

**INFECTION
PREVENTION.
FOR LIFE.**

ANNUAL REPORT 2021



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.

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.

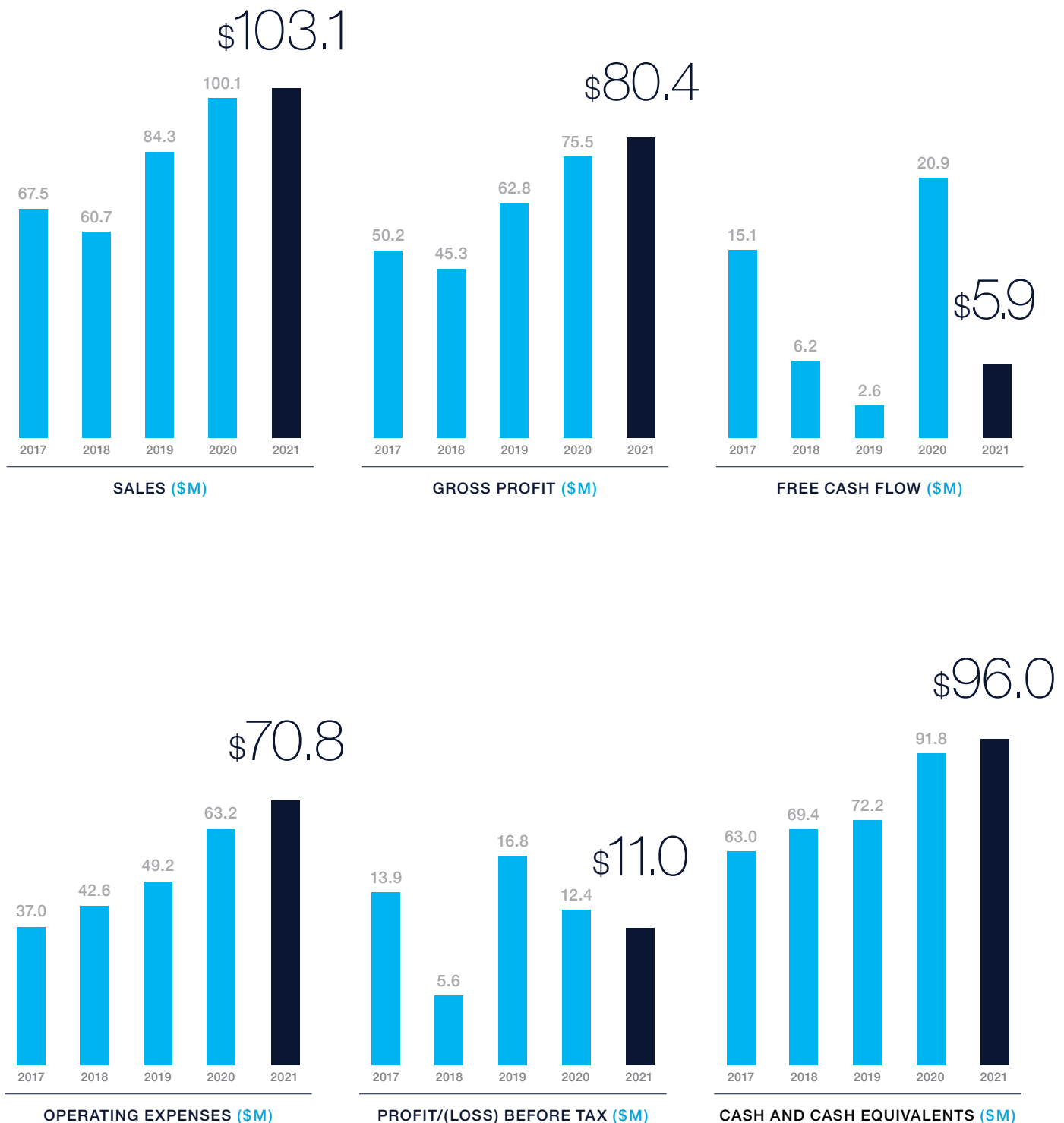
Our commitment to innovation is reflected in our investment in research and product development as we look to expand our product portfolio and bring new infection prevention products to market. In June 2021, we released our first discrete data, traceability and compliance management system, Nanosonics AuditPro™, which integrates infection prevention decision-making, track and trace, and compliance into a single digital solution.



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FINANCIAL HIGHLIGHTS.



2012-2021 RESULTS

\$'000	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Operating revenue	103,079	100,054	84,324	60,698	67,507	42,796	22,214	21,492	14,899	12,301
Gross Profit	80,384	75,513	62,816	45,291	50,155	32,166	15,313	13,921	8,471	7,502
R&D expenses	(17,194)	(15,558)	(11,375)	(9,882)	(9,486)	(7,297)	(4,902)	(4,103)	(3,167)	(3,135)
EBITDA	15,188	15,563	17,642	5,861	14,140	950	(4,732)	(1,845)	(5,366)	(4,982)
EBIT	10,763	11,671	15,502	4,362	12,866	(359)	(5,795)	(2,820)	(6,410)	(5,896)
Operating profit/(loss) before tax	10,984	12,459	16,830	5,583	13,852	136	(5,465)	(2,636)	(5,735)	(5,310)
Net income tax benefit/(expense)	(2,406)	(2,322)	(3,228)	168	12,306	(14)	5	31	(33)	631
Operating profit/(loss) after tax	8,578	10,137	13,602	5,751	26,158	122	(5,460)	(2,605)	(5,768)	(4,679)
Cash and cash equivalents	96,027	91,781	72,180	69,433	62,989	48,841	45,724	21,233	24,064	29,310

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Total revenue for the year was \$103.1 million, up 3% compared with the prior corresponding period. In constant currency, total revenue was up 12% compared with the prior corresponding period.

”

MICHAEL KAVANAGH | CEO



CHAIRMAN'S LETTER.

The 2021 financial year has been unprecedented, both in terms of its challenges and achievements. Globally, countries are aspiring to move into a more 'normal' phase, while they recognise that unchecked pathogens, such as SARS-CoV-2, can and will continue to have an ongoing impact locally and globally. The Nanosonics team has safely navigated through this period.

We have continually met the needs of our customers, adapting to new and innovative ways to conduct our business whilst maintaining our focus on having a positive environmental impact across all our activities. In parallel, multiple initiatives continue to be driven across each region.

On behalf of our Board and shareholders I take the opportunity to recognise the outstanding efforts of the Nanosonics team under Michael's leadership, who display the Company's values and commitment in not only meeting and exceeding our operational objectives, but so successfully driving our strategic aims, particularly in the arena of our technology portfolio expansion. The values of Agility, Discipline and Will to Win have been on full display throughout the year in all our operations worldwide.

The partnership with our customers has been a real feature of the period and demonstrates that adversity can always be navigated with a true spirit of collaboration.

It is very pleasing to see that Nanosonics continues to deliver on the growth of its installed base of trophon® and the associated ecosystem, particularly in the second half of the year, whilst responding to the significant impact of COVID-19 in creating unprecedented headwinds. This clearly demonstrates the strength and resilience of Nanosonics' business model, its solid relationship with GE and other global OEMs, together with the inherent value of its infection prevention products and services.

Our investment in R&D continues to grow. Nanosonics has made a clear commitment to expand the trophon franchise in new and existing markets. At the same time, we have expanded proactively across our other areas of interest within infection prevention. On 28 June 2021 our release of Nanosonics AuditPro™ extends our activities into digital health and was achieved during a period of rolling lockdowns across many of our Australian and U.S. operations.

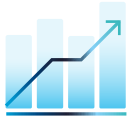
The expanded technology group is now focused in four areas: core R&D, sustaining engineering, external technology evaluation and Nanosonics Investments. Our mission of 'Infection Prevention. For Life' is being underwritten by our investment in our technology teams, which are second to none, as we maintain a profitable, growing and innovative business.

Your Company delivered a strong financial performance despite the many challenges that needed to be addressed in every dimension of the business. Customer access restrictions resulting from lockdowns are now trending in a positive direction, notwithstanding the ongoing impact of the Delta variant.

During the year, sales increased 3% to \$103.1 million. Importantly, sales in the second half of the year were up 39% compared with the first half as market conditions improved. The Company returned another positive profit before tax outcome of \$11.0 million in the context of a significant growth in investment in our strategic growth agenda. The Company's global trophon installed base continued to grow in all markets, up 13% to 26,750, including approximately 23,480 units in North America installed across over 5,000 facilities, where it is clearly established as standard of care.

Despite our record investments in an expanded team, accelerated R&D and resources for future growth, the Company continues to increase its cash reserves. These cash reserves serve the Company in a number of ways.





\$103.1M
REVENUE



\$80.4M
GROSS PROFIT

They provide a significant degree of stability and allow the Company to continue to pursue its strategic growth agenda in uncertain times. Our Board and management are actively engaged in reviewing our priorities, identifying opportunities for investment and ensuring that Nanosonics is on track to deliver 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 would again like to recognise the outstanding stewardship and commitment of our Board. Over a number of years the Company has gone through a process of Board renewal. With each new director joining, the business has benefited from an injection of valuable expertise and industry insight. The Board reflects diversity in a number of important and complementary ways. Our Directors bring a mix of skills and perspectives that strongly support our growth and governance objectives, and through the Board sub-Committees add real value to every dimension of our business.

Nanosonics' Sustainability Report contains an extensive amount of information on the environmental, social and governance practises that are core to the Company's mission, future success and represents the Company's DNA. I trust shareholders will see that the Report showcases our approach to caring for our employees, customers, suppliers, and critically, our investment in social responsibility and the environment. I am always particularly proud to see the strong diversity results across the Company and recognise the value and creativity that support our innovative and forward looking business.

The business has an active program of community contributions and initiatives which were adopted by the Board during the past year to formalise and expand the Company's commitment to society, internationally.

Your Company is strongly positioned to continue its growth agenda and product expansion, and to develop as an emerging leader in infection prevention technologies and services. The team's outstanding success in navigating these 'black swan' events demonstrate the character, depth and breadth of your Company's capabilities.

We have all now seen, in the most demonstrable way, the negative impact that unchecked pathogens can have in virtually every field of human endeavour. We at Nanosonics believe that we have a significant contribution to make in partnership with our customers, regulators and our industry to deliver a safer and more efficient health care system to the benefit of all.

