is given by either party. | Six months' written notice | Six months' written notice | All unvested STI or LTI benefits are forfeited; and all vested but unexercised STI or LTI benefits are forfeited (immediately or after 30 days subject to the terms of the award) following cessation of employment. |
| Rod Lopez | On-going employment until notice is given by either party. | Three months' written notice | Three months' written notice | All unvested STI or LTI benefits are forfeited; and all vested but unexercised STI or LTI benefits are forfeited (immediately or after 30 days subject to the terms of the award) following cessation of employment. |

* Regardless of the foregoing, the Termination Benefit Limit specified in the Corporations Act applies to all those listed, unless prior approval of shareholders to exceed that limit has been obtained.

#### 7.4.2 Non-executive Directors

On appointment to the Board, each Non-executive Director enters into an agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation relevant to the office of the Director. Non-executive Directors are not eligible to receive termination payments under the terms of the appointments.

### 7.5 LOANS AND TRANSACTIONS WITH KMP

#### 7.5.1 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 2020 (2019: Nil).

#### 7.5.2 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 FY19 and FY20 reporting periods. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions with unrelated entities on an arms-length basis.

The following transactions occurred with entities controlled by Related Parties:

| Related Party | Related entity | Transactions |
|---|---|---|
| Maurie Stang | Gryphon Capital Pty Ltd | Director fees; reimbursement of costs incurred on behalf of Nanosonics |
| Maurie Stang | Regional Healthcare Group Pty Ltd | Products purchased, services received and products sold |
| Richard England | Angleterre Nominees Pty Ltd and Domkirke Pty Ltd | Director fees |

The below transactions exclude Director fees which are disclosed in sections 6 and 7.

| | FY20 $ | FY19 $ |
|---|---|---|
| Sale of products and services to Related Parties | **2,661,573** | 2,772,811 |
| Purchases of goods and services from Related Parties | **3,384** | 1,865 |
| Reimbursement of costs incurred on behalf on Nanosonics | **1,576** | 8,659 |

# FINANCIAL STATEMENTS

For the year ended 30 June 2020

AUDITOR'S INDEPENDENCE DECLARATION

Building a better working world

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## Auditor's Independence Declaration to the Directors of Nanosonics Limited

As lead auditor for the audit of the financial report of Nanosonics Limited for the financial year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

Gamini Martinus

Gamini Martinus
Partner
25 August 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Continuing operations | | | |
| Revenue | 2.2 | 100,054 | 84,324 |
| Cost of sales | | (24,541) | (21,508) |
| **Gross profit** | | 75,513 | 62,816 |
| Selling and general expenses | | (34,659) | (27,089) |
| Administration expenses | | (12,965) | (10,716) |
| Research and development expenses | | (15,558) | (11,375) |
| Other income | | 10 | 24 |
| Other (losses)/gains – net | 2.4 | (670) | 1,842 |
| **Results from operating activities** | | 11,671 | 15,502 |
| Finance income – interest | | 1,132 | 1,571 |
| Finance expense | | (344) | (243) |
| **Net finance income** | | 788 | 1,328 |
| **Operating income before income tax** | | 12,459 | 16,830 |
| Income tax expense | 3.1 | (2,322) | (3,228) |
| **Net income after income tax expense attributable to owners of the parent entity** | | 10,137 | 13,602 |
| Other comprehensive income/(loss) | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Exchange difference on foreign currency translation | | – | (1,224) |
| Effective portion of changes in fair value of cash flow hedges | | 1,054 | 64 |
| Income tax on items of other comprehensive income/(loss) | | (315) | (19) |
| **Total other comprehensive income/(loss)** | | 739 | (1,179) |
| **Total comprehensive income for the year attributable to owners of the parent entity** | | 10,876 | 12,423 |
| Earnings per share information: | | Cents | Cents |
| Basic earnings per share | 2.5(a) | 3.37 | 4.54 |
| Diluted earnings per share | 2.5(b) | 3.33 | 4.49 |

The notes on pages 62 to 93 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 6.1 | **91,781** | 72,180 |
| Trade and other receivables | 6.2 | **16,912** | 19,700 |
| Inventories | 7.1 | **11,838** | 14,018 |
| Derivative financial instruments | 6.3 | **652** | 189 |
| Cost to obtain customer contracts | 5.1 | **227** | 280 |
| Income taxes receivable | | **34** | 143 |
| Prepayments and other current assets | | **3,103** | 2,102 |
| **Total current assets** | | **124,547** | 108,612 |
| **Non-current assets** | | | |
| Property, plant and equipment | 7.2 | **7,351** | 6,729 |
| Right-of-use assets | 7.3 | **2,265** | — |
| Intangible assets | 7.4 | **491** | 799 |
| Net deferred tax assets | 3.2 | **11,746** | 12,893 |
| Derivative financial instruments | 6.3 | **462** | 237 |
| Cost to obtain customer contracts | 5.1 | **158** | 214 |
| Other non-current assets | | **50** | 37 |
| **Total non-current assets** | | **22,523** | 20,909 |
| **Total assets** | | **147,070** | 129,521 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 6.4 | **7,674** | 7,004 |
| Lease liabilities | 6.5 | **1,158** | — |
| Income taxes payable | | **88** | 82 |
| Contract liabilities | 5.1 | **4,753** | 4,012 |
| Employee benefits liabilities | 4.2 | **3,472** | 3,453 |
| Provisions | 7.5 | **732** | 678 |
| Borrowings | 6.6 | **77** | 445 |
| Derivative financial instruments | 6.3 | **70** | 287 |
| **Total current liabilities** | | **18,024** | 15,961 |
| **Non-current liabilities** | | | |
| Trade and other payables | 6.4 | **—** | 121 |
| Lease liabilities | 6.5 | **1,374** | — |
| Contract liabilities | 5.1 | **2,759** | 2,532 |
| Employee benefits liabilities | 4.2 | **504** | 513 |
| Provisions | 7.5 | **135** | 75 |
| Borrowings | 6.6 | **—** | 76 |
| Derivative financial instruments | 6.3 | **44** | 160 |
| **Total non-current liabilities** | | **4,816** | 3,477 |
| **Total liabilities** | | **22,840** | 19,438 |
| **Net assets** | | **124,230** | 110,083 |
| **Equity** | | | |
| Contributed equity | 9.1 (a) | **113,177** | 112,713 |
| Reserves | | **18,514** | 14,820 |
| Accumulated losses | | **(7,461)** | (17,450) |
| **Total equity** | | **124,230** | 110,083 |

The notes on pages 62 to 93 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

| | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|
| Note 9.1(a) | Contributed equity $'000 | Share-based payments $'000 | Foreign currency translation $'000 | Hedging $'000 | Total reserves $'000 | Accum-ulated losses $'000 | Total equity $'000 |
| **At 30 June 2018** | 112,713 | 13,386 | (234) | (91) | 13,061 | (31,471) | 94,303 |
| Change in accounting policy [1] | — | — | — | — | — | 419 | 419 |
| **At 1 July 2018 restated** | 112,713 | 13,386 | (234) | (91) | 13,061 | (31,052) | 94,722 |
| Profit for the period | — | — | — | — | — | 13,602 | 13,602 |
| Other comprehensive income/(loss) | — | — | (1,224) | 64 | (1,160) | — | (1,160) |
| Income tax on item of other comprehensive income | — | — | — | (19) | (19) | — | (19) |
| **Total comprehensive income** | — | — | (1,224) | 45 | (1,179) | 13,602 | 12,423 |
| **Transaction with owners in their capacity as owners** | | | | | | | |
| Share-based payments | — | 1,616 | — | — | 1,616 | — | 1,616 |
| Income tax on share-based payments | — | 1,322 | — | — | 1,322 | — | 1,322 |
| **At 30 June 2019** | 112,713 | 16,324 | (1,458) | (46) | 14,820 | (17,450) | 110,083 |
| | | | | | | | |
| **At 30 June 2019** | **112,713** | **16,324** | **(1,458)** | **(46)** | **14,820** | **(17,450)** | **110,083** |
| Change in accounting policy [2] | **—** | **—** | **—** | **—** | **—** | **(148)** | **(148)** |
| **At 1 July 2019 restated** | **112,713** | **16,324** | **(1,458)** | **(46)** | **14,820** | **(17,598)** | **109,935** |
| Profit for the period | **—** | **—** | **—** | **—** | **—** | **10,137** | **10,137** |
| Other comprehensive income/(loss) | **—** | **—** | **—** | **1,054** | **1,054** | **—** | **1,054** |
| Income tax on item of other comprehensive income | **—** | **—** | **—** | **(315)** | **(315)** | **—** | **(315)** |
| **Total comprehensive income** | **—** | **—** | **—** | **739** | **739** | **10,137** | **10,876** |
| **Transaction with owners in their capacity as owners** | | | | | | | |
| Share-based payments | **464** | **1,868** | **—** | **—** | **1,868** | **—** | **2,332** |
| Income tax on share-based payments | **—** | **1,087** | **—** | **—** | **1,087** | **—** | **1,087** |
| **At 30 June 2020** | **113,177** | **19,279** | **(1,458)** | **693** | **18,514** | **(7,461)** | **124,230** |

1. This relates to the adoption of AASB 15 Revenue from Customer Contracts on a modified retrospective basis with initial application from 1 July 2018.
2. Refer to Note 1.2(i) for further information regarding change in accounting policy.

The notes on pages 62 to 93 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST/VAT) | | **104,347** | 75,611 |
| Payments to suppliers and employees (inclusive of GST/VAT) | | **(82,571)** | (72,201) |
| Interest received | | **1,242** | 1,555 |
| Income taxes paid | | **(206)** | (139) |
| **Net cash provided by operating activities** | 6.1(ii) | **22,812** | 4,826 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | **(1,883)** | (1,684) |
| Purchase of intangible assets | | **(53)** | (551) |
| Proceeds from disposal of property, plant and equipment | | **—** | 34 |
| **Net cash used in investing activities** | | **(1,936)** | (2,201) |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | **(445)** | (425) |
| Interest paid on borrowings | | **(16)** | (36) |
| Repayment of lease liabilities | | **(1,222)** | — |
| Interest paid on lease liabilities | | **(94)** | — |
| Proceeds from exercise of options | | **464** | — |
| **Net cash used in financing activities** | | **(1,313)** | (461) |
| **Net increase in cash and cash equivalents** | | **19,563** | 2,164 |
| Cash and cash equivalents at the beginning of the financial year | | **72,180** | 69,433 |
| Effect of exchange rate changes on cash and cash equivalents | | **38** | 583 |
| **Cash and cash equivalents at the end of the financial year** | 6.1(i) | **91,781** | 72,180 |

The notes on pages 62 to 93 form an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL ACCOUNTING POLICIES

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

### 1.1 REPORTING ENTITY

Nanosonics Limited (the Company or Parent Entity) is a listed public 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 2020, comprise the Company and its subsidiaries (together referred to as Nanosonics, the Group or the Consolidated Entity).

Nanosonics Limited is a for-profit entity for the purpose of preparing the financial statements. A description of the nature of the Group's operations and its principal activities is included in the review of operations in the CEO's report and Regional highlights on pages 6 to 19 of this Annual Report and in the Directors' Report on page 28.

### 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 and Interpretations issued by the Australian Accounting Standards Board (AASB) 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 25 August 2020.

#### 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, 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 10.3 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 and presentation currency.

#### e. Foreign currency

Transactions and balances

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

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

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; and
- All resulting exchange differences are recognised in other comprehensive income – foreign currency translation reserve.

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

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

#### f. Use of judgments and estimates

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

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

Note 3.2 Deferred taxes

Note 4.2 Employee benefits liabilities

Note 4.3 Share-based payments

Note 5.1 Contract balances

Note 7.1 Inventories

Note 7.5 Provisions

Note 8.0 Financial risk management

## 1 GENERAL ACCOUNTING POLICIES continued

**g. Goods and services tax (GST), Value added tax (VAT)**

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

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

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

**h. Rounding**

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

**i. Changes in significant accounting policies**

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the AASB that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

During the year, the Company adopted AASB 16 using the modified retrospective approach and as such the comparatives have not been restated.

### AASB 16 Leases

The consolidated entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees, eliminates the classifications of operating leases and finance leases. Other than short-term leases, the Group leases various offices, warehouses, equipment and motor vehicles. Rental contracts are typically made for fixed periods between three and eight years. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. Until the 2019 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

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

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

The right-of-use asset comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

### Impact of adoption

The impact of adoption on opening retained profits as at 1 July 2019 was as follows:

| Financial statement line item | Opening balance adjustment as at 1 July 2019 $'000 |
|---|---|
| Right-of-use assets | 5,499 |
| Accumulated depreciation – right-of-use assets | (3,488) |
| Right-of-use assets – net of accumulated depreciation | 2,011 |
| Deferred tax assets | 56 |
| **Increase in assets** | **2,067** |
| Lease liabilities | (2,411) |
| Trade and other payables | 196 |
| **Increase in liabilities** | **(2,215)** |
| **Net decrease in equity** | **(148)** |

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

| | $'000 |
|---|---|
| Operating lease commitments as at 30 June 2019 | 2,517 |
| Weighted average incremental borrowing rate as at 1 July 2019 | 4.12% |
| **Lease liability as at 1 July 2019** | **2,411** |

The associated right-of-use assets – net of accumulated depreciation relate to the following types of assets:

| | 1 July 2019 $'000 |
|---|---|
| Properties | 1,853 |
| Motor vehicles and other equipment | 158 |
| **Total right-of-use assets** | **2,011** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 PERFORMANCE FOR THE YEAR

### 2.1 REVENUE FROM CUSTOMER CONTRACTS

AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, entities are required to exercise more judgment in developing revenue recognition policies, taking into consideration all the relevant facts and circumstances when applying each step of the model.

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

**Sale of goods**

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

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

**Service**

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

**Financing component**

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

**Interest income**

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

**Foreign exchange**

The accounting policy for foreign exchange gains arising from hedges of forecast sales transactions is set out in Note 6.3.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 PERFORMANCE FOR THE YEAR continued

### 2.2 SEGMENT INFORMATION

**Operating segment**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer & President (the chief operating decision maker) in assessing performance and in determining the allocation of resources. The Group operates in a single operating segment, being the healthcare equipment segment. Accordingly, the Group's consolidated total assets are the total reportable assets of the operating segment.

**Types of products and services**

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

**Major customers**

The group has a number of customers to which it provides products and services. The most significant customer accounts for 54% of external revenue (2019: 54%). The next most significant customer accounts for 3.2% of external revenue (2019: 3.4%).

**Geographical information**

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

| | North America $'000 | Europe and Middle East $'000 | Asia Pacific $'000 | Total $'000 |
|---|---|---|---|---|
| For the year ended 30 June 2020 | | | | |
| Capital revenue before hedging | 28,140 | 1,397 | 1,095 | 30,632 |
| Foreign exchange loss on hedged sales | (672) | — | — | (672) |
| **Total capital revenue** | **27,468** | **1,397** | **1,095** | **29,960** |
| Consumables and spare parts | 54,875 | 3,235 | 1,955 | 60,065 |
| Service | 7,798 | 570 | 1,661 | 10,029 |
| **Total consumables and service revenue** | **62,673** | **3,805** | **3,616** | **70,094** |
| **Total revenue** | **90,141** | **5,202** | **4,711** | **100,054** |
| At a point in time | 87,545 | 5,098 | 4,138 | 96,781 |
| Over time | 2,596 | 104 | 573 | 3,273 |
| For the year ended 30 June 2019 | | | | |
| Capital revenue before hedging | 31,218 | 1,076 | 784 | 33,078 |
| Foreign exchange loss on hedged sales | (261) | — | — | (261) |
| **Total capital revenue** | 30,957 | 1,076 | 784 | 32,817 |
| Consumables and spare parts | 40,017 | 2,194 | 1,694 | 43,905 |
| Service | 5,537 | 532 | 1,533 | 7,602 |
| **Total consumables and service revenue** | 45,554 | 2,726 | 3,227 | 51,507 |
| **Total revenue** | 76,511 | 3,802 | 4,011 | 84,324 |
| At a point of time | 74,621 | 3,705 | 3,436 | 81,762 |
| Over time | 1,890 | 97 | 575 | 2,562 |

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

The analysis of non-current assets is detailed below:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| North America | 1,540 | 1,032 |
| Europe and Middle East | 1,701 | 1,464 |
| Asia Pacific | 7,074 | 5,283 |
| **Total** | **10,315** | 7,779 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 PERFORMANCE FOR THE YEAR continued

### 2.3 INDIVIDUALLY SIGNIFICANT ITEMS

The profit from ordinary activities before income tax includes the following expenses:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Included in cost of sales** | | |
| Depreciation and amortisation | 144 | 171 |
| **Included in selling and general expenses** | | |
| Depreciation and amortisation | 2,265 | 1,136 |
| Inventory provision | 208 | 475 |
| **Included in administration expenses** | | |
| Depreciation and amortisation | 567 | 389 |
| **Included in research and development expenses** | | |
| Depreciation and amortisation | 916 | 444 |

### 2.4 OTHER (LOSSES)/GAINS – NET

Foreign exchange gains and losses are recognised in accordance with the accounting policy at Note 1.2(e). Gains or losses on derivative financial instruments are recognised in accordance with the accounting policy referred in Note 6.3.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Realised (loss)/gain on derivative financial instruments | (841) | 109 |
| Unrealised gain/(loss) on derivative financial instruments | 11 | (669) |
| Net foreign exchange gain | 160 | 2,388 |
| **Net (loss)/gain on foreign currency** | (670) | 1,828 |
| Gain on disposal of fixed assets | – | 14 |
| **Total other (losses)/gains – net** | (670) | 1,842 |

## 2 PERFORMANCE FOR THE YEAR continued

### 2.5 EARNINGS PER SHARE

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

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.

| | 2020 Cents | 2019 Cents |
|---|---|---|
| **a. Basic earnings per share** | | |
| Basic earnings attributable to the ordinary equity holders of the parent entity | **3.37** | 4.54 |
| **b. Diluted earnings per share** | | |
| Diluted earnings attributable to the ordinary equity holders of the parent entity | **3.33** | 4.49 |
| | **$'000** | $'000 |
| **c. Net earnings used in calculating earnings per share** | | |
| Net profits after income tax expense attributable to owners of the parent entity | **10,137** | 13,602 |
| | **Number of Shares** | Number of Shares |
| **d. Weighted average number of shares used as the denominator** | | |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | **300,362,881** | 299,767,940 |
| Adjustments for calculation of diluted earnings per share: | | |
| Performance rights and options | **3,612,421** | 3,341,958 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | **303,975,302** | 303,109,898 |

### 2.6 DIVIDENDS

No dividends were proposed, declared or paid during the financial year and to the date of this report (2019: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 INCOME TAXES

### 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 notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses and adjustments in relation to prior periods. 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.

The major components of income tax expense for the period are:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Consolidated statement of profit or loss** | | |
| Current tax | | |
| Current tax expense for the period | (8,722) | (11,536) |
| Adjustment relating to prior periods | 20 | 229 |
| Deferred tax | | |
| Recognition and utilisation of deferred tax assets (net) including origination and reversal of temporary differences | 6,380 | 8,079 |
| **Income tax reported in the statement of profit or loss** | (2,322) | (3,228) |
| **Tax relating to item in other comprehensive income/(loss)** | | |
| Deferred tax recognised directly in other comprehensive income/(loss) relating to derivative financial instruments | (315) | (19) |
| **Tax benefit relating to items in equity** | | |
| Current tax benefit on share-based payments | 538 | 113 |
| Deferred tax benefit on share-based payments | 549 | 1,209 |
| **Tax benefit charged to equity** | 1,087 | 1,322 |

Following an assessment of the operations of the Group for the year ended 30 June 2020 it has been determined that taxable profits will continue to be generated by the Australian and US entities against which tax credits and future deductible temporary differences will be utilised.

Following an assessment of the groups Canadian and UK operations, it has been determined that it is probable that taxable profits will be generated by the Canadian and UK subsidiaries against which the partially recognised carried forward tax losses and deductible temporary differences will be utilised.

The net deferred tax assets of the Group as at 30 June 2020 amounted to $11,746,000 (2019: $12,893,000) as detailed in Note 3.2.

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Operating profit before tax from continuing operations** | 12,459 | 16,830 |
| The prima facie income tax expense applicable to the operating profit is calculated at the Australian tax rate of 30% (2019: 30%) | (3,738) | (5,049) |
| Increase in income tax expense due to: | | |
| Non-deductible expenses | (92) | (372) |
| Research and development | (4,664) | (3,412) |
| Derecognition of losses in foreign jurisdictions | (222) | — |
| Decrease in income tax expense due to: | | |
| Other deductible expenses | 150 | 354 |
| Utilisation of R&D tax credits in Australia | 5,954 | 4,710 |
| Initial recognition and/or utilisation of deferred tax assets related to foreign subsidiaries | — | 203 |
| Effect of tax rate in foreign jurisdictions | 270 | 109 |
| Adjustment relating to prior period | 20 | 229 |
| **Income tax expense** | (2,322) | (3,228) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 INCOME TAXES continued

### 3.2 DEFERRED TAXES

Deferred income tax is calculated, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

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

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

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

An assessment of the operations resulted in the recognition of the deferred tax assets on losses and temporary differences relating to the Australian entity in 2017 and US entity in 2018 and the deferred tax asset on losses of the Canadian and UK entities in 2019 as it has been determined that it is probable that taxable profits will be generated against which these can be utilised.

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

As at 30 June 2020, the net deferred tax asset recognised in the statement of financial position comprises:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Deferred tax assets** | | |
| Non-refundable R&D tax credits | 2,364 | 4,019 |
| Tax losses in foreign subsidiary tax jurisdictions | 257 | 1,139 |
| Share-based payments | 3,404 | 2,624 |
| Employee benefits liabilities | 983 | 975 |
| Patent costs | 601 | 564 |
| Provisions for warranties and make good | 260 | 226 |
| Contract liabilities | 1,698 | 1,639 |
| Inventory provision | 293 | 235 |
| Derivative financial instruments | — | 19 |
| Future intercompany deductible expenses | 1,475 | 1,769 |
| Capital allowances in foreign subsidiary tax jurisdiction | 367 | — |
| Unrealised foreign exchange losses | 665 | — |
| Others | 535 | 587 |
| **Total deferred tax assets** | **12,902** | 13,796 |
| **Deferred tax liabilities** | | |
| Derivative financial instruments | (300) | — |
| Unrealised foreign exchange gains | — | (193) |
| Accrued interest and other income | (83) | (120) |
| Property, plant and equipment | (534) | (489) |
| Others | (239) | (101) |
| **Total deferred tax liabilities** | **(1,156)** | (903) |
| **Net deferred tax asset** | **11,746** | 12,893 |

The Group offsets tax assets and liabilities only if it has legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3 INCOME TAXES continued

As at 30 June 2020, the Group has unrecognised deferred tax assets in relation to its subsidiaries as follows:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Estimated unrecognised tax losses carried forward: | | |
| Unrecognised tax losses brought forward at the beginning of the period | 4,452 | 7,846 |
| Adjustment in respect of unrecognised tax losses carried forward relating to prior periods [1] | 1,931 | 212 |
| Tax losses for the period related to non-Australia entities | 714 | — |
| Carried forward tax losses utilised | (470) | (928) |
| Initial recognition of deferred tax assets on Canadian tax losses | — | (761) |
| Initial recognition of deferred tax assets on UK tax losses | — | (1,917) |
| **Estimated unrecognised tax losses carried forward at the end of the period** | 6,627 | 4,452 |
| **Potential tax benefit at 21.5% effective tax rate (2019: 20.4%)** | 1,425 | 909 |

1. The Group elected to utilise carried forward capital allowances in a foreign subsidiary tax jurisdiction during the period, ahead of the application of carried forward losses. A deferred tax asset of $367,000 was recognised in the period that related to total future deductions of $1,931,000. The recognition of future deductible capital allowances has resulted in a de-recognition of carried forward losses for the same value in the period.