We believe our expanded investments in the future such as CORIS, together with our strong financial position and outstanding team, provide the opportunity for continuing growth now and into the future.

MAURIE STANG
Chairman

24 August 2021



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First and most importantly, I wish to take this opportunity to recognise the outstanding efforts of the Nanosonics team who continue to embody the Company's Values in delivering on the Company's strategic growth agenda for our customers and shareholders.

”

MAURIE STANG
CHAIRMAN

**INFECTION
PREVENTION.
FOR LIFE.**

CEO'S REPORT.



MICHAEL KAVANAGH
CEO AND PRESIDENT

I start my report by acknowledging all the infection preventionists and frontline workers globally for their tireless efforts in managing the COVID-19 pandemic. I would also like to acknowledge each Nanosonics employee around the world for their resilience, flexibility, dedication and customer focus during what has been an unprecedented year.

As an infection prevention company, we are acutely aware of the risks of cross-contamination and the devastation infections can cause as clearly evidenced through the impacts of COVID-19. Now more than ever infection prevention is of paramount importance not just within the medical community but the community at large, highlighting the importance of 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.

Up to 22 million patients per year are protected from the risk of ultrasound probe cross-contamination by our trophon® technology. This number increases every day as our installed base grows. In addition, we continue to invest in research and development programs with the aim of bringing new innovations to market that deliver improved standards of care in infection prevention.

Despite the impacts of COVID-19 throughout FY21, our growth strategy has not changed, and the organisation successfully adapted to the real global challenges associated with COVID-19.

This resulted in many significant achievements and progress across key aspects of our strategy throughout the year.

Overall, the year can be viewed in two distinct periods. The first half, in particular the first quarter, when the impact of COVID-19 was the greatest. During this period, market restrictions impacted ultrasound procedure volumes, hospital access and consequently new installed base growth. Then, a significant recovery in the second half, as market conditions improved with **total revenue growing 39% over first half**, including an **84% growth in capital revenue** and a **27% growth in consumables and service revenue** and importantly, a **20% growth in new installed base**, with strong growth momentum trending toward pre-COVID-19 levels. Investment in our growth strategies also increased in the second half.

“

Significant recovery in FY21 H2 over H1 to strong pre-COVID growth momentum levels.

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MICHAEL KAVANAGH
CEO AND PRESIDENT



UP TO 22 MILLION PATIENTS PER YEAR ARE PROTECTED FROM THE RISK OF ULTRASOUND PROBE CROSS-CONTAMINATION BY OUR TROPON® TECHNOLOGY.

GROWTH IN H2 VS H1



OUR STRATEGIC PRIORITIES

There are four key strategic priorities the organisation is focused on:

The first is our work to **establish our trophon technology as standard of care** for ultrasound reprocessing. This includes active sales in countries where the fundamentals for adoption of trophon are strong through mandates and guidelines for high level disinfection, as well as supporting the establishment of national guidelines in those countries where guidelines are emerging. What is very encouraging is that more and more countries are releasing guidelines as awareness grows about the risk of cross-contamination through ultrasound probes.

TROPHON AS STANDARD OF CARE

- Support establishment of national 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.
- Strategic acquisitions in the infection prevention space.

INVEST TO GROW

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

CEO'S REPORT. CONTINUED.

The second aspect of our strategy is to **expand our geographical footprint**.

The focus for expansion is primarily across the European and Middle East region where we are now represented in 22 countries. In addition, in Asia Pacific there is a focus on expansion activities in Japan, where we have built a solid foundation and infrastructure as we work with relevant specialists and societies for the implementation of local guidelines. We have also made progress in China where we are finalising the registration of a wholly owned foreign enterprise (纳安诺医疗设备(上海)有限公司) and are now preparing for regulatory submission to approve trophon®2 for commercialisation in that market.

The third component of our growth strategy is **product expansion** where we continue to grow our R&D investment, building our internal capabilities and expanding our R&D programs. In addition, we have implemented a separate business development function to identify and assess potential strategic acquisitions and investments in infection prevention opportunities.

Finally, to enable the first three priorities, our fourth focus is **investing to grow**. It is recognised that there is significant opportunity for growth in trophon as well as expanding our product portfolio from internal R&D efforts along with potential acquisitions. At this stage of the organisation's journey it is imperative that we continue to invest in these opportunities, maintaining a strong financial position to enable such investments.

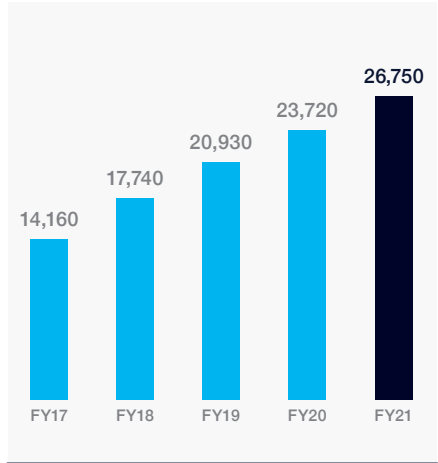
EXPANDING GLOBAL PRESENCE



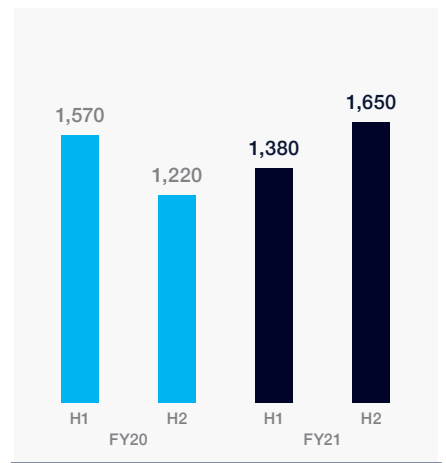
INSTALLED BASE

Despite the impacts of COVID-19, the global installed base increased 13% to 26,750 units, an increase of 3,030 units for the year, with all regions performing well.

Importantly, the second half of the year saw a significant recovery in new installed base adoption as market conditions improved, with 1,650 new units installed, growing 20% compared with the first half.



GLOBAL INSTALLED BASE



INSTALLED BASE GROWTH (BY HALF)



CEO'S REPORT. CONTINUED.

NORTH AMERICA

In North America, the installed base increased 12% or 2,490 units for the year with 23,480 units now installed across over 5,000 institutions. A significant recovery was experienced in H2 as market conditions improved, with new installed base growing by 1,360 units, up 28% compared with the prior corresponding period and up 20% vs H1.

Importantly, the estimated Total Addressable Market for trophon units in North America has been revised up from 40,000 units to 60,000¹ units, taking into account the growth in ultrasound over the last eight years in the U.S., which further increases the opportunity for trophon as we continue expanding our North American operations.

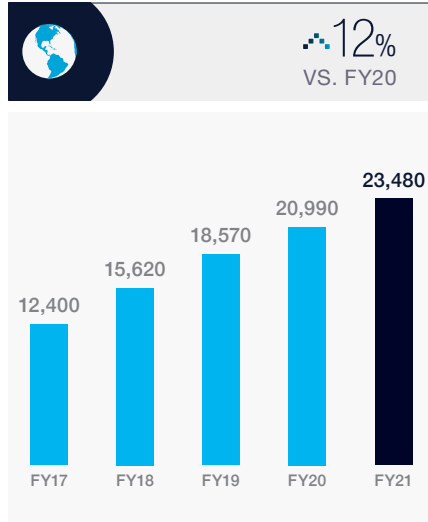
EUROPE AND MIDDLE EAST

In the Europe and Middle East region, despite COVID-19 related restrictions prevailing for the full year, the installed base grew 35% or 390 units for the year, with 1,510 units now installed across the region. This growth reflects the strengthening fundamentals for adoption of trophon across the region as our geographical footprint expands, guidelines supporting automated high-level disinfection continue to emerge, and our infrastructure investments continue to increase. Both halves of the year demonstrated significant growth over prior corresponding periods with H1 up 54% compared with the prior corresponding period and H2 up 73% compared with the prior corresponding period.

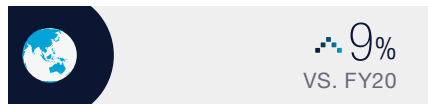
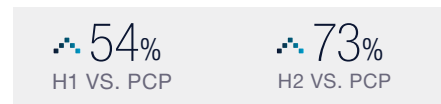
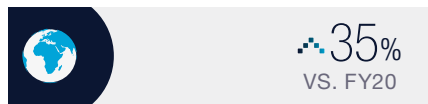
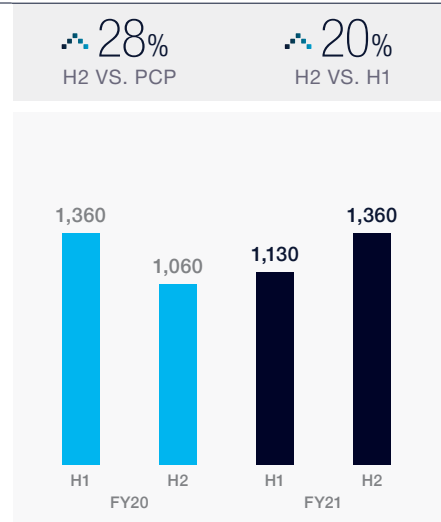
ASIA PACIFIC

In Asia Pacific the installed base grew 9% or 150 units for the year with 1,760 units now installed in the region. The majority of the growth was experienced in ANZ as Japan was effectively in lockdown for the majority of the year. The number of new units installed in H2 was up 100% compared with both the prior corresponding period and the first half, demonstrating the strong recovery in ANZ.

TOTAL INSTALLED BASE



NEW INSTALLED BASE (BY HALF)



1. Nanosonics analysis based on updated ultrasound information commissioned by Nanosonics and an estimated trophon to ultrasound attachment rate. The North America market has been the focus of the TAM analysis undertaken. Similar data is not readily available for the Asia Pacific and EMEA regions. However, the Company's expectation is that the ultrasound market will have also grown in those two regions in the years since the Company last analysed the TAM in those markets.

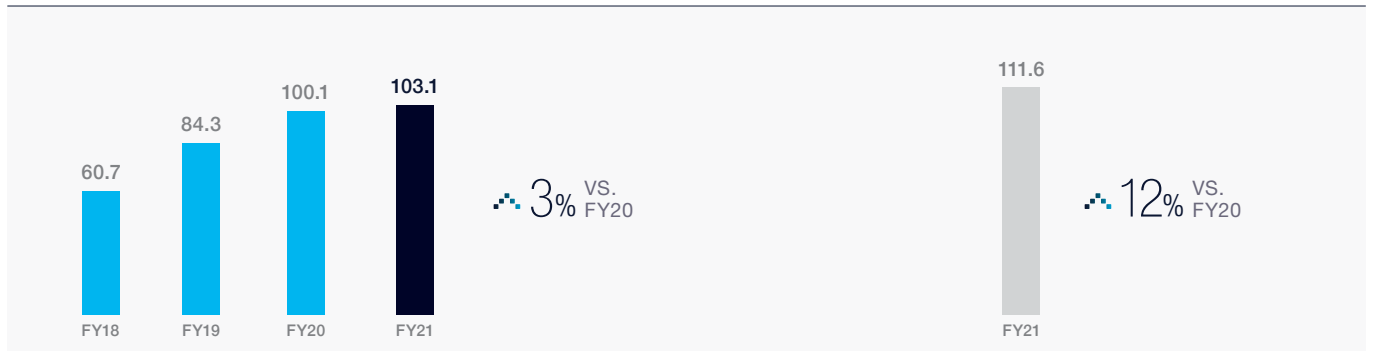
FINANCIAL RESULTS

TOTAL REVENUE

Total revenue for the year was \$103.1 million, up 3% compared with the prior corresponding period. In constant currency, total revenue was up 12% compared with the prior corresponding period. Importantly, H2 saw a significant recovery with market conditions improving, resulting in a total revenue of \$60 million, up 39% over H1. In constant currency terms, H2 revenue was up 50% compared with H1.

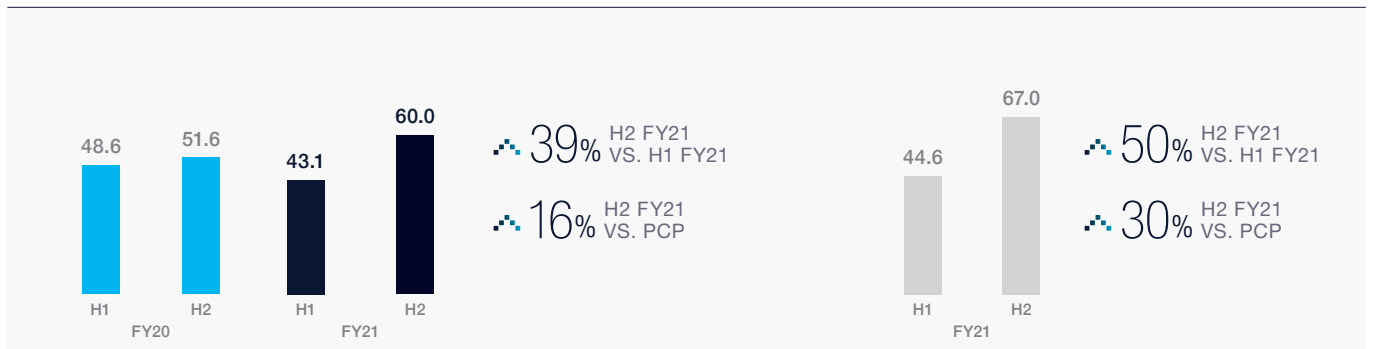
REVENUE GLOBAL ANNUAL GROWTH (\$M)

CONSTANT CURRENCY¹



REVENUE GLOBAL HALF ON HALF GROWTH (\$M)

CONSTANT CURRENCY¹

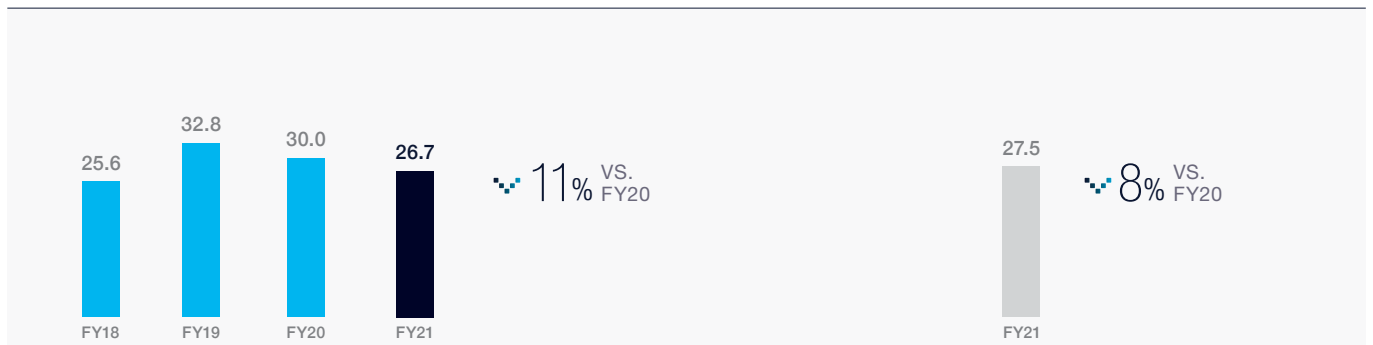


CAPITAL REVENUE

Despite a 13% increase in new installed base, capital revenue for the year was down 11% to \$26.7 million (down 8% in constant currency). This reduction was primarily associated with a reduction in the number of units sold to GE Healthcare in the first half of FY21. This was due to a decrease in installed base growth as a result of COVID-19, particularly in Q4 of FY20 and Q1 of FY21 and the corresponding impact on GE's inventory levels. Importantly, capital revenue increased 84% in H2 over H1 as market conditions improved, installed base growth recovered and GE resumed normal capital purchasing patterns.

CAPITAL REVENUE GLOBAL ANNUAL GROWTH (\$M)

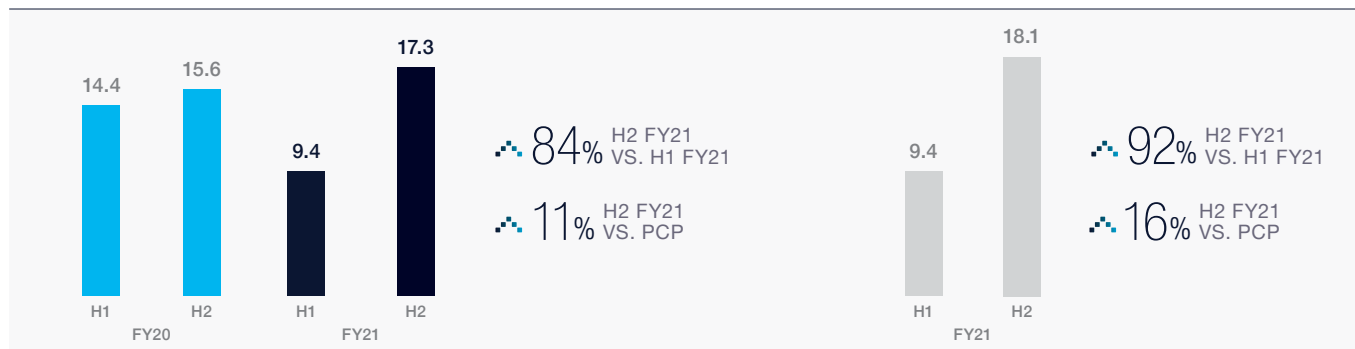
CONSTANT CURRENCY¹



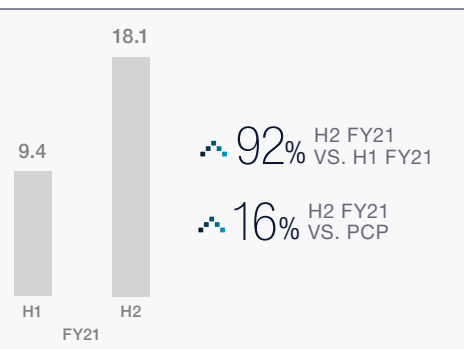
1. Constant currency removes the impact of foreign exchange rate movements to facilitate comparability of operational performance. This is done by converting the current year sales of entities that use currencies other than Australian dollars at the average rates that were applicable in the prior year.

CEO'S REPORT. CONTINUED.

CAPITAL REVENUE GLOBAL HALF ON HALF GROWTH (\$M)



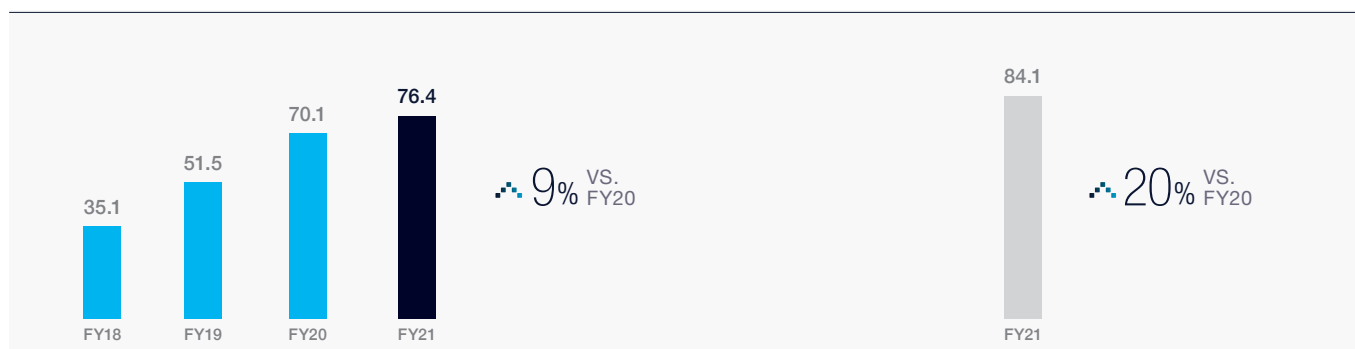
CONSTANT CURRENCY¹



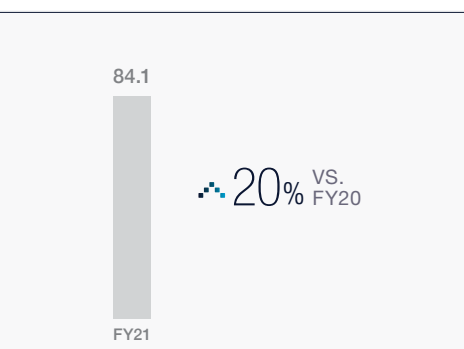
CONSUMABLES AND SERVICE REVENUE

Revenue from consumables and service increased 9% to \$76.4 million (up 20% in constant currency). First half consumables sales were reduced due to the impacts of COVID-19 on ultrasound procedure volumes. However, the second half saw a positive trend towards pre-COVID-19 procedure levels, with revenue from consumables and service up 27% (39% in constant currency) in H2 over H1. Importantly, towards the end of FY21 all indications were that ultrasound procedure volumes were approaching pre-COVID-19 levels across most markets.