The probability of recovery of unrecognised tax losses in relation to the subsidiaries is reviewed on an on-going basis.

## 4 EMPLOYEE BENEFITS

### 4.1 STAFF COSTS

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Salaries and wages | 31,771 | 23,409 |
| Bonuses and commissions | 3,465 | 2,890 |
| Termination benefits | 637 | 329 |
| Superannuation, pension and social security contribution | 3,726 | 2,760 |
| Workers compensation costs | 232 | 172 |
| Payroll tax | 1,477 | 1,056 |
| Insurance premiums | 1,471 | 1,154 |
| Other employee benefits and staffing costs | 5,034 | 3,774 |
| Share-based payments | 1,867 | 1,616 |
| | 49,680 | 37,160 |
| The above staffing costs are allocated as follows: | | |
| Cost of sales | 6,237 | 6,009 |
| Selling and general expenses | 24,351 | 17,343 |
| Administration expenses | 7,824 | 6,703 |
| Research and development expenses | 11,268 | 7,105 |
| | 49,680 | 37,160 |

## 4 EMPLOYEE BENEFITS continued

### 4.2 EMPLOYEE BENEFITS LIABILITIES

**i. Wages, salaries and annual leave**

Liabilities for employee benefits, including wages, salaries and non-monetary benefits, and accumulated annual and other leave, represent present obligations resulting from employees' services provided to the reporting date. Employee benefits have been measured at the amounts expected to be paid when the liabilities are settled and are recognised in the provision for employee benefits. The liability is calculated on remuneration rates as at the reporting date, including related on-costs such as workers compensation insurance and payroll tax.

**ii. Long service leave**

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

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

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

**iii. Bonuses**

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

**iv. Termination benefits**

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

**Short-term and long-term classification of benefits**

Benefits that are expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service are classified as short-term employee benefits. Short-term employee benefits are accounted for on an undiscounted basis in the period in which the service is rendered. Long-term employee benefits are benefits that are not expected to be wholly settled within 12 months and are discounted allowing for expected salary levels in the future period. Cash bonuses are classified as short-term employee benefits while annual leave and long service leave are long-term employee benefits.

Employee benefit liabilities as at the reporting date:

| | **2020** | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Current $'000** | **Non-current $'000** | **Total $'000** | Current $'000 | Non-current $'000 | Total $'000 |
| Provision for annual leave | **2,027** | **—** | **2,027** | 1,818 | — | 1,818 |
| Provision for long service leave | **138** | **504** | **642** | 162 | 513 | 675 |
| Provision for bonuses | **1,307** | **—** | **1,307** | 1,473 | — | 1,473 |
| **Total employee benefit liabilities** | **3,472** | **504** | **3,976** | 3,453 | 513 | 3,966 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 EMPLOYEE BENEFITS continued

### 4.3 SHARE-BASED PAYMENTS

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

**i. Share-based compensation plans**

The Nanosonics Omnibus Equity Plan (NOEP) was adopted on November 2016 and last approved by shareholders on 18 November 2019. The NOEP allows the Board to issue a range of incentive awards with the purpose of providing competitive, performance-based remuneration in alignment with the interests of shareholders. The NOEP operates in accordance with the terms of the Nanosonics Omnibus Equity Plan Trust Deed, under which the trustee may subscribe for, or acquire, deliver, allocate or hold, shares for the benefit of the participants. Participants will be able to access the relevant taxation concessions available under the Income Tax Assessment Act 1997 (ITAA 1997).

Under the NOEP Plan, eligible employees (including Executive Directors, casual employees and certain contractors) may be offered shares in Nanosonics Limited (Share Awards), Performance Share Awards, options or rights.

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

The Company also has the Nanosonics Employee Share Option Plan (ESOP) which was established in 2007 and last approved by the shareholders on 8 November 2013. The ESOP is being phased out and no offers were made under the ESOP during the year.

The Company adopted the Global Employee Share Plan (GESP) on 18 November 2019. Under the GESP, eligible employees (full time or part time employees of a subsidiary of Nanosonics) may be offered the opportunity to acquire shares. No shares were acquired under the GESP for the year ended 30 June 2020.

**ii. Exercise of performance rights and options**

Performance rights and options are granted under the NOEP for no consideration and carry no dividend or voting rights. When exercisable, each performance right and option is convertible into one ordinary share that ranks equally with any other share on issue in respect of dividends and voting rights. The exercise prices of all performance rights and options issued to the date of this report were fixed on the dates the performance rights and options were granted.

Performance rights and options granted under the NOEP require the holder to be an employee of the Company at the time the performance rights and options are exercised, except that they may be exercised, if vested, up to 30 days after voluntary termination of employment.

**iii. Reconciliation of outstanding performance rights and options**

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

| | NOEP | | | | ESOP | | | | All plans | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2020** | | 2019 | | **2020** | | 2019 | | **2020** | 2019 |
| | **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 as at 1 July | **3,618,841** | **2.04** | 2,293,411 | 1.35 | **384,788** | **—** | 966,542 | — | **4,003,629** | 3,259,953 |
| Granted during the year | **1,179,375** | **5.09** | 1,890,430 | 2.53 | **—** | **—** | — | — | **1,179,375** | 1,890,430 |
| Exercised during the year | **(504,609)** | **—** | (179,178) | — | **(131,682)** | **—** | (443,022) | — | **(636,291)** | (622,200) |
| Forfeited during the year | **(430,369)** | **2.38** | (385,822) | 1.30 | **—** | **—** | (138,732) | — | **(430,369)** | (524,554) |
| **Unexpired as at 30 June** | **3,863,238** | **3.08** | 3,618,841 | 2.04 | **253,106** | **—** | 384,788 | — | **4,116,344** | 4,003,629 |
| **Exercisable at 30 June** | **271,432** | **—** | 127,011 | — | **253,106** | **—** | 384,788 | — | **524,538** | 511,799 |

636,291 performance rights and options were exercised in 2020. The weighted average share price based on the dates of the exercise was $6.33 (2019: $3.29). No performance rights or options expired during the periods covered by the above table.

## 4 EMPLOYEE BENEFITS continued

Performance rights and options outstanding at the end of the year have the following expiry dates and exercise prices:

| Option Plan | Description | Grant date | Exer-cise price $ | 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 exercis-able at end of the year |
|---|---|---|---|---|---|---|---|---|---|---|---|
| NOEP | 2019 LTI-Tranche 1 – Others | 02 Apr 20 | — | 2.81 | 30 Sep 25 | — | 101,183 | — | (5,065) | 96,118 | — |
| NOEP | 2019 LTI Tranche 1 – CEO | 18 Nov 19 | — | 4.06 | 30 Sep 25 | — | 12,910 | — | — | 12,910 | — |
| NOEP | 2019 LTI Tranche 2 – Others | 02 Apr 20 | 6.51 | 1.51 | 30 Sep 25 | — | 743,530 | — | (28,782) | 714,748 | — |
| NOEP | 2019 LTI Tranche 2 – CEO | 18 Nov 19 | 6.51 | 2.36 | 30 Sep 25 | — | 178,914 | — | — | 178,914 | — |
| NOEP | 2019 STI Tranche 1 | 05 Feb 20 | — | 6.89 | 31 Aug 23 | — | 53,501 | — | (3,959) | 49,542 | — |
| NOEP | 2019 STI Tranche 2 | 05 Feb 20 | — | 6.89 | 31 Aug 20 | — | 58,538 | — | (937) | 57,601 | — |
| NOEP | 2019 STI – CEO | 18 Nov 19 | — | 7.23 | 31 Aug 20 | — | 19,547 | — | — | 19,547 | — |
| NOEP | 2019 Special Award | 09 Sep 19 | — | 6.87 | 09 Sep 25 | — | 7,288 | — | — | 7,288 | — |
| NOEP | 2019 Special Award | 02 Sep 19 | — | 6.87 | 02 Sep 25 | — | 3,964 | — | — | 3,964 | — |
| NOEP | 2019 Special Award | 28 May 19 | — | 4.41 | 04 Mar 25 | 59,368 | — | — | — | 59,368 | — |
| NOEP | 2019 Special Award | 28 May 19 | — | 4.41 | 04 Feb 25 | 60,837 | — | — | — | 60,837 | — |
| NOEP | 2018 LTIS Tranche 1 – CEO | 09 Nov 18 | 3.44 | 0.80 | 30 Sep 24 | 286,885 | — | — | — | 286,885 | — |
| NOEP | 2018 LTIS Tranche 1 – Others | 04 Feb 19 | 3.44 | 0.86 | 30 Sep 24 | 1,043,044 | — | — | (154,092) | 888,952 | — |
| NOEP | 2018 LTIS Tranche 2 – CEO | 09 Nov 18 | — | 1.24 | 30 Sep 24 | 20,900 | — | — | — | 20,900 | — |
| NOEP | 2018 LTIS Tranche 2 – Others | 04 Feb 19 | — | 1.41 | 30 Sep 24 | 107,940 | — | — | (22,392) | 85,548 | — |
| NOEP | 2018 Deferred STI – CEO | 09 Nov 18 | — | 3.21 | 31 Aug 22 | 16,502 | — | — | — | 16,502 | 16,502 |
| NOEP | 2018 Deferred STI – CEO | 09 Nov 18 | — | 3.21 | 31 Aug 23 | 16,501 | — | — | — | 16,501 | — |
| NOEP | 2018 Deferred STI – Others | 22 Nov 18 | — | 2.97 | 31 Aug 22 | 181,003 | — | (153,380) | (2,325) | 25,298 | 25,298 |
| NOEP | 2017 LTIS Tranche 1 – CEO | 03 Nov 17 | — | 2.16 | 31 Aug 23 | 12,867 | — | — | — | 12,867 | — |
| NOEP | 2017 LTIS Tranche 2 – CEO | 03 Nov 17 | — | 2.04 | 31 Aug 23 | 12,866 | — | — | — | 12,866 | — |
| NOEP | 2017 LTIS Tranche 1 – Others | 09 Feb 18 | — | 1.95 | 31 Aug 23 | 155,785 | — | — | (16,960) | 138,825 | — |
| NOEP | 2017 LTIS Tranche 2 – Others | 09 Feb 18 | — | 1.75 | 31 Aug 23 | 155,775 | — | — | (16,959) | 138,816 | — |
| NOEP | 2017 LTIS Trance 1 – CEO | 03 Nov 17 | 2.38 | 1.00 | 31 Aug 23 | 170,212 | — | — | — | 170,212 | — |
| NOEP | 2017 LTIS Tranche 2 – CEO | 03 Nov 17 | 2.38 | 1.02 | 31 Aug 23 | 170,212 | — | — | — | 170,212 | — |
| NOEP | 2017 LTIS Tranche 1 – Others | 09 Feb 18 | 2.38 | 0.84 | 31 Aug 23 | 166,176 | — | — | — | 166,176 | — |
| NOEP | 2017 LTIS Tranche 2 – Others | 09 Feb 18 | 2.38 | 0.79 | 31 Aug 23 | 166,173 | — | — | — | 166,173 | — |
| NOEP | 2017 Deferred STI – CEO | 03 Nov 17 | — | 2.81 | 31 Aug 21 | 45,513 | — | — | — | 45,513 | 45,513 |
| NOEP | 2017 Deferred STI – Others | 11 Jan 18 | — | 2.75 | 31 Aug 21 | 68,675 | — | (51,513) | — | 17,162 | 17,162 |
| NOEP | 2016 Deferred STI | 05 Jan 17 | — | 3.07 | 01 Sep 20 | 12,823 | — | (4,346) | — | 8,477 | 8,477 |
| NOEP | 2016 LTIS Tranche 1 | 05 Jan 17 | 2.85 | 1.00 | 31 Aug 22 | 107,091 | — | (54,264) | — | 52,827 | 52,827 |
| NOEP | 2016 LTIS Tranche 2 | 05 Jan 17 | 2.85 | 0.98 | 31 Aug 22 | 107,090 | — | (54,264) | — | 52,826 | 52,826 |
| NOEP | 2016 LTIS Tranche 3 | 05 Jan 17 | 2.85 | 1.05 | 31 Aug 22 | 214,183 | — | (54,266) | (107,090) | 52,827 | 52,827 |
| NOEP | 2016 LTIS Tranche 1 | 05 Jan 17 | — | 2.59 | 31 Aug 22 | 65,108 | — | (44,192) | (2,236) | 18,680 | — |
| NOEP | 2016 LTIS Tranche 2 | 05 Jan 17 | — | 2.33 | 31 Aug 22 | 65,096 | — | (44,185) | (2,235) | 18,676 | — |
| NOEP | 2016 LTIS Tranche 3 | 05 Jan 17 | — | 3.07 | 31 Aug 22 | 130,216 | — | (44,199) | (67,337) | 18,680 | — |
| ESOP | 2015 LTIS Tranche 1 | 04 Jan 16 | — | 1.46 | 31 Aug 21 [1] | 184,654 | — | (58,101) | — | 126,553 | 126,553 |
| ESOP | 2015 LTIS Tranche 2 | 04 Jan 16 | — | 1.06 | 31 Aug 21 [1] | 200,134 | — | (73,581) | — | 126,553 | 126,553 |
| **Total** | | | | | | **4,003,629** | **1,179,375** | **(636,291)** | **(430,369)** | **4,116,344** | **524,538** |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 EMPLOYEE BENEFITS continued