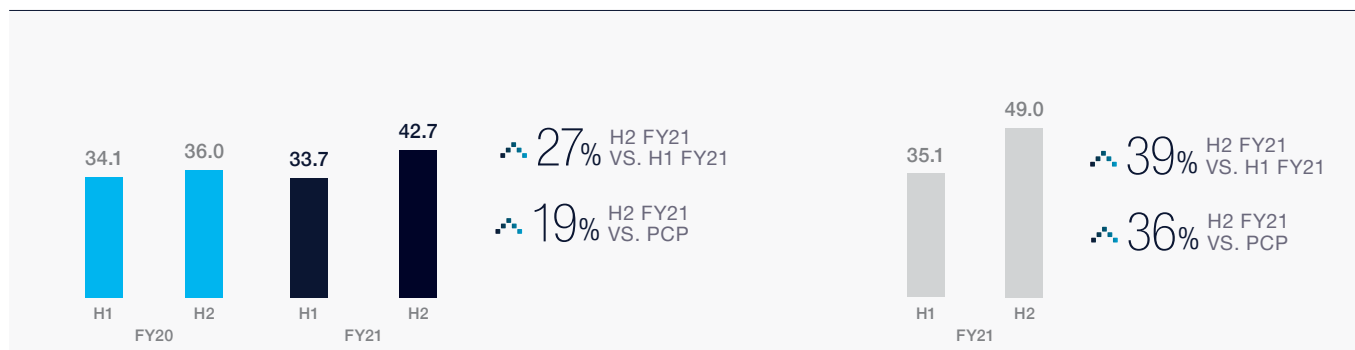
CONSUMABLES AND SERVICE REVENUE GLOBAL ANNUAL GROWTH (\$M)



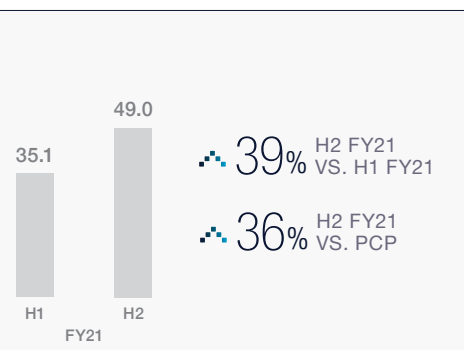
CONSTANT CURRENCY¹



CONSUMABLES AND SERVICE REVENUE GLOBAL HALF ON HALF GROWTH (\$M)



CONSTANT CURRENCY¹



1. Constant currency removes the impact of foreign exchange rate movements to facilitate comparability of operational performance. This is done by converting the current year sales of entities that use currencies other than Australian dollars at the average rates that were applicable in the prior year.

REGIONAL FINANCIAL PERFORMANCE

NORTH AMERICA

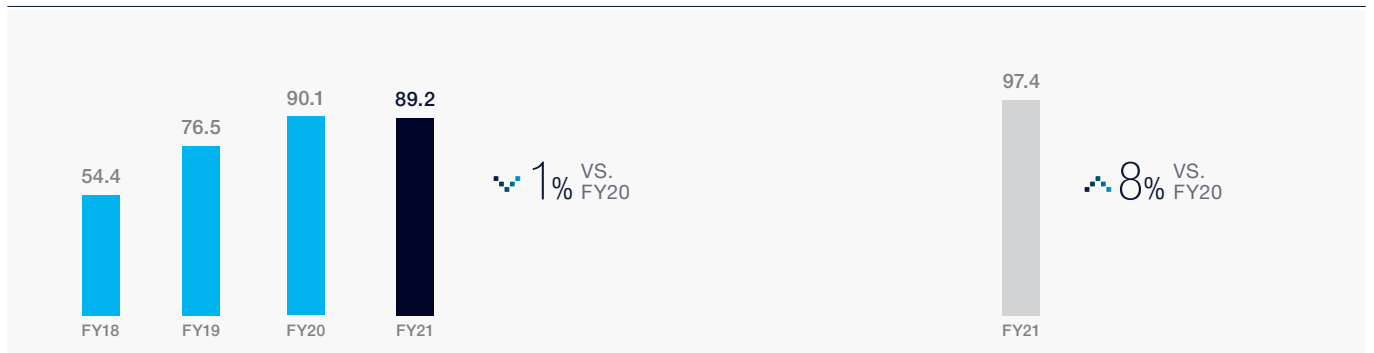
Total revenue for the year of \$89.2 million was down 1% compared with the prior corresponding period (up 8% in constant currency). This reduction in revenue was primarily associated with a significant reduction in capital revenue in H1 of FY21 compared with H2 of FY20 of 49%. This reduction was primarily associated with the impacts of COVID-19 on new installed base growth in Q4 of FY20, resulting in GE Healthcare’s capital inventory being higher than anticipated at the end of FY20.

As market conditions improved in the second half of the year, total revenue improved significantly up 42% over H1. Capital revenue in H2 increased 96% over H1 as new installed base grew and GE Healthcare resumed purchasing capital equipment.

Consumables & Service revenue increased 8% for the year. In H2, as ultrasound procedure volumes trended back to pre-COVID-19 levels, so did the recovery of the consumables and service revenue, increasing 29% in H2 over H1.

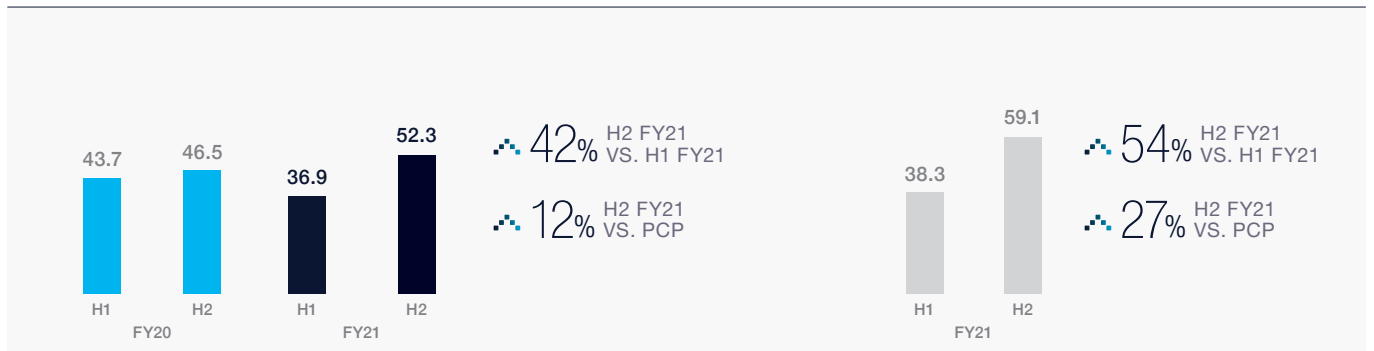
REGIONAL REVENUE NORTH AMERICA ANNUAL GROWTH (\$M)

CONSTANT CURRENCY¹



REGIONAL REVENUE NORTH AMERICA HALF ON HALF GROWTH (\$M)

CONSTANT CURRENCY¹



1. Constant currency removes the impact of foreign exchange rate movements to facilitate comparability of operational performance. This is done by converting the current year sales of entities that use currencies other than Australian dollars at the average rates that were applicable in the prior year.

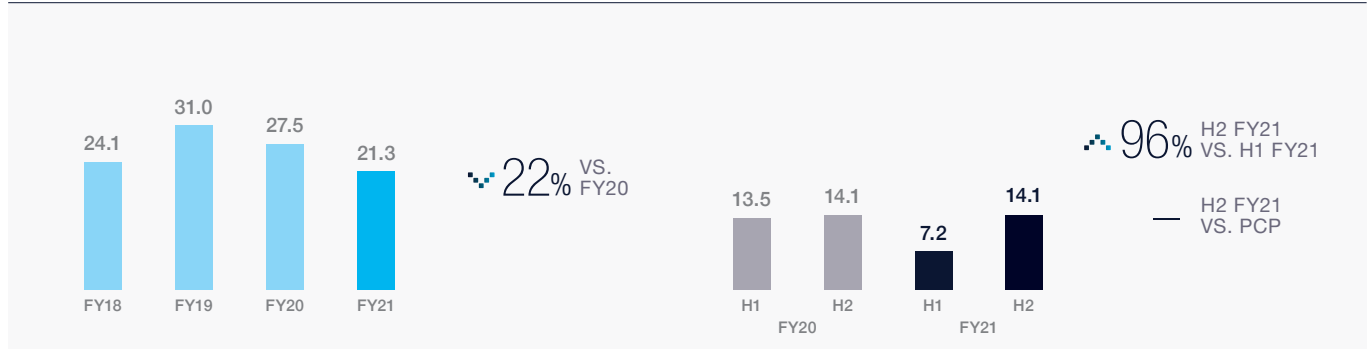


CEO'S REPORT. CONTINUED.