### iv. Fair values

#### Fair values of performance rights and options granted

The assessed fair value on the date performance rights and options were granted was independently determined using an appropriate valuation model that takes into account relevant inputs, including the exercise price, the term of the performance right or option, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance right or option.

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

| Plan | Description | Vesting conditions | Exercise price $ | Grant date | Vesting date | Expiry date | Estimated share price at grant date $ | Valuation model | Expected price volatility of the Company's shares | Expected dividend yield | Risk-free interest rate | Assessed fair value at grant date $ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Granted during the year: | | | | | | | | | | | | |
| NOEP | 2019 LTI Tranche 1 – Others | Absolute CAGR TSR performance and service [1] | — | 02 Apr 20 | 30 Sep 22 | 30 Sep 25 | 6.17 | Monte Carlo | 45.29% | 0.00% | 0.25% | 2.81 |
| NOEP | 2019 LTI Tranche 1 – CEO | Absolute CAGR TSR performance and service [1] | — | 18 Nov 19 | 30 Sep 22 | 30 Sep 25 | 7.23 | Monte Carlo | 41.81% | 0.00% | 0.76% | 4.06 |
| NOEP | 2019 LTI Tranche 2 – Others | Absolute CAGR TSR performance and service [1] | 6.51 | 02 Apr 20 | 30 Sep 22 | 30 Sep 25 | 6.17 | Monte Carlo | 42.59% | 0.00% | 0.25% | 1.51 |
| NOEP | 2019 LTI Tranche 2 – CEO | Absolute CAGR TSR performance and service [1] | 6.51 | 18 Nov 19 | 30 Sep 22 | 30 Sep 25 | 7.23 | Monte Carlo | 41.84% | 0.00% | 0.76% | 2.36 |
| NOEP | 2019 STI Tranche 1 | Service | — | 05 Feb 20 | 31 Aug 20 | 31 Aug 23 | 6.89 | Black-Scholes | 47.17% | 0.00% | 0.71% | 6.89 |
| NOEP | 2019 STI Tranche 2 – Others | Service | — | 05 Feb 20 | 31 Aug 20 | 31 Aug 20 | 6.89 | Black-Scholes | 47.17% | 0.00% | 0.71% | 6.89 |
| NOEP | 2019 STI – CEO | Service | — | 18 Nov 19 | 31 Aug 20 | 31 Aug 20 | 7.23 | Black-Scholes | 49.32% | 0.00% | 0.76% | 7.23 |
| NOEP | 2019 Special Award | Service | — | 09 Sep 19 | 09 Sep 22 | 09 Sep 25 | 6.87 | Black-Scholes | 41.65% | 0.00% | 0.78% | 6.87 |
| NOEP | 2019 Special Award | Service | — | 02 Sep 19 | 02 Sep 22 | 02 Sep 25 | 6.87 | Black-Scholes | 41.57% | 0.00% | 0.78% | 6.87 |
| NOEP | 2019 Special Award | Service | — | 28 May 19 | 4 Mar 22 | 4 Mar 25 | 4.41 | Black-Scholes | 37.76% | 0.00% | 1.12% | 4.41 |
| NOEP | 2019 Special Award | Service | — | 28 May 19 | 4 Mar 22 | 4 Mar 25 | 4.41 | Black-Scholes | 37.76% | 0.00% | 1.12% | 4.41 |
| NOEP | 2018 LTIS Tranche 1 – CEO | Absolute CAGR TSR performance and service [1] | 3.44 | 9 Nov 18 | 30 Sep 21 | 30 Sep 24 | 3.21 | Monte Carlo | 41.09% | 0.00% | 2.19% | 0.80 |
| NOEP | 2018 LTIS Tranche 1 – Others | Absolute CAGR TSR performance and service [1] | 3.44 | 4 Feb 19 | 30 Sep 21 | 30 Sep 24 | 3.46 | Monte Carlo | 40.09% | 0.00% | 1.74% | 0.86 |
| NOEP | 2018 LTIS Tranche 2 – CEO | Absolute CAGR TSR performance and service [1] | — | 9 Nov 18 | 30 Sep 21 | 30 Sep 24 | 3.21 | Monte Carlo | 37.34% | 0.00% | 2.19% | 1.24 |
| NOEP | 2018 LTIS Tranche 2 – Others | Absolute CAGR TSR performance and service [1] | — | 4 Feb 19 | 30 Sep 21 | 30 Sep 24 | 3.46 | Monte Carlo | 37.63% | 0.00% | 1.74% | 1.41 |
| NOEP | 2018 Deferred STI – CEO | Service | — | 22 Nov 18 | 31 Aug 19 | 31 Aug 22 | 2.97 | Black-Scholes | 36.67% | 0.00% | 2.19% | 2.97 |
| NOEP | 2018 Deferred STI – CEO | Service | — | 9 Nov 18 | 31 Aug 20 | 31 Aug 23 | 3.21 | Black-Scholes | 36.67% | 0.00% | 2.19% | 3.21 |
| NOEP | 2018 Deferred STI – Others | Service | — | 22 Nov 18 | 31 Aug 19 | 31 Aug 22 | 2.97 | Black-Scholes | 37.34% | 0.00% | 2.14% | 2.97 |

1. Subject to accretive PBT gate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 EMPLOYEE BENEFITS continued

| Plan | Description | Vesting conditions | Exercise price $ | Grant date | Vesting date | Expiry date | Estimated share price at grant date $ | Valuation model | Expected price volatility of the Company's shares | Expected dividend yield | Risk-free interest rate | Assessed fair value at grant date $ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Granted in prior periods and unexpired at report date:** | | | | | | | | | | | | |
| NOEP | 2017 LTIS Tranche 1 – CEO | Relative TSR performance and service | — | 3 Nov 17 | 31 Aug 20 | 31 Aug 23 | 2.81 | Monte Carlo | 35.00% | 0.00% | 1.90% | 2.16 |
| NOEP | 2017 LTIS Tranche 2 – CEO | Relative TSR performance and service | — | 3 Nov 17 | 31 Aug 20 | 31 Aug 23 | 2.81 | Monte Carlo | 35.00% | 0.00% | 1.90% | 2.04 |
| NOEP | 2017 LTIS Tranche 1 – Others | Relative TSR performance and service | — | 9 Feb 18 | 31 Aug 20 | 31 Aug 23 | 2.67 | Monte Carlo | 34.00% | 0.00% | 2.10% | 1.95 |
| NOEP | 2017 LTIS Tranche 2 – Others | Relative TSR performance and service | — | 9 Feb 18 | 31 Aug 20 | 31 Aug 23 | 2.67 | Monte Carlo | 34.00% | 0.00% | 2.10% | 1.75 |
| NOEP | 2017 LTIS Tranche 1 – CEO | Relative TSR performance and service | 2.38 | 3 Nov 17 | 31 Aug 20 | 31 Aug 23 | 2.81 | Monte Carlo | 35.00% | 0.00% | 2.10% | 1.00 |
| NOEP | 2017 LTIS Tranche 2 – CEO | Relative TSR performance and service | 2.38 | 3 Nov 17 | 31 Aug 20 | 31 Aug 23 | 2.81 | Monte Carlo | 35.00% | 0.00% | 2.10% | 1.02 |
| NOEP | 2017 LTIS Tranche 1 – Others | Relative TSR performance and service | 2.38 | 9 Feb 18 | 31 Aug 20 | 31 Aug 23 | 2.67 | Monte Carlo | 35.00% | 0.00% | 2.30% | 0.84 |
| NOEP | 2017 LTIS Tranche 2 – Others | Relative TSR performance and service | 2.38 | 9 Feb 18 | 31 Aug 20 | 31 Aug 23 | 2.67 | Monte Carlo | 35.00% | 0.00% | 2.30% | 0.79 |
| NOEP | 2017 Deferred STI – CEO | Service | — | 3 Nov 17 | 31 Aug 18 | 31 Aug 21 | 2.81 | Black-Scholes | 31.00% | 0.00% | 1.70% | 2.81 |
| NOEP | 2017 Deferred STI – Others | Relative TSR performance and service | — | 11 Jan 18 | 31 Aug 18 | 31 Aug 21 | 2.75 | Black-Scholes | 30.00% | 0.00% | 1.70% | 2.75 |
| NOEP | 2016 LTIS Tranche 1 | Relative TSR performance and service | 2.85 | 5 Jan 17 | 31 Aug 19 | 31 Aug 22 | 3.07 | Monte Carlo | 35.80% | 0.00% | 2.00% | 1.00 |
| NOEP | 2016 LTIS Tranche 2 | Relative TSR performance and service | 2.85 | 5 Jan 17 | 31 Aug 19 | 31 Aug 22 | 3.07 | Monte Carlo | 35.80% | 0.00% | 2.00% | 0.98 |
| NOEP | 2016 LTIS Tranche 3 | Pre-tax EPS and service | 2.85 | 5 Jan 17 | 31 Aug 19 | 31 Aug 22 | 3.07 | Black-Scholes | 35.80% | 0.00% | 2.00% | 1.05 |
| NOEP | 2016 Deferred STI | Service | — | 5 Jan 17 | 1 Sep 17 | 1 Sep 20 | 3.07 | Black-Scholes | 35.80% | 0.00% | 2.00% | 3.07 |
| NOEP | 2016 LTIS Tranche 1 | Relative TSR performance and service | — | 5 Jan 17 | 31 Aug 19 | 31 Aug 22 | 3.07 | Monte Carlo | 35.80% | 0.00% | 2.00% | 2.59 |
| NOEP | 2016 LTIS Tranche 2 | Relative TSR performance and service | — | 5 Jan 17 | 31 Aug 19 | 31 Aug 22 | 3.07 | Monte Carlo | 35.80% | 0.00% | 2.00% | 2.33 |
| NOEP | 2016 LTIS Tranche 3 | Pre-tax EPS and service | — | 5 Jan 17 | 31 Aug 19 | 31 Aug 22 | 3.07 | Black-Scholes | 35.80% | 0.00% | 2.00% | 3.07 |
| ESOP | 2015 LTIS Tranche 1 | Relative TSR performance and service | — | 4 Jan 16 | 31 Aug 18 | 31 Aug 21 | 1.67 | Monte Carlo | 37.50% | 0.00% | 2.00% | 1.46 |
| ESOP | 2015 LTIS Tranche 2 | Relative TSR performance and service | — | 4 Jan 16 | 31 Aug 18 | 31 Aug 21 | 1.67 | Monte Carlo | 37.50% | 0.00% | 2.00% | 1.06 |

### Fair values of shares granted

The issue price for shares granted is calculated as the five-day volume weighted average market price of shares of the Company on the Australian Securities Exchange as at close of trading on the date the shares were granted. The fair value of shares granted is taken to be the issue price.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4 EMPLOYEE BENEFITS continued

### v. Recognition of expenses

#### Recognition of expense of performance rights and options granted

The fair value of performance rights and options granted is recognised as an employee expense with a corresponding increase in equity, on a straight line monthly basis over the vesting period in which the performance and/or service conditions are fulfilled after which the employees become unconditionally entitled to them. The cumulative expense recognised for share-based payments at each reporting date until the vesting date reflects the extent to which the vesting period has ended 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 is conditional upon a market or non-vesting condition. These are treated as vesting regardless of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were $1,868,000 (2019: $1,616,000).

During the financial year there were no shares directly granted under the NOEP (2019: Nil).

### vi. Summary of shares held by the trustee

Shares issued on the exercise of performance rights, options granted to employees and shares purchased under the deferred salary sacrifice share scheme are initially held by the trustee of the NOEP or ESOP, Sargon CT Pty Ltd.

A reconciliation of shares held by the trustee of the NOEP and ESOP is as follows:

| | 2020 Number of shares | 2019 Number of shares |
|---|---|---|
| **Employee shares on issue at 1 July** | **821,433** | 1,106,449 |
| Issued on exercise of performance rights and options during the year | **636,291** | 622,200 |
| Shares purchased by the trustee under the deferred salary sacrifice share scheme | **24,128** | — |
| Withdrawn during the year | **(1,049,041)** | (907,216) |
| **Employee shares on issue at 30 June** | **432,811** | 821,433 |

## 5 ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

### 5.1 CONTRACT BALANCES

The Group's accounting policy relating to trade and other receivables is detailed in Note 6.2.

Costs to obtain customer contracts include sales commissions paid to employees and are amortised over the customer contract period. Costs to obtain customer contracts expected to be amortised within 12 months of the reporting period are classified as current.

Assets related to contracts with customers are as follows:

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Current $'000 | Non-current $'000 | Total $'000 | Current $'000 | Non-current $'000 | Total $'000 |
| Trade and other receivables | **16,912** | **—** | **16,912** | 19,700 | — | 19,700 |
| Cost to obtain customer contracts | **227** | **158** | **385** | 280 | 214 | 494 |
| **Total assets related to contracts with customers** | **17,139** | **158** | **17,297** | 19,980 | 214 | 20,194 |

Contract liabilities are the obligation to transfer goods and services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer. Contract liabilities expected to be realised within twelve months of the reporting period are classified as current.

Liabilities related to contracts with customers are as follows:

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Current $'000 | Non-current $'000 | Total $'000 | Current $'000 | Non-current $'000 | Total $'000 |
| Contract liabilities | **4,753** | **2,759** | **7,512** | 4,012 | 2,532 | 6,544 |
| **Total liabilities related to contracts with customers** | **4,753** | **2,759** | **7,512** | 4,012 | 2,532 | 6,544 |

The revenue recognised that was included in the contract liability balance at the beginning of the period was $4,012,000 (2019: $3,044,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 6.1 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 and 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:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Cash at bank and on hand | 11,333 | 11,626 |
| Deposit on call | 6,948 | 1,054 |
| Short-term deposits | 73,500 | 59,500 |
| **Total cash and cash equivalents** | **91,781** | 72,180 |

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 8(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 before income tax to net cash inflow from operating activities**

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Operating profit before income tax** | 12,459 | 16,830 |
| Adjustment for: | | |
| Depreciation and amortisation | 4,092 | 2,140 |
| Share-based payments expense | 1,867 | 1,616 |
| Lease expenses | 213 | — |
| Borrowing costs | 73 | 36 |
| Gain on disposal of fixed assets | — | (14) |
| Income taxes paid | (206) | (139) |
| Unrealised gain on foreign exchange movements | 142 | (1,874) |
| Changes in assets and liabilities | | |
| Decrease/(increase) in trade and other receivables | 4,683 | (10,909) |
| Decrease/(increase) in inventories | 448 | (6,671) |
| Decrease/(increase) in derivative financial instruments | 32 | (441) |
| (Increase)/decrease in other current assets | (869) | (888) |
| (Increase)/decrease in other non-current assets | (13) | (5) |
| Increase/(decrease) in trade and other payables | 857 | 2,538 |
| Increase/(decrease) in deferred revenue | 1,047 | 1,955 |
| Increase/(decrease) in employee benefit liabilities | 2 | 478 |
| (Decrease)/increase in provisions | (2,015) | 174 |
| **Net cash provided by operating activities** | **22,812** | 4,826 |

**iii. Credit standby arrangements unused**

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Facility limits:** | | |
| Borrowing facilities | 620 | 620 |
| Guarantee facility | 475 | 475 |
| **Facility remaining available:** | | |
| Borrowing facilities | 544 | 99 |
| Guarantee facility | 14 | 14 |

The terms of the borrowing facility are described in Note 6.6.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

### 6.2 TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets, otherwise they are presented as non-current assets. Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables generally have 30 to 60 days credit terms and therefore are all classified as current.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

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 is provided in Note 8.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Trade receivables | 16,182 | 18,651 |
| Allowance for impairment loss | (210) | (31) |
| **Net trade receivables** | **15,972** | 18,620 |
| GST/VAT receivable | 520 | 658 |
| Interest and other receivables | 420 | 422 |
| **Total trade and other receivables** | **16,912** | 19,700 |

### 6.3 DERIVATIVE FINANCIAL INSTRUMENTS

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

The fair values of foreign currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the profit and loss statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

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 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;
- 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;
- If the forward exchange contract no longer meets the criteria for hedge accounting, expires, is terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains until the forecast transaction occurs or when cash flows arising from the transactions are received; and
- For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the statement of profit or loss in the same period the hedged transactions affect the profit or loss on the same line item as the hedged transactions.

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

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

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

## 6 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Current $'000** | **Non-current $'000** | **Total $'000** | Current $'000 | Non-current $'000 | Total $'000 |
| **Derivative financial assets as follows:** | | | | | | |
| Derivative financial instruments | 652 | 462 | 1,114 | 189 | 237 | 426 |
| **Derivative financial liabilities as follows:** | | | | | | |
| Derivative financial instruments | 70 | 44 | 114 | 287 | 160 | 447 |

### 6.4 TRADE AND OTHER PAYABLES

Trade and other payables are carried at amortised cost. These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition. Amounts due to be settled within 12 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.

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Current $'000** | **Non-current $'000** | **Total $'000** | Current $'000 | Non-current $'000 | Total $'000 |
| Trade payables | 3,385 | — | 3,385 | 3,225 | — | 3,225 |
| Less straight-lining liabilities | — | — | — | 75 | 121 | 196 |
| Other payables | 4,289 | — | 4,289 | 3,704 | — | 3,704 |
| **Total trade and other payables** | 7,674 | — | 7,674 | 7,004 | 121 | 7,125 |

### 6.5 LEASE LIABILITIES

The Group has made a significant change in accounting policy in relation to AASB 16 *Leases* for the period beginning 1 July 2019. This change in accounting policy is detailed in Note 1.2(i).

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used, residual guarantee, lease term, certainty of a purchase option, modification of the lease terms and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Other than for short-term leases, the Group leases various offices, warehouses, equipment and motor vehicles. Rental contracts are typically made for fixed periods between three and eight years. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions.

The weighted average lessee's incremental borrowing rate applied to operating lease liabilities was 4.12%.

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Current $'000** | **Non-current $'000** | **Total $'000** | Current $'000 | Non-current $'000 | Total $'000 |
| Lease liabilities | 1,158 | 1,374 | 2,532 | — | — | — |
| **Total lease liabilities** | 1,158 | 1,374 | 2,532 | — | — | — |

| Lease liabilities | **2020 $'000** | 2019 $'000 |
|---|---|---|
| Balance as at 1 July 2019 | 2,413 | — |
| Additions | 1,247 | — |
| Accrued interest | 94 | — |
| Payments | (1,222) | — |
| **Balance as at 30 June 2020** | 2,532 | — |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

### 6.6 BORROWINGS

Loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequently, loans and borrowings are stated at amortised cost using the effective interest method. Amounts due to be settled within 12 months after the reporting period are classified as current.

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Borrowings – secured | | |
| Current | 77 | 445 |
| Non-current | — | 76 |
| | 77 | 521 |

On 21 September 2015, the Company entered into a financing 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 five years at 4.92% per annum. This borrowing is secured by the leasehold improvements included in property, plant and equipment.

Loans and borrowings at the end of the year are as follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Minimum payments $000 | Present value of payments $000 | Minimum payments $000 | Present value of payments $000 |
| Within one year | 78 | 77 | 461 | 445 |
| After one year but not more than five years | — | — | 77 | 76 |
| Total minimum lease payments | 78 | 77 | 538 | 521 |
| Less future finance charges | (1) | — | (17) | — |
| **Present value of minimum lease payments** | 77 | 77 | 521 | 521 |

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Liability at the beginning of the year** | 521 | 946 |
| Interest charged | 16 | 36 |
| Repayment of borrowings | (444) | (425) |
| Interest paid | (16) | (36) |
| **Liability at the end of the year** | 77 | 521 |

The carrying value of the liability is considered to approximate its fair value because the interest payable on this borrowing is close to current market rates.

## 7 OPERATING ASSETS AND LIABILITIES

### 7.1 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, selling, marketing and distribution expenses.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Raw materials and stores | 5,828 | 7,763 |
| Work in progress | 7 | 168 |
| Finished goods | 6,003 | 6,087 |
| | 11,838 | 14,018 |

Inventories recognised as an expense (cost of sales) during the year ended 30 June 2020 amounted to $17,608,000 (2019: $16,978,000).

Management has performed an assessment of inventories held for the year ended 30 June 2020, including the impact of the introduction of the second generation of trophon in FY19 and recognised write-downs during the year of $207,000 (2019: $475,000). The expense has been included in selling and general expenses in the profit and loss statement.