NORTH AMERICA – REVENUE BY PRODUCT

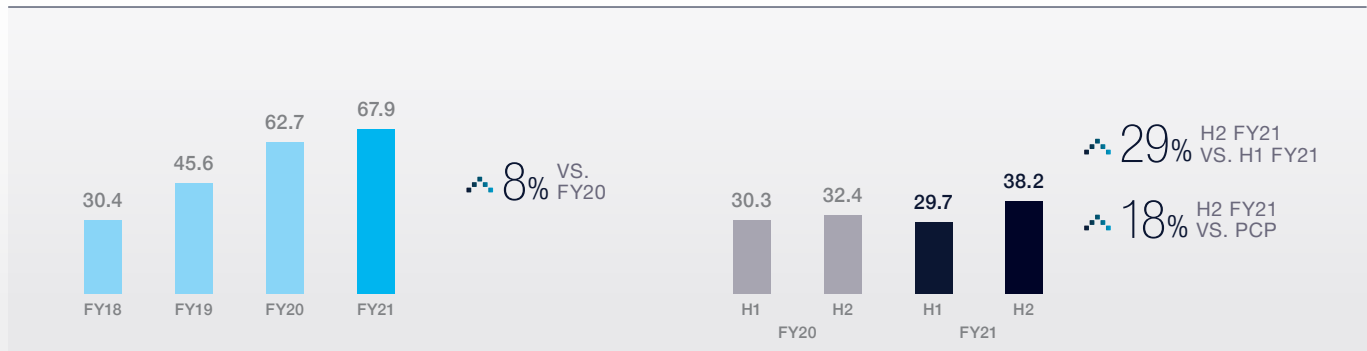
CAPITAL REVENUE ANNUAL GROWTH (\$M)

HALF ON HALF GROWTH



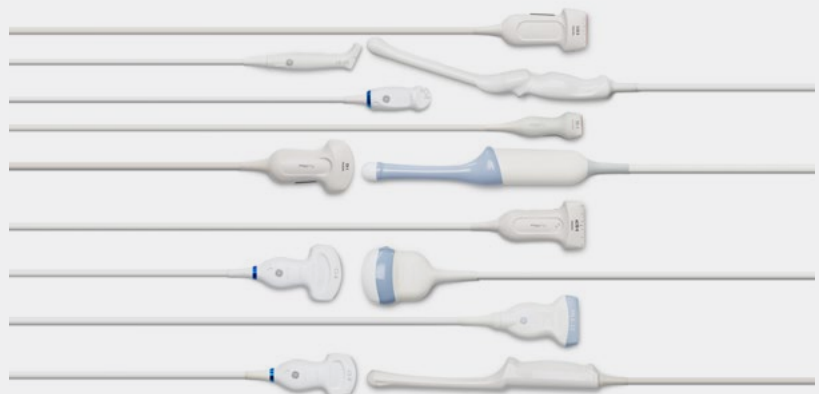
CONSUMABLES/SERVICE REVENUE ANNUAL GROWTH (\$M)

HALF ON HALF GROWTH



ULTRASOUND PROCEDURES

THERE ARE OVER 150 PROCEDURES¹ THAT USE ULTRASOUND PROBES THAT RISK CONTACT WITH MUCOUS MEMBRANES, NON-INTACT SKIN AND/OR STERILE TISSUE.



ENDOCAVITARY

- Abdominal Duplex Vascular (complete and limited, transvaginal)
- Pregnancy scans
- Chorionic Villus Sampling
- Transrectal scan
- Transrectal prostate biopsy

UG² BIOPSY

- Biopsy of liver
- Biopsy of pancreas
- Biopsy of pleural fluid
- Biopsy of pulmonary lesions
- Biopsy of salivary gland
- Biopsy of sclerosing mesenteritis

INTRAOPERATIVE

- Intraoperative neurosurgical procedures
- Intraoperative UG tracer injection
- UG implantation of iodine seeds
- UG percutaneous renal transplant biopsy
- UG transthoracic punctures

NERVE BLOCKS

- UG cervical nerve root block
- UG ankle block
- UG femoral nerve block
- UG ophthalmic regional anesthesia
- UG percutaneous peripheral nerve stimulation

WOUNDS

- UG burn patient assessment
- UG Focused Assessment with Sonography in Trauma (FAST)
- UG focused diagnostic echocardiography (e.g., cardiac resuscitation in presence of trauma)

1. Nanosonics analysis, SDMS guidelines, market reports.
 2. Ultrasound guided.

EUROPE AND MIDDLE EAST

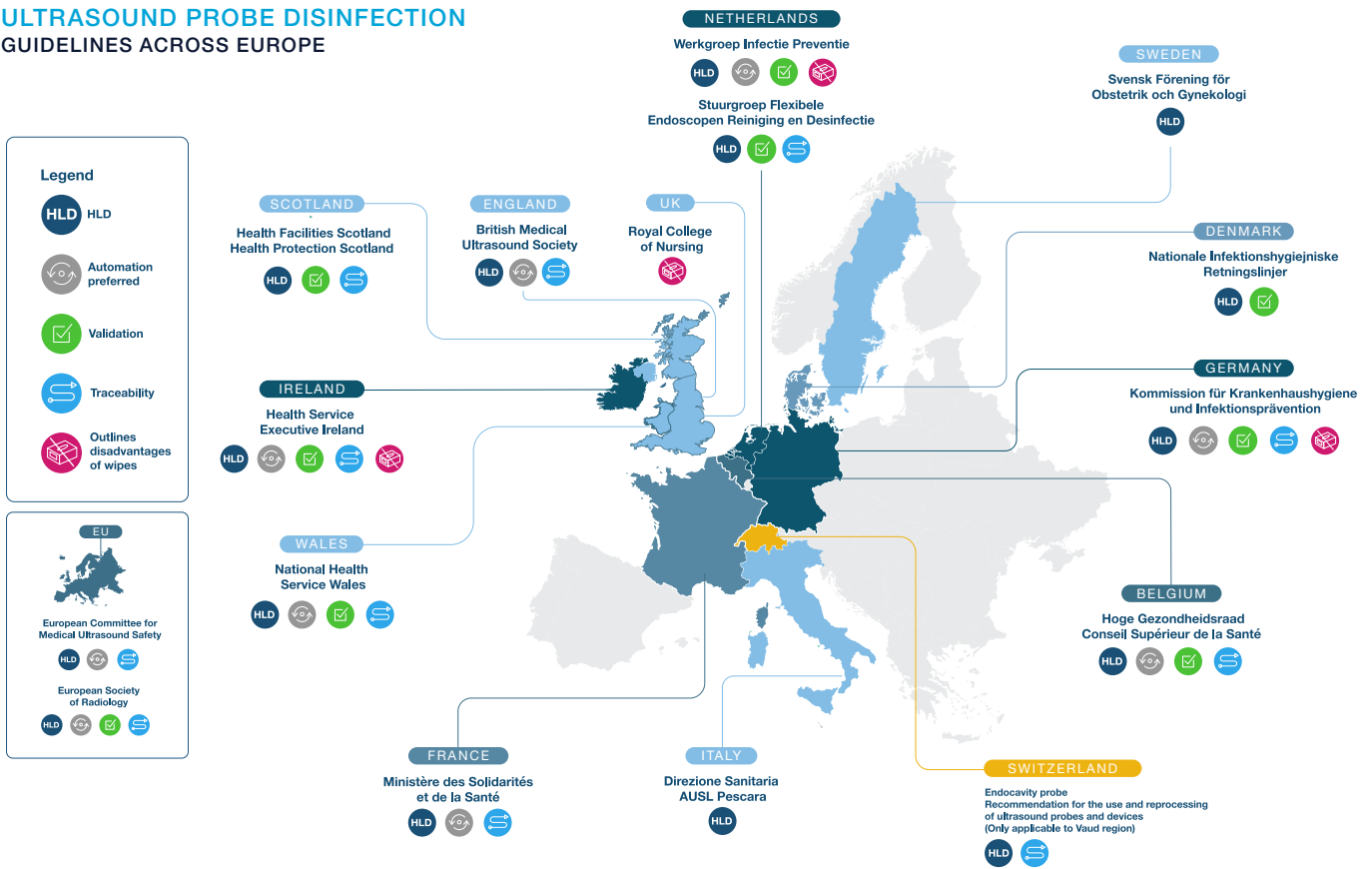
Despite severe COVID-19 restrictions being imposed throughout Europe and Middle East for the full year, total revenue in the region was up 38% to \$7.2 million (43% in constant currency). This is a positive indication of the growing opportunity in the region as the fundamentals for adoption of trophon continue to strengthen with new guidelines continuing to emerge. The company continued to invest in the region's infrastructure and market expansion activities throughout the year.

Both halves of the year delivered strong growth over prior corresponding periods with H1 up 50% and H2 up 29% compared with the prior corresponding period.

Total capital revenue for the year was up 91% to \$2.7 million. Importantly, as the majority of units were placed in the U.K. (the largest market in the region) are under the managed equipment service model where no capital revenue is recognised, this increase in capital revenue reflects the growth in the markets outside of the U.K.

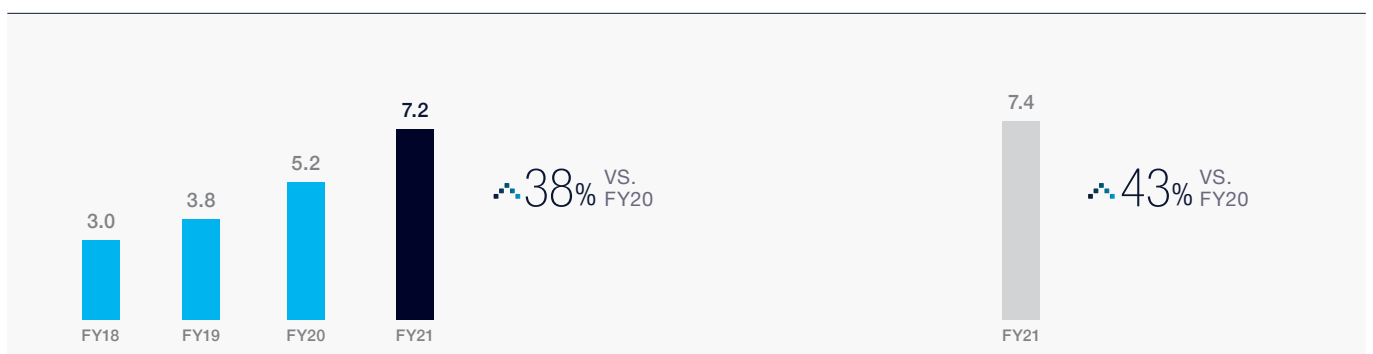
Consumable and service revenue increased 18% compared with the prior corresponding period. As in North America, an increase in consumables revenue was achieved in H2 over H1 as ultrasound procedure volumes continued to trend back towards pre-COVID-19 levels.