### 7.2 PROPERTY, PLANT AND EQUIPMENT

#### i. Owned assets

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

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

#### ii. 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 over the useful life of the asset. 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.

#### iii. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7 OPERATING ASSETS AND LIABILITIES continued

### 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 2019** | | | | |
| Opening net book amount | 1,302 | 3,814 | 152 | 5,268 |
| Additions | 295 | 2,404 | 589 | 3,288 |
| Retirement and others | — | (20) | — | (20) |
| Transfers | — | 157 | (157) | — |
| Depreciation charge | (448) | (1,375) | — | (1,823) |
| Foreign currency translation effect (net) | 1 | 10 | 5 | 16 |
| **Closing net book amount at 30 June 2019** | 1,150 | 4,990 | 589 | 6,729 |
| **At 30 June 2019** | | | | |
| Cost | 2,791 | 10,829 | 589 | 14,209 |
| Impairment | — | (45) | — | (45) |
| Accumulated depreciation | (1,641) | (5,794) | — | (7,435) |
| **Net book amount at 30 June 2019** | 1,150 | 4,990 | 589 | 6,729 |

| | Leasehold improvements $'000 | Plant and equipment $'000 | Capital work in progress $'000 | Total $'000 |
|---|---|---|---|---|
| **Year ended 30 June 2020** | | | | |
| Opening net book amount | **1,150** | **4,990** | **589** | **6,729** |
| Additions | **454** | **2,890** | **247** | **3,591** |
| Retirement and others | **(68)** | **(410)** | **—** | **(478)** |
| Transfers | **—** | **506** | **(506)** | **—** |
| Depreciation charge | **(593)** | **(1,893)** | **—** | **(2,486)** |
| Foreign currency translation effect (net) | **1** | **(2)** | **(4)** | **(5)** |
| **Closing net book amount at 30 June 2020** | **944** | **6,081** | **326** | **7,351** |
| **At 30 June 2020** | | | | |
| Cost | **3,179** | **13,871** | **326** | **17,376** |
| Impairment | **—** | **(45)** | **—** | **(45)** |
| Accumulated depreciation | **(2,235)** | **(7,745)** | **—** | **(9,980)** |
| **Net book amount at 30 June 2020** | **944** | **6,081** | **326** | **7,351** |

### 7.3 RIGHT-OF-USE ASSETS

**i. Right-of-use assets recognition**

A right-of-use asset is recognised at the commencement date of a lease or the effective date of the lease modification. The right-of-use asset comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

**ii. Depreciation**

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life.

**iii. Impairment**

Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities. 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.

Right-of-use assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**iv. Practical expedients**

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7 OPERATING ASSETS AND LIABILITIES continued

### Total right-of-use assets at net book value

| | 2020 $'000 |
|---|---|
| **Year ended 30 June 2020** | |
| Opening net book amount as at 1 July 2019 [1] | 2,011 |
| Additions | 1,296 |
| Depreciation charge | (1,042) |
| **Closing net book amount at 30 June 2020** | 2,265 |
| **At 30 June 2020** | |
| Cost | 3,307 |
| Accumulated depreciation | (1,042) |
| **Net book amount at 30 June 2020** | 2,265 |

1. Further details of the changes in significant accounting policies is detailed in Note 1.2(i).

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

**iii. ERP system and computer software**

The expenditure incurred on the Group's 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 5 years and ERP system and computer software 3 years.

Amortisation is recognised in the profit and loss statement from the date the asset is available for use unless their lives are indefinite. Intangible assets with an indefinite useful life are tested annually for impairment.

**v. Impairment**

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. No indicators of impairment of intangibles assets were identified during the period (2019: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7 OPERATING ASSETS AND LIABILITIES continued

### Total intangible assets at net book value

| | Development costs $'000 | ERP and computer software $'000 | Total $'000 |
|---|---|---|---|
| **Year ended 30 June 2019** | | | |
| Opening net book amount | — | 563 | 563 |
| Additions | — | 551 | 551 |
| Amortisation | — | (317) | (317) |
| Foreign currency translation effect (net) | — | 2 | 2 |
| **Closing net book amount at 30 June 2019** | — | 799 | 799 |
| **At 30 June 2019** | | | |
| Cost | 201 | 2,530 | 2,731 |
| Accumulated amortisation | (201) | (1,731) | (1,932) |
| **Net book amount at 30 June 2019** | — | 799 | 799 |

| | Development costs $'000 | ERP and computer software $'000 | Total $'000 |
|---|---|---|---|
| **Year ended 30 June 2020** | | | |
| Opening net book amount | **—** | **799** | **799** |
| Additions | **—** | **53** | **53** |
| Amortisation | **—** | **(364)** | **(364)** |
| Foreign currency translation effect (net) | **—** | **3** | **3** |
| **Closing net book amount at 30 June 2020** | **—** | **491** | **491** |
| **At 30 June 2020** | | | |
| Cost | **201** | **2,594** | **2,795** |
| Accumulated amortisation | **(201)** | **(2,103)** | **(2,304)** |
| **Net book amount at 30 June 2020** | **—** | **491** | **491** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7 OPERATING ASSETS AND LIABILITIES continued

### 7.5 PROVISIONS

**i. General**

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. An increase in the provision due to the passage of time is recognised as interest expense.

**ii. Provision for warranty**

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

**iii. Provision for make good**

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

The 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.

#### a. Provisions as at the reporting date

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Current $'000** | **Non-current $'000** | **Total $'000** | Current $'000 | Non-current $'000 | Total $'000 |
| Provision for warranty | **732** | **—** | **732** | 678 | — | 678 |
| Make good provision | **—** | **135** | **135** | — | 75 | 75 |
| **Total provisions** | **732** | **135** | **867** | 678 | 75 | 753 |

#### b. Movements in provisions

| | Provision for warranty $'000 | Make good provision $'000 | Total $'000 |
|---|---|---|---|
| Carrying amount at the beginning of the year | 678 | 75 | 753 |
| Additional provisions recognised | 292 | 60 | 352 |
| Amounts used during the period | (238) | — | (238) |
| **Carrying amount at end of the year** | **732** | **135** | **867** |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8 FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial 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 Group's risk management framework. Responsibility for the development and implementation of controls to address risks is assigned to the Audit & Risk Committee. The responsibility is supported by the development of standards, policies and procedures for the management of these risks.

The financial risk management policies of the Group are consistent with prior periods. Management have identified that foreign currency risk and credit risk on receivables are material to the Group.

### a. Market risk

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

#### i. Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expenses are denominated in a currency other than the Group's functional currency) and the Group's net investments in foreign subsidiaries. The Group enters into foreign currency contracts to mitigate its foreign currency risk on its net cash flows.

**Exposure**

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

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | **USD $'000** | **GBP £'000** | **Euro €'000** | **CAD $'000** | USD $'000 | GBP £'000 | Euro €'000 | CAD $'000 |
| Cash and cash equivalents | **3,434** | **297** | **446** | **1,142** | 2,095 | 2,260 | 488 | 898 |
| Trade and other receivables | **3,781** | **303** | **14** | **495** | 12,977 | 283 | 310 | 270 |
| Trade and other payables | **(385)** | **(271)** | **(152)** | **(167)** | (952) | (118) | (203) | (166) |
| | **6,830** | **329** | **308** | **1,470** | 14,120 | 2,425 | 595 | 1,002 |
| Foreign currency forward contracts and options to buy/sell USD | **30,500** | **—** | **—** | **—** | 19,420 | — | — | — |

**Sensitivity**

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

| | Impact on post-tax profit | | Impact on other components of equity | |
|---|---|---|---|---|
| | **2020 '000** | 2019 '000 | **2020 '000** | 2019 '000 |
| **Change in USD rate** | | | | |
| Increase 5% | **2,184** | 2,124 | **(443)** | (606) |
| Decrease 5% | **(2,355)** | (2,222) | **401** | 549 |
| **Change in GBP rate** | | | | |
| Increase 5% | **390** | 608 | **(527)** | (638) |
| Decrease 5% | **(353)** | (550) | **477** | 577 |
| **Change in EUR rate** | | | | |
| Increase 5% | **49** | 35 | **(43)** | — |
| Decrease 5% | **(44)** | (32) | **39** | — |
| **Change in CAD rate** | | | | |
| Increase 5% | **158** | 146 | **(144)** | (151) |
| Decrease 5% | **(143)** | (132) | **130** | 137 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8 FINANCIAL RISK MANAGEMENT continued

### 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 summarised below:

| 2020 | Notes | Floating interest rate $'000 | Fixed interest rate maturing in: One year or less $'000 | Over one to five years $'000 | More than five years $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 6.1 | 18,281 | 73,500 | – | – | – | 91,781 |
| Trade and other receivables | 6.2 | – | – | – | – | 16,912 | 16,912 |
| Derivative financial instruments | 6.3 | – | – | – | – | 1,114 | 1,114 |
| **Total financial assets** | | 18,281 | 73,500 | – | – | 18,026 | 109,807 |
| **Weighted average interest rate** | | 0.23% | 1.24% | – | – | | |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | 6.4 | – | – | – | – | 7,674 | 7,674 |
| Lease liabilities | 6.5 | – | 1,158 | 1,374 | – | – | 2,532 |
| Borrowings | 6.6 | – | 77 | – | – | – | 77 |
| Derivative financial instruments | 6.3 | – | – | – | – | 114 | 114 |
| **Total financial liabilities** | | – | 1,235 | 1,374 | – | 7,788 | 10,397 |
| **Weighted average interest rate** | | – | 4.17% | 4.12% | – | – | |
| **Net financial assets/(liabilities)** | | 18,281 | 72,265 | (1,374) | – | 10,238 | 99,410 |

| 2019 | Notes | Floating interest rate $'000 | Fixed interest rate maturing in: One year or less $'000 | Over one to five years $'000 | More than five years $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 6.1 | 12,680 | 59,500 | – | – | – | 72,180 |
| Trade and other receivables | 6.2 | – | – | – | – | 19,700 | 19,700 |
| Derivative financial instruments | 6.3 | – | – | – | – | 426 | 426 |
| **Total financial assets** | | 12,680 | 59,500 | – | – | 20,126 | 92,306 |
| **Weighted average interest rate** | | 0.13% | 2.43% | | | | |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | 6.4 | – | – | – | – | 7,125 | 7,125 |
| Borrowings | 6.6 | – | 445 | 76 | – | – | 521 |
| Derivative financial instruments | 6.3 | – | – | – | – | 447 | 447 |
| **Total financial liabilities** | | – | 445 | 76 | – | 7,572 | 8,093 |
| **Weighted average interest rate** | | – | 4.92% | 4.92% | – | – | |
| **Net financial assets/(liabilities)** | | 12,680 | 59,055 | (76) | – | 12,554 | 84,213 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8 FINANCIAL RISK MANAGEMENT continued

### Sensitivity

The profit and loss statement is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates. For the year ended 30 June 2020, it is estimated that a general increase of 25 basis points in interest rates would have increased the Group's profit after tax and equity by $183,000 (2019: $124,000). A decrease of 25 basis points in interest rates would have had the equal but opposite effect on the Group's profit after tax and equity.

### b. Credit risk

Credit risk is the risk of financial loss to Nanosonics if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, favourable derivative financial instruments, deposits with banks and financial institutions, and credit exposures to customers. The maximum exposure to credit risk as at the reporting date is the carrying amount of the financial assets as described in Note 6. The Company's 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:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| North America | **14,284** | 16,616 |
| Europe and Middle East | **644** | 551 |
| Asia Pacific | **1,044** | 1,453 |
| | **15,972** | 18,620 |

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Distributors | **8,254** | 12,602 |
| End-user customers | **7,718** | 6,018 |
| | **15,972** | 18,620 |

As at 30 June 2020, GE Healthcare (worldwide) and Regional Healthcare Group Pty Ltd, combined, accounted for over 52% of the trade receivables (2019: 65%).