ULTRASOUND PROBE DISINFECTION GUIDELINES ACROSS EUROPE



REGIONAL REVENUE EUROPE AND MIDDLE EAST ANNUAL GROWTH (\$M)

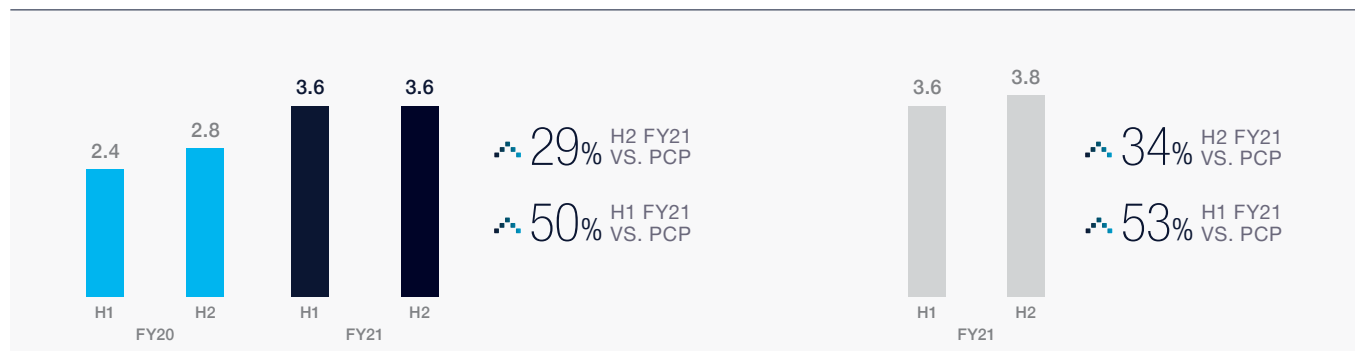
CONSTANT CURRENCY¹



1. Constant currency removes the impact of foreign exchange rate movements to facilitate comparability of operational performance. This is done by converting the current year sales of entities that use currencies other than Australian dollars at the average rates that were applicable in the prior year.

CEO'S REPORT. CONTINUED.

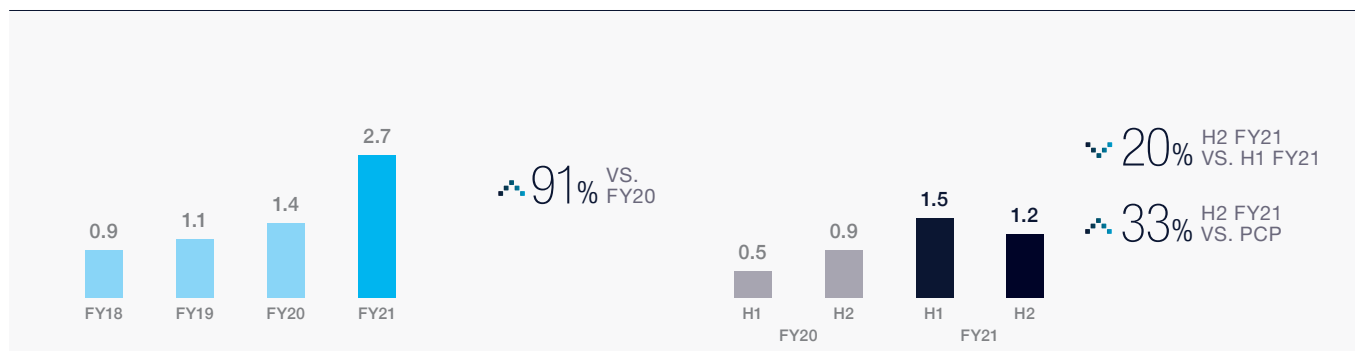
REGIONAL REVENUE EUROPE AND MIDDLE EAST HALF ON HALF GROWTH (\$M) CONSTANT CURRENCY¹



EUROPE AND MIDDLE EAST – REVENUE BY PRODUCT

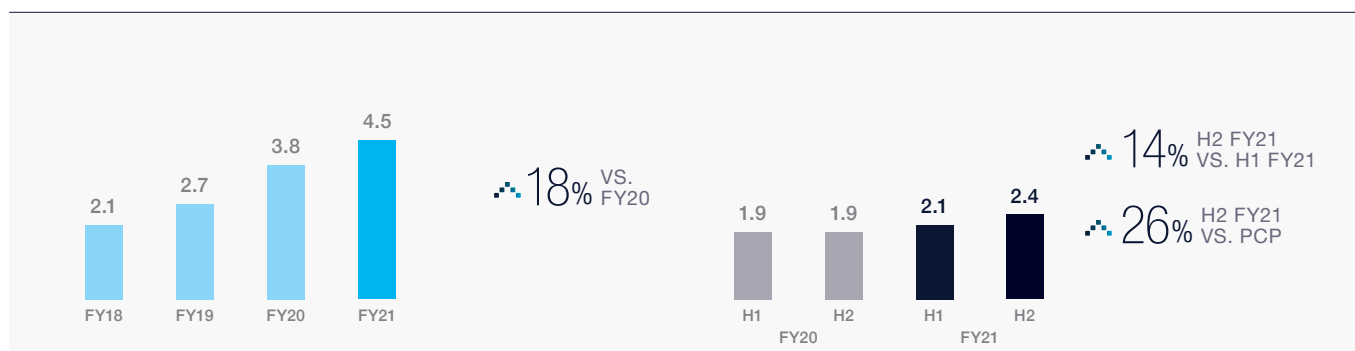
CAPITAL REVENUE ANNUAL GROWTH (\$M)

HALF ON HALF GROWTH



CONSUMABLES/SERVICE REVENUE ANNUAL GROWTH (\$M)

HALF ON HALF GROWTH



ASIA PACIFIC

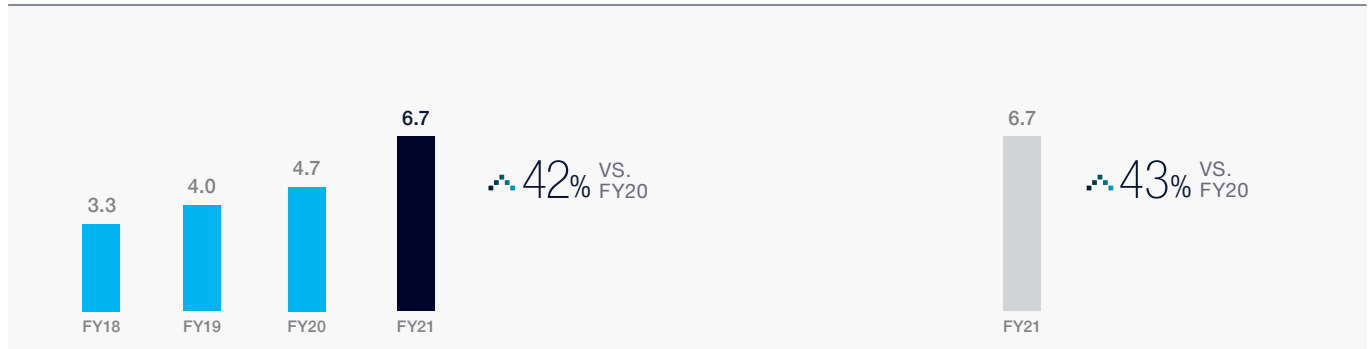
Total revenue in the Asia Pacific region was up 42% to \$6.7 million. The majority of the growth was recorded in ANZ as the installed base continued to grow by 9% and trophon upgrades commenced.

Total capital revenue for the year was up 143% to \$2.7 million and was up 36% excluding revenue from upgrades. Consumables and service revenue increased 12% compared with the prior corresponding period with H2 revenue up 11% over H1 as the installed base grew and ultrasound procedure volumes returned to pre-COVID-19 levels.

1. Constant currency removes the impact of foreign exchange rate movements to facilitate comparability of operational performance. This is done by converting the current year sales of entities that use currencies other than Australian dollars at the average rates that were applicable in the prior year.

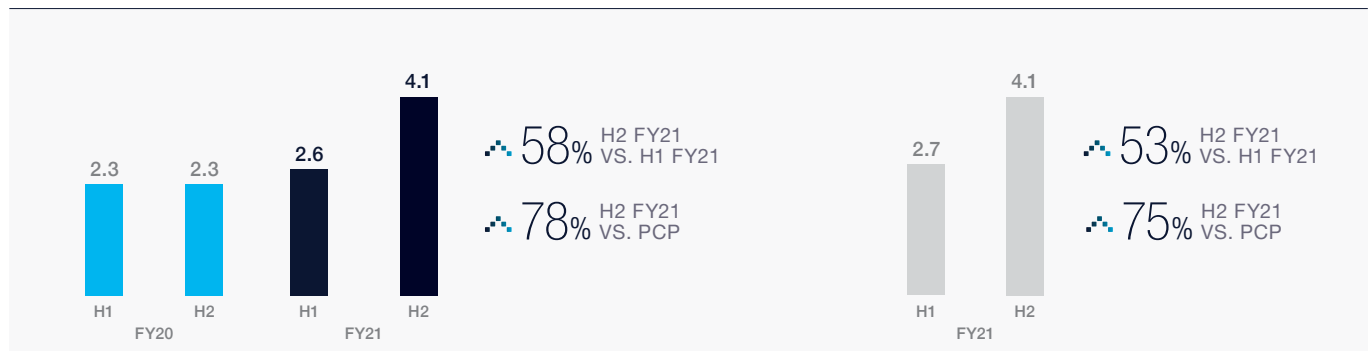
REGIONAL REVENUE ASIA PACIFIC ANNUAL GROWTH (\$M)

CONSTANT CURRENCY¹



REGIONAL REVENUE ASIA PACIFIC HALF ON HALF GROWTH (\$M)

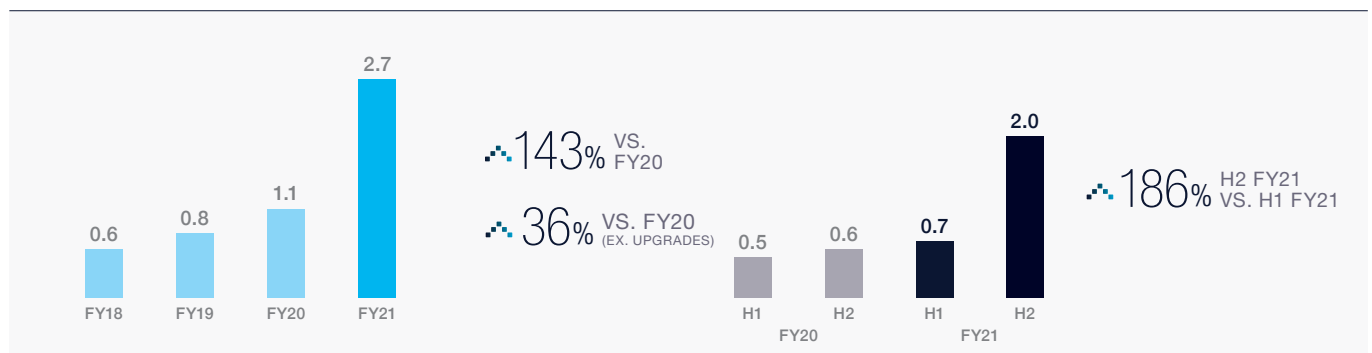
CONSTANT CURRENCY¹



ASIA PACIFIC – REVENUE BY PRODUCT

CAPITAL REVENUE ANNUAL GROWTH (\$M)

HALF ON HALF GROWTH



CONSUMABLES/SERVICE REVENUE ANNUAL GROWTH (\$M)

HALF ON HALF GROWTH



1. Constant currency removes the impact of foreign exchange rate movements to facilitate comparability of operational performance. This is done by converting the current year sales of entities that use currencies other than Australian dollars at the average rates that were applicable in the prior year.

CEO'S REPORT. CONTINUED.



OTHER FINANCIAL RESULTS

The Company continued to increase its investments in its strategic growth agenda throughout the year, reflecting the significant growth opportunity for trophon globally as well as major opportunities for growth in the broader infection prevention market through product expansion.

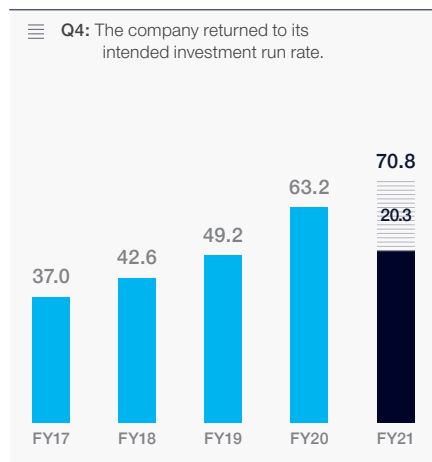
Operating expenses for the year increased 12% to \$70.8 million. In particular, expenditure increased in H2, up 15% compared with H1 as market conditions improved. Operating expenses in Q4 represented 29% of the total year as the Company returned to its intended investment run rate for the year.

Profit before tax for the year was \$11.0 million. Of the \$11.0 million, \$10.8 million was achieved in the second half as revenue grew 39% in H2 over H1.

Total free cash flow for the year was \$5.9 million, with H2 free cash flow of \$8.3 million offsetting net cash outflow of \$2.4 million in the first half.

Cash and cash equivalents increased 5% to \$96 million. The Company has no debt and reviews its capital management strategy 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.

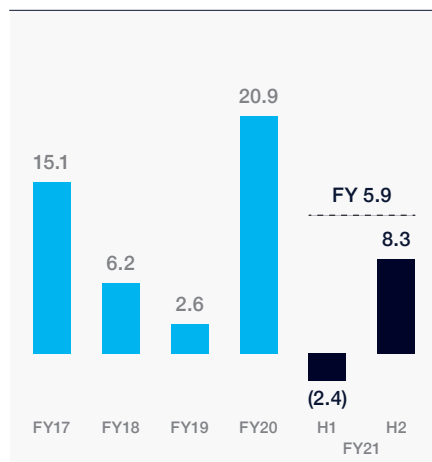
OPERATING EXPENDITURE (\$M)



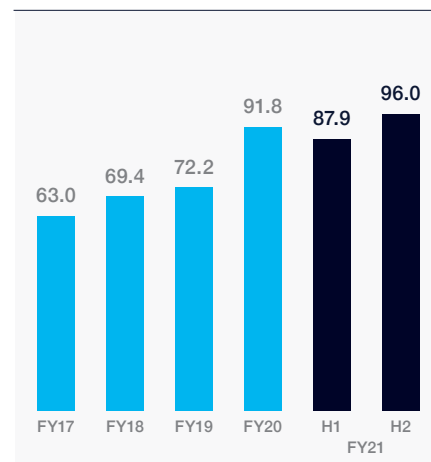
PROFIT BEFORE TAX (\$M)



FREE CASH FLOW (\$M)



CASH AND CASH EQUIVALENTS (\$M)



PEOPLE AND CULTURE

We recognise the tremendous value that our people provide to the Company. Throughout the year we continued to expand our capacity and capability with the total number of employees increasing 9% to 339.

Diversity and inclusion is recognised as an important driver of our growth and a core aspect of the Nanosonics culture. The Nanosonics workforce now represents around 29 different nationalities with 41% of employees being female. 38% of senior management positions in the organisation are also held by females.

Our people focus was recognised with exceptional results in the Company’s Employee Engagement survey where 94% of our employees strongly agree with the Company purpose, and importantly, with 93% of our employees knowing how their work contributes to the goals of the company.

OUR CORE VALUES



COLLABORATION

We do things together because we value diversity of opinion, perspective and knowledge and are stronger when we work as a team.



INNOVATION

We innovate because we want to continuously make things better, adding value to our customers, our operations and our business.



DISCIPLINE

We do the right thing because we are ethical, compliant and are clear about our responsibility and accountability for delivering on our commitments.



AGILITY

We are effective because we not only embrace, but drive change; we are continuously learning and can adapt quickly.



WILL TO WIN

We do things with a sense of urgency, anticipating market and customers’ needs, because we always strive to be the best with a will to win.



EMPLOYEES

339

9% INCREASE ON FY20



FEMALE WORKFORCE¹

41%



WOMEN IN STEM

42%

FEMALE



~29

NATIONALITIES

“

We recognise the tremendous value that our people provide to the Company.

”

1. Inclusive of all employees as at 30 June 2021.

CEO'S REPORT. CONTINUED.

LAUNCH OF NANOSONICS AUDITPRO™

In June 2021, Nanosonics AuditPro™ was launched at the Association for Professionals in Infection Control (APIC) conference in the United States, with plans for launch into other key markets throughout FY22.

AuditPro is the result of a number of years of research and development and opens up a significant opportunity to market a unique solution that integrates infection prevention decision-making, track and trace, and compliance into a single digital solution. AuditPro delivers real-time access to a broad range of compliance and traceability data for customers, which is an important aspect of infection prevention to ensure medical instruments have been appropriately disinfected in accordance with relevant standards.

The new AuditPro digital solution comprises of a mobile scanning device coupled with a subscription to a browser-based application for users. The first application focuses on ultrasound procedures, with the new handheld device designed to be coupled with every ultrasound console at point of care. With approximately 271,000 ultrasound units in the U.S. alone¹, AuditPro represents a significant new opportunity for Nanosonics. Being a platform technology, AuditPro presents the opportunity to grow beyond ultrasound and be applied to other medical instruments.

While AuditPro is a discrete new product platform, its application for ultrasound and connectivity with trophon®2 further enhances the trophon2 value proposition as well as competitive advantage. This further supports the leading position and ongoing adoption of trophon2 as well as the potential to support upgrades from trophon EPR to trophon2. In addition, through its education platform to guide clinicians on which ultrasound procedures require high level disinfection of the probe, there is the potential that this could lead to increased usage of trophon devices.

RESEARCH AND DEVELOPMENT⁵

During the year, Nanosonics continued to invest in its product expansion strategy.

R&D investment increased 11% to \$17.2 million directed across multiple projects.

Nanosonics' R&D interests span five key areas of infection prevention:

- Instrument cleaning;
- Instrument disinfection;
- Environmental decontamination;
- Digital solutions for traceability and compliance; and
- Storage solutions.

NEW PRODUCT PLATFORM – NANOSONICS CORIS®, TRANSFORMING THE CLEANING OF FLEXIBLE ENDOSCOPES

The R&D team achieved a number of important milestones across a number of projects with a focus on our new technology platform which is directed at addressing one of the most significant issues in instrument reprocessing today – flexible endoscope cleaning. Indeed, more healthcare-associated outbreaks have been linked to contaminated endoscopes than any other medical device^{2,3}.

Reusable flexible endoscopes are highly sophisticated medical devices designed to enable advanced diagnostic and therapeutic interventions to diagnose and treat cancers and other life-threatening conditions. They incorporate advanced technology that gives physicians a sophisticated level of control in carrying out complex, minimally-invasive procedures and navigating challenging anatomical situations to deliver the highest level of patient care.

There are many different types of flexible endoscopes, including colonoscopes, gastroscopes, duodenoscopes, bronchoscopes, urological scopes and ENT* scopes, in addition to other specialty scopes.

The potential to address the challenges of contaminated endoscopes represents a significant opportunity for Nanosonics, with over 60 million flexible endoscopy procedures being conducted across the United States and the largest five markets in Europe alone every year and growing at 6% per annum⁴.

The cleaning stage of the reprocessing process is a critical step and has significant implications for the outcomes of the subsequent high level disinfection stage of the process. Challenges associated with manual cleaning, combined with reports of persistent contamination from biofilm despite routine cleaning, represents a significant unmet need which has been recognised by regulators and customers. This technical challenge has existed for many years and is a complex one to address.

The Nanosonics R&D team have focused on these significant technical challenges with the aim of developing a novel automated technology designed to revolutionise the cleaning process of flexible endoscopes. The new CORIS platform technology, like trophon, will comprise both capital equipment and consumables with the expectation that the system will benefit from intellectual property protection.

In testing to date, this new automated platform technology has demonstrated the potential to deliver significant superiority in cleaning efficacy over the requirements of the current standards. In addition, testing demonstrates superior efficacy over manual cleaning against difficult biofilm contamination, including in the smallest channels of an endoscope.

Work continues to progress positively with the product development, including the integration of a number of enhancements to the new platform. This work will be followed by external clinical assessment to support the regulatory submission. Nanosonics continues to engage with the U.S. FDA to determine the necessary requirements to support a successful regulatory submission. The timing for commercial launch previously indicated is being revised and will be determined in due course dependent on the necessary technical, regulatory and operational milestones being met with the Company currently targeting the first commercial launch to occur in calendar 2023. Updates will be provided as material new information becomes available. The Company remains confident, both in the ongoing progress of the development project and importantly in the overall commercial opportunity for this transformational technology platform, which it believes has the potential to become a new standard of care for endoscope cleaning.