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 may only invest surplus funds in deposits and floating rate notes offered by any major bank approved by the Board with no more than 50% held at any one bank.

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to credit risk management. The Group performs credit assessments of its customers prior to entering into any sales agreements. The Group utilises an external credit rating agency to assess the credit worthiness of its customers.

In North America and Europe, outstanding customer receivables are regularly monitored and are generally covered by credit insurance.

As a result, the Group believes that its accounts receivable credit risk exposure is mitigated and it has not experienced significant write-downs in its accounts receivable balances. The Group's trade and other receivables is detailed in Note 6.2.

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 history of trade receivables that are neither past due nor impaired is as follows:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| GE Healthcare (worldwide) | **7,066** | 9,539 |
| Covered by credit insurance | **4,076** | 3,853 |
| Other customers: | | |
| Four or more years of trading history with the Group | **633** | 944 |
| Less than four years of trading history with the Group | **5** | 64 |
| | **11,780** | 14,400 |

## 8 FINANCIAL RISK MANAGEMENT continued

### 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 an impairment has been incurred. 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; or
- 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 2020, trade receivables with a nominal value of $210,000 (2019: $29,000) were considered impaired and fully provided for.

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Balance at 1 July | 29 | 9 |
| Provision for impairment recognised during the year | 183 | 22 |
| Receivables written off during the year as uncollectible | — | — |
| Unused amount reversed | (2) | (2) |
| **Balance at 30 June** | 210 | 29 |

### Past due not impaired

As at 30 June 2020, trade receivables of $4,192,000 (2019: $4,221,000) 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:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Neither past due nor impaired | 11,780 | 14,400 |
| Past due but not impaired | | |
| <30 days | 2,519 | 2,843 |
| 30-60 days | 668 | 695 |
| >60 days | 1,005 | 682 |
| | 15,972 | 18,620 |

### 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 $73,500,000 (2019: $59,500,000) that are expected to readily generate cash inflows for managing liquidity risk.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8 FINANCIAL RISK MANAGEMENT continued

### 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.

| **2020** | **Less than 3 months** | **3 to 12 months** | **1 to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| Trade and other payables | **7,674** | **—** | **—** | **—** | **7,674** |
| Borrowings | **77** | **—** | **—** | **—** | **77** |
| Lease liabilities | **271** | **887** | **1,374** | **—** | **2,532** |
| Derivative financial instruments | **41** | **29** | **44** | **—** | **114** |
| **Total financial liabilities** | **8,063** | **916** | **1,418** | **—** | **10,397** |

| 2019 | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Trade and other payables | 6,929 | 75 | 121 | — | 7,125 |
| Borrowings | 109 | 336 | 76 | — | 521 |
| Derivative financial instruments | 125 | 162 | 160 | — | 447 |
| **Total financial liabilities** | 7,163 | 573 | 357 | — | 8,093 |

## 9 CAPITAL STRUCTURE

### 9.1 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, from the proceeds, net of tax.

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. Every ordinary shareholder present at a meeting or voting by proxy is entitled to vote and each share is entitled to one vote. Ordinary shares have no par value, are fully paid and the Company does not have a limited amount of authorised capital.

Movements in ordinary share capital:

| | Number of shares | $'000 |
|---|---|---|
| Balance 1 July 2018 | 299,345,079 | 112,713 |
| Exercise of options and performance rights – proceeds received | 622,200 | — |
| **Balance 30 June 2019** | **299,967,279** | **112,713** |
| Exercise of options and performance rights – proceeds received | 636,291 | 464 |
| **Balance 30 June 2020** | **300,603,570** | **113,177** |

#### b. Reserves

**i. Share-based payments reserve**

The share-based payments reserve is used to recognise the fair value at grant date of performance rights and options issued as detailed in Note 4.3 less any payments made to meet the company's obligations through the acquisition of shares on market, together with income taxes on such payments.

**ii. Foreign currency translation reserve**

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

**iii. Hedging reserve**

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

### 9.2 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 the risk 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10 OTHER NOTES

### 10.1 COMMITMENTS

**Capital commitments**

As at 30 June 2020, the Group had commitments to purchase plant and equipment of $464,000 (2019: $1,091,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

### 10.2 RELATED PARTY TRANSACTIONS

**a. Transactions with related parties**

Note 10.3 provides the information about the Group's structure including the details of the subsidiaries and the parent entity.

i. Directors and Key Management Personnel compensation

| | 2020 $ | 2019 $ |
|---|---|---|
| Director fees | 775,405 | 506,849 |
| Short-term employee benefits | 2,293,843 | 2,454,394 |
| Long-term benefits | 246,659 | 225,130 |
| Post-employment benefits | 180,302 | 157,996 |
| Termination benefits | — | — |
| Share-based payments | 1,011,802 | 850,655 |
| **Total Directors and Key Management Personnel compensation** | **4,508,011** | 4,195,024 |

Detailed remuneration disclosures are provided in the remuneration report on pages 35 to 55.

ii. 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<br>Reimbursement of costs incurred on behalf of Nanosonics |
| Maurie Stang | Regional Healthcare Group Pty Ltd | Products purchased, services received and products sold |
| Richard England | Angleterre Pty Ltd and Domkirke Pty Ltd | Director fees |

| | 2020 $ | 2019 $ |
|---|---|---|
| Sale of products and services to Related Parties | 2,661,573 | 2,772,811 |
| Purchases of goods and services from Related Parties | 3,384 | 1,865 |
| Reimbursement of costs incurred on behalf on Nanosonics | 1,576 | 8,659 |

The above transactions exclude Director fees which are disclosed in Non-executive Directors remuneration in section 7.2 of the remuneration report on page 52.

iii. Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the end of the reporting period in relation to transactions with Regional Healthcare Group Pty Ltd:

| | 2020 $ | 2019 $ |
|---|---|---|
| Current trade receivables (supply of goods and services) | 562,396 | 909,619 |

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

iv. Loans to Directors and Key Management Personnel

During the year and to the date of this report, the Group made no loans to Directors and Key Management Personnel and none were outstanding as at 30 June 2020 (2019: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10 OTHER NOTES continued

### v. 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.

### 10.3 CONTROLLED ENTITIES

The consolidated financial statements of the Group include:

| Name of controlled entity | Principal activities | Country of incorporation | Class of shares | Equity 2020 | Equity 2019 |
|---|---|---|---|---|---|
| Nanosonics Europe GmbH | Provision of sales and customer support services to Nanosonics Limited in Germany | Germany | Ordinary | **100%** | 100% |
| Saban Ventures Pty Limited | Owner of the registered intellectual property of the Group | Australia | Ordinary | **100%** | 100% |
| Nanosonics, Inc. | Sales and distribution of Nanosonics' products and provision of sales and customer support services to Nanosonics Limited in the USA | USA | Ordinary | **100%** | 100% |
| Nanosonics Europe Limited | Sales and distribution of Nanosonics' products in Europe | UK | Ordinary | **100%** | 100% |
| Nanosonics UK Limited | Provision of sales and customer support services in Europe | UK | Ordinary | **100%** | 100% |
| Nanosonics Canada, Inc. | Sales and distribution of Nanosonics' products and services in Canada | Canada | Ordinary | **100%** | 100% |
| Nanosonics Japan KK | Sales and distribution of Nanosonics' products and services in Japan | Japan | Ordinary | **100%** | 100% |
| Nanosonics Investments Pty Limited [1] | Strategic investments associated with acquisitions, product licensing and other collaboration opportunities | Australia | Ordinary | **100%** | – |

1. Nanosonics Investments Pty Limited was registered on 29 June 2020. The newly formed entity joined an income tax consolidated group with Nanosonics Limited on 23 July 2020.

### 10.4 PARENT ENTITY INFORMATION

As at and throughout the financial year ended 30 June 2020, 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:

### i. Summary financial information

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Statement of financial position** | | |
| Current assets | **145,954** | 141,431 |
| Total assets | **162,378** | 155,615 |
| Current liabilities | **15,948** | 22,208 |
| Total liabilities | **18,025** | 22,871 |
| **Shareholders' equity** | | |
| Share capital | **113,176** | 112,713 |
| Share-based payments reserve | **19,143** | 16,188 |
| Hedging reserve (net of tax) | **691** | (46) |
| Accumulated profit | **11,343** | 3,889 |
| **Total equity** | **144,353** | 132,744 |
| **Profit for the year** | **7,549** | 15,482 |
| **Total comprehensive income** | **8,306** | 15,564 |

### ii. Guarantees entered into by the parent entity

For the year ended 30 June 2020 and 30 June 2019, the parent entity provided assurances to its controlled entities, Nanosonics Europe GmbH, Nanosonics Europe Limited and Nanosonics UK Limited that the intercompany debts will not be required to be repaid until such time as the controlled entities have sufficient funds available. No other guarantees were provided during the period.

### iii. Contingent liabilities of the parent entity

The parent entity had no contingent liabilities as at 30 June 2020 (2019: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10 OTHER NOTES continued

### iv. Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2020, the parent entity had commitments to purchase plant and equipment of $462,000 (2019: $1,069,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

### v. Accounting policies

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

## 10.5 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:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Fees to Ernst & Young (Australia) | | |
| Fees for auditing the statutory financial report of the parent entity covering the group and auditing the statutory financial reports of any controlled entities | 364,439 | 303,360 |
| Fees for other services | | |
| Tax compliance | 110,900 | 86,500 |
| Other services | 39,185 | — |
| **Total fees to Ernst & Young (Australia)** | 514,524 | 389,860 |
| Fees to other overseas member firms of Ernst & Young (Australia) | | |
| Fees for other services | | |
| Tax compliance | 7,807 | 23,537 |
| **Total fees to overseas member firms of Ernst & Young (Australia)** | 7,807 | 23,537 |
| **Total auditors remuneration** | 522,331 | 413,397 |

## 10.6 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

## 10.7 EVENTS OCCURRING AFTER THE BALANCE DATE

On 18 August 2020, the Company issued 40,894 shares at $5.26 per share for a total of $215,000 under the Global Employee Share Plan (GESP).

No other matters or circumstances have arisen since 30 June 2020 that have significantly affected, or may significantly affect:

a. The Group's operations in the current or future financial years;

b. The results of those operations in the current or future financial years; or

c. The Group's state of affairs in the current or future financial years.

# DIRECTORS' DECLARATION

For the year ended 30 June 2020

1. In the Directors opinion:
   a) The financial statements and notes set out on pages 56 to 93 are in accordance with the Corporations Act 2001, including:
      i. Complying with the Accounting Standards and the Corporations Regulations 2001;
      ii. Giving a true and fair view of the Company's and Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date, and

   b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.2; and

   c) There are reasonable grounds to believe that the Company and its subsidiaries will be able to pay their debts as and when they become due and payable.
2. The Directors have been given the declarations by the Managing Director and CEO and the Chief Financial Officer required by section 295A of the Corporations Act 2001.
3. This declaration is made in accordance with a resolution of Directors.

Geoff Wilson
Director

Sydney, 25 August 2020

INDEPENDENT AUDITOR'S REPORT

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# Independent Auditor's Report to the Members of Nanosonics Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Nanosonics Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

### Key Audit Matters

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

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

# INDEPENDENT AUDITOR'S REPORT

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## Revenue Recognition

| Why significant | How our audit addressed the key audit matter |
|---|---|
| As disclosed in Note 2.1 of the financial report, revenue from the sale of goods is recognised when the Group has delivered goods to its customers and revenue from the sale of services is recognised when the distinct performance obligation is fulfilled.<br><br>The Group has a number of different revenue streams and channels to market for its products. Judgement is involved in determining whether the criteria for revenue recognition have been met and that revenue is recognised in the correct period. On this basis this was considered a Key Audit Matter. | Our audit procedures included the following:<br>▶ Assessed the Group's revenue recognition accounting policies for compliance with Australian Accounting Standards.<br>▶ Assessed the operating effectiveness of relevant controls in place relating to the recognition and measurement of product sales and service revenue.<br>▶ For a sample of product sales and service revenue transactions, we obtained evidence of the sale and assessed whether the sale was recorded in the correct period.<br>▶ Performed data analytical procedures to corroborate the expected correlation between revenue, accounts receivable and cash collections.<br>▶ For a sample of product shipments pre and post year end, by reference to external delivery documentation, we assessed whether revenue was recorded in the correct period.<br>▶ We assessed the disclosures relating to revenue in the financial report. |

## Deferred Tax Assets

| Why significant | How our audit addressed the key audit matter |
|---|---|
| As disclosed in Note 3.2 of the financial report, the Group recorded net deferred tax assets of $11,746,000.<br><br>In assessing the recoverability of these deferred tax assets, judgements were made as to the amount and timing of future taxable income and the extent to which carry forward income tax losses can be utilised.<br><br>This matter is considered a Key Audit Matter due to the level of judgement required to estimate the future taxable income. | Our audit procedures included the following:<br>▶ We assessed whether the approach used by the Group to determine the recoverability of tax losses met the requirements of Australian Accounting Standards.<br>▶ We assessed the basis for the Group's future taxable income forecast including considering the historical accuracy of previous forecasts.<br>▶ We assessed, with the involvement of our tax specialists, the application of relevant tax legislation to the usage of tax losses.<br>▶ We evaluated the adequacy of the disclosures relating to the deferred tax asset, including those made with respect to judgements and estimates. |

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## Information Other than the Financial Report and Auditor’s Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company’s 2020 Annual Report, but does not include the financial report and our auditor’s report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Audit of the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 35 to 55 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Nanosonics Limited for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

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## Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Gamini Martinus

Gamini Martinus
Partner
Sydney
25 August 2020

# SHAREHOLDERS INFORMATION

The shareholder information set out below was applicable as at 18 August 2020.

## A. EQUITY SECURITY HOLDERS

### Twenty largest holders of quoted equity securities

| Ordinary shares | Number of quoted shares held | Percentage |
|---|---|---|
| HSBC Custody Nominees (Australia) Limited | 88,659,425 | 29.49% |
| J P Morgan Nominees Australia Pty Limited | 43,213,979 | 14.37% |
| Citicorp Nominees Pty Limited | 15,863,058 | 5.28% |
| UBS Nominees Pty Ltd | 13,203,244 | 4.39% |
| National Nominees Limited | 8,632,927 | 2.87% |
| Mr Maurie Stang [1] | 8,629,534 | 2.87% |
| Mr Steve Kritzler | 8,489,737 | 2.82% |
| Mr Bernard Stang [1] | 8,692,111 | 2.89% |
| BNP Paribas Noms Pty Ltd <Drp> | 7,296,447 | 2.43% |
| BNP Paribas Nominees Pty Ltd <Agency Lending Drp A/C> | 5,850,456 | 1.95% |
| Asia Union Investments Pty Limited | 2,500,000 | 0.83% |
| Dr Harry Hirschowitz | 2,139,090 | 0.71% |
| Avanteos Investments Limited <2349414 Hofbauer A/C> | 1,200,000 | 0.40% |
| Mr Michael Kavanagh | 1,018,363 | 0.34% |
| HSBC Custody Nominees (Australia) Limited <Nt-Comnwlth Super Corp A/C> | 925,122 | 0.31% |
| Powerwrap Limited <Scheme - Iml Trades A/C> | 903,206 | 0.30% |
| AMP Life Limited | 800,775 | 0.27% |
| Larinda Pty Ltd <Bg Superannuation Fund A/C> | 800,000 | 0.27% |
| Australian Foundation Investment Company Limited | 780,000 | 0.26% |
| Citicorp Nominees Pty Limited <Colonial First State Inv A/C> | 681,938 | 0.23% |
| **Total top 20 holders** | **220,279,412** | **73.28%** |
| Total all other holders | 80,365,052 | 26.73% |
| **Total shares on issue** | **300,644,464** | **100.00%** |

1. Excludes indirect holdings and shares held by close family members.

| Unquoted equity securities | Number of options over ordinary shares | Number of holders [1] |
|---|---|---|
| **Performance rights and options on issue** | | |
| Performance rights under ESOP to take up unissued ordinary shares | 253,106 | 3 |
| Performance rights and options under NOEP to take up unissued ordinary shares | 3,878,041 | 149 |
| **Total performance rights and options on issue** | **4,131,147** | **149** |

1. There are 3 common holders in ESOP and NOEP.

# SHAREHOLDERS INFORMATION

## B. DISTRIBUTION OF EQUITY SECURITIES

Analysis of number of holders of ordinary shares and performance rights and options by size of holding

| | Quoted ordinary shares | Percentage | Unquoted performance rights and options |
|---|---|---|---|
| 1 – 1,000 | 9,935 | 1% | 92 |
| 1,001 – 5,000 | 6,370 | 5% | 16 |
| 5,001 – 10,000 | 1,508 | 4% | 8 |
| 10,001 – 100,000 | 1,165 | 10% | 25 |
| 100,001 and over | 99 | 80% | 8 |
| **Total holders** | **19,077** | **100%** | **149** |

There were 577 holders of less than a marketable parcel of 78 ordinary shares.

## C. SUBSTANTIAL HOLDERS

Substantial holders in the Company are shown below:

| | Number of ordinary shares | Percentage |
|---|---|---|
| FMR LLC | 29,740,881 | 9.89% |
| Mr Maurie Stang [1] | 18,946,517 | 6.30% |
| Mr Bernard Stang [1] | 16,302,493 | 5.42% |

1. Includes indirect holdings but excludes shares held by close family members.

## D. VOTING RIGHTS

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

**a. Ordinary shares**

On show of hands every member present at a meeting in person or by proxy shall have one vote and on poll each share shall have one vote.

**b. Performance rights and options**

Performance rights and options have no voting rights.

## E. ON MARKET SHARE PURCHASE OR BUY BACKS

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

# GLOSSARY

| | |
|---|---|
| AASB | Australian Accounting Standards Board |
| AGM | Annual General Meeting |
| APES | Accounting Professional and Ethical Standard |
| ASEAN | Association of Southeast Asian Nations |
| ASIC | Australian Securities and Investments Commission |
| ASX | Australian Securities Exchange Limited |
| AUD | Australian dollar |
| CAD | Canadian dollar |
| CAGR | Compounded Annual Growth Rate |
| CDC | Center for Disease Control |
| CEO | Chief Executive Officer |
| CEO&P | Chief Executive Officer and President |
| CFO | Chief Financial Officer |
| Company or Nanosonics | Nanosonics Limited ABN 11 095 076 896 |
| COVID-19 | Coronavirus disease of 2019 |
| CRIFM | Clinical Research Institute of Fetal Medicine |
| Date of this report | 25 August 2020 |
| EBIT | Earnings Before Interest and Tax |
| EBTDA | Earnings Before Tax Depreciation and Amortisation |
| EMEA | Europe Middle East and Africa |
| EPS | Earnings Per Share |
| ERP | Enterprise Resource Planning |
| ESG | Environmental, Social and Governance |
| ESOP | Employee Share Option Plan |
| EUR | European Currency |
| FDA | Food and Drug Administration |
| FY | Financial year, eg. FY2020 is the financial year ended 30 June 2020 |
| GBP | Great Britain Pound |
| GESP | Global Employee Share Plan |
| GRG | Godfrey Remuneration Group |
| Group | Nanosonics Limited and its wholly owned subsidiary companies |
| GST | Goods and Services Tax |
| H2O2 | Hydrogen Peroxide |
| HIV | Human Immunodeficiency Virus |
| HLD | High Level Disinfection – involves the complete elimination of all microorganisms in or on an instrument, except for small numbers of bacterial spores |
| IASB | International Accounting Standards Board |
| IB | Installed base |
| ICU | Intensive Care Unit |
| IFRS | International Financial Reporting Standards |

# GLOSSARY

| | |
|---|---|
| IP | Intellectual Property |
| ISO 13485 | Quality Management System for Medical Devices – Requirements for Regulatory Purposes |
| ISUOG | International Society for Ultrasound Obstetrics and Gynaecology |
| ITAA | Income Tax Assessment Act |
| JSUM | Japan Society of Ultrasound Medicine |
| KMP | Key Management Personnel |
| LTI | Long-Term Incentives |
| LTIS | Long-Term Incentive Scheme |
| NAN | Nanosonics Limited (ASX Code) |
| NHS | National Health System (UK) |
| NOEP | Nanosonics Omnibus Equity Plan |
| NMPA | National Medical Products Administration |
| OEM | Original Equipment Manufacturer |
| PBT | Profit before tax |
| PCP | Prior corresponding period |
| Q1, 2, 3, or 4 | Three-monthly periods beginning 1 July, 1 October, 1 January and 1 April respectively |
| R&D | Research and Development |
| Reporting period | Year to 30 June 2020 |
| RFID | Radio-frequency Identification |
| ROE | Return on equity |
| RPC | Remuneration & People Committee |
| SARS CoV-2 | Severe acute respiratory syndrome coronavirus 2 |
| SG&A | Selling, General and Administration |
| STI | Short-Term Incentives |
| TFR | Total Fixed Remuneration |
| trophon® | The brand representing Nanosonics' range of infection control solutions designed specifically for healthcare settings |
| trophon® EPR | The brand of Nanosonics' first generation device specifically designed to disinfect intracavity and surface ultrasound probes |
| trophon®2 | The next generation trophon® device with an enhanced design and new functionality including AcuTrace™ for audit-ready digital record keeping and capabilities to seamlessly connect trophon®2 with hospital IT systems |
| TSR | Total Shareholder Return |
| UK | United Kingdom |
| US | United States of America |
| USD | United States dollar |
| VAT | Value Added Tax |
| VWAP | Volume Weighted Average Price |
| WAEP | Weighted Average Exercise Price |
| WFUMB | World Federation for Ultrasound in Medicine and Biology |
| WHS | Work, Health and Safety |
| WOFE | Wholly Owned Foreign Enterprise |

# CORPORATE DIRECTORY

Nanosonics Limited ABN 11 095 076 896 incorporated 14 November 2000

## DIRECTORS

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

## COMPANY SECRETARY

McGregor Grant

## REGISTERED OFFICE

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

## SHARE REGISTER

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

## INVESTOR/MEDIA RELATIONS

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Ph: +61 3 9866 4722
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McGregor Grant
Company Secretary
Ph: +61 2 8063 1600
Email: info@nanosonics.com.au

## AUDITOR

Ernst & Young
200 George Street
Sydney, NSW 2000 Australia

## LEGAL ADVISORS

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

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

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

## BANKERS

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

United Kingdom:
HSBC Bank PLC

Germany:
HSBC Trinkaus and Burkhardt AG
Deutsche Bank AG

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

Japan:
MUFG Bank Limited.

Canada:
HSBC Bank Canada

## STOCK EXCHANGE LISTING

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

## 2020 ANNUAL GENERAL MEETING

The 2020 AGM of Nanosonics Limited will be held:
At 11:00am on 24 November 2020
Details to be announced separately

Website address
www.nanosonics.com.au

nanosonics
Infection Prevention. For Life.

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