1. Nanosonics analysis of U.S. ultrasound market based on third party data.

2. Guideline for Disinfection and Sterilization in Healthcare Facilities, U.S. CDC, Update: May 2019.

3. Top 10 Health Technology Hazards for 2018, ECRI Institute, 2018.

4. Frost & Sullivan, Endoscope Reprocessing Systems and Software Solutions Market Assessment (US, W. Europe, Australia), 2018.

5. All research and new product development programs involve inherent risks and uncertainties which can impact commercialisation timelines.

* Refers to ear, nose, throat, larynx, and sinuses.

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During the year, Nanosonics continued to invest in its product expansion strategy. R&D investment increased 11% to \$17.2 million directed across multiple projects.

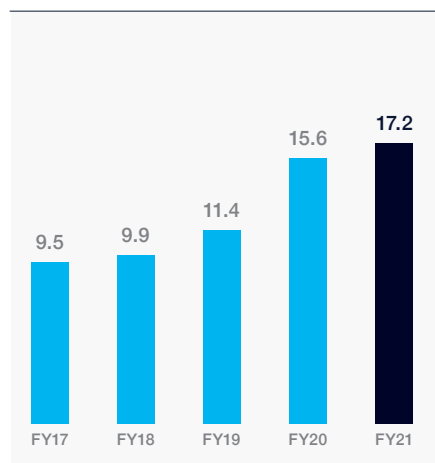
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INTELLECTUAL PROPERTY

Nanosonics recognises the importance of its Intellectual Property (IP) portfolio in maintaining its sustainable competitive advantage. During FY21, Nanosonics filed an additional seven new provisional patent applications representing new innovations. The subject matter protected by Nanosonics' IP portfolio helps protect trophon (capital equipment, consumables and accessories), new products (AuditPro and ecosystem products), as well as new product developments planned for commercialisation. Nanosonics now has a dedicated IP function that manages its active program of IP development and third party analysis to support the Company's strategic growth agenda.

INVESTMENT IN R&D (\$M)



BUSINESS OUTLOOK – FY22

The second half of FY21 reflected a significant recovery as market conditions improved. This recovery demonstrates the strength of the underlying fundamentals of the business. Despite the inherent risks and uncertainties associated with

COVID-19, in particular those emerging with different strains of the virus, Nanosonics remains optimistic that the improved market conditions will continue as vaccination numbers increase across all major markets.

Assuming the positive market recovery trends continue, the Company anticipates a return to double-digit growth in total revenue in FY22, driven by a ongoing increase in installed base globally and increased usage of consumables across all regions as ultrasound procedures return to pre-COVID-19 levels. In addition, it is anticipated that a growth in upgrades from trophon EPR to trophon2 will occur in FY22. Taking into account the anticipated increase in capital from new installed base growth and upgrades, the mix between capital revenue and consumables will likely change, which will result in a lower gross profit margin compared with FY21. However, it is anticipated that the Company's gross profit margin will remain above 75%.

Nanosonics' infrastructure, people, capability and cash balance provide a strong foundation for the future. With growing opportunities for the trophon franchise, as well as further opportunities in the broader infection prevention market, the Company maintains its commitment to continue to invest in its long-term strategic growth agenda with an emphasis on continuing investment growth in our regional operations and R&D. Operating expenses for the fourth quarter of FY21 were \$20.3 million as the business returned to its intended investment run rate.

It is expected that there will be growth in this run rate into FY22, with total operating expenses for the year expected to be approximately \$90 million.

BEYOND FY22

Nanosonics' forward-looking growth agenda remains very much intact, with significant opportunities for growth of the trophon franchise as well as significant opportunities from the planned expanded product portfolio. Beyond FY22, Nanosonics is targeting:

- Continued growth in the trophon installed base and associated ecosystem 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;
- New source of revenue opportunity associated with the global launch of AuditPro as well as further new product launches;
- Ongoing expansion of the product portfolio through internal product development and opportunities for strategic acquisitions and product licensing across key vectors of infection; and
- Ongoing investment in R&D, infrastructure, people and capability to continue to drive the Company's global growth strategy with the aim of establishing Nanosonics as a global leader in infection prevention.

MICHAEL KAVANAGH
CEO and President

24 August 2021

OUR COMMITMENT TO ESG.

Financial Year 2021 was the first full year that the world has lived with the financial, operational and community impacts of the current pandemic.

It is an honour to be at the helm of an emerging leader in the infection control market at a time when the need for infection control practices has never been greater.

We acknowledge and thank all our customers on the front line, in particular the infection prevention community, for their tireless efforts in the management of the pandemic over the last 12 months. Our business continued to progress its mission to improve the safety of patients, clinics their staff and the environment. Every day our trophon technology protects over 88,000 patients from the risk of cross contamination. Ensuring the safety and well-being of our staff throughout the year was of paramount importance and I thank them for their relentless efforts as they continued to support all our customers and stakeholders.

In that context, I am pleased to introduce this year's Sustainability Report. This is the second year in which we have published an extensive, standalone report from the Annual Report detailing the Company's ESG performance. We take pride in our commitment to ESG at Nanosonics, helping to deliver on our mission and contributing to a safer and better environment for patients, clinics and their staff around the world.

We have arranged this year's report into four key sections: governance, environment, people & culture, and communities. We believe that this structure allows us to best communicate our contributions to each aspect of ESG.

Our focus in this year's report has been to align with international reporting standards including the Task Force on Climate-Related Financial Disclosures (TCFD) and better quantifying our performance for year-on-year comparison and target-setting.

I am thrilled to see the Company continue to expand the way it reports on important ESG topics. Of course, this reporting is only possible when the Company also "walks the talk" in this area. FY21 is another year where the Company's growth in other business, product and commercial areas is matched by its evolution in ESG spheres. There are many examples that spring to mind. These include examples from the way that the Company engages with environmental issues, its social responsibilities (internal and external), and maintaining our high standards of corporate governance throughout the operation. The specific areas are illustrated throughout this report, and reflect our commitment to a wide variety of ESG activities throughout our business as we continue to execute on our important global mission: Infection Prevention. For Life.



MICHAEL KAVANAGH
Chief Executive Officer and President



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The principles of ESG are connected to, and embedded in, all aspects of our business. Importantly, it manifests in the care delivered to patients, and the objectives of our R&D across our areas of interest in infection prevention. Fundamentally, it informs the way we care about the environment, people and embracing the true principles of governance. These continue to be the drivers of our success today, and into the future.

”

MAURIE STANG | CHAIRMAN



FOR MORE INFORMATION

See Nanosonics' 2021 Sustainability Report available at <https://www.nanosonics.com/investor-centre/reports-and-presentations/>



GOVERNANCE



DEVELOPED
**SUSTAINABLE
SUPPLY CHAIN
INITIATIVE**
TO MAP SUPPLY CHAIN
CHARACTERISTICS.



INTRODUCED
**EXECUTIVE
RISK MANAGEMENT
COMMITTEE,**
OVERSEEING RISK AND
ESG ISSUES.



STRENGTHENED
**IT, PRIVACY AND
CYBER SECURITY
PROTECTIONS**
IN ALIGNMENT WITH
THE GDPR

ENVIRONMENT



**EXPANDED
SCOPE OF CLIMATE
ASSESSMENT,**
COVERING KEY AREAS OF OUR
GLOBAL OPERATIONS AS WE MOVE
TOWARDS TCFD COMPLIANCE



~80%
OF TOTAL WASTE DIVERTED
TO RECYCLING **AND WATER SAVINGS**
FROM APPROXIMATELY
22 MILLION TROPHON
CYCLES ANNUALLY ACROSS THE
GLOBAL INSTALLED BASE



AT LEAST
3.1 TONNES
OF END-OF-LIFE PRODUCTS
AND SERVICE PARTS
RESPONSIBLY RECYCLED
IN ACCORDANCE WITH WEEE
AND OTHER REQUIREMENTS

PEOPLE & CULTURE



94%
OF EMPLOYEES
STRONGLY BELIEVE
IN THE PURPOSE OF
NANOSONICS



FEMALES MAKE UP
41%
OF THE GLOBAL
WORKFORCE, 38% OF
SENIOR MANAGEMENT AND
42% OF STEM-RELATED
POSITIONS



ACHIEVED
100%
OF FY21 DIVERSITY
AND INCLUSION
OBJECTIVES

COMMUNITIES



\$43,805
RAISED THROUGH
VARIOUS CHARITABLE
INITIATIVES

**14
STUDENTS**

PARTICIPATED IN **INTERNSHIP
PROGRAMS ACROSS**
SEVERAL DEPARTMENTS



CONTINUED TO
**STRENGTHEN
PATIENT HEALTH
AND SAFETY**
WITH THE INTRODUCTION
OF NANOSONICS AUDITPRO™



PROTECTION BY DESIGN

RISK RECOGNITION GROWS WORLDWIDE

This year has seen a growing trend toward the need for validated high-level disinfection (HLD) of medical devices. There is also growing acceptance of the risks of cross-contamination associated with ultrasound probes and that manual solutions, including wipes, do not reliably eliminate this risk for semi-critical devices. Ultrasound use in both the medical diagnostic and treatment setting broadened this year with its recognition as a vital tool in the fight against SARS CoV-2.

There are over 150 procedures¹ that use ultrasound probes that risk contact with mucous membranes, non-intact skin and/or sterile tissue. Ultrasound is routinely used in obstetrics, gynaecology, radiology, cardiology, critical care, and the operating theatre. This past year has seen it on the ICU ward supporting the critical care of COVID patients. Facilities in the United States adopted trophon[®] as a supplement to manual wiping for non-critical probes used to scan COVID patients and persons under investigation^{4,5}. Implicit in the adoption of trophon as an extra precaution is the recognition of trophon technology as a recognised, reliable solution that provides healthcare workers with confidence in managing infection risk. At a minimum, HLD should be used when indicated by the Spaulding classification, and trophon as an automated solution, provides assurance that critical parameters (i.e. contact time, dosage, temperature) are met for every cycle to achieve disinfection efficacy on all surfaces of the probe, supporting infection prevention practices.

“Automated HLD continues to be recognised as best practice worldwide for semi-critical probes, and critical probes that cannot be sterilised, reducing the risk of cross-contamination between patients, and allowing facilities to standardise best practice infection prevention for their patients.”

German federal requirements mandate on-site validation for reprocessing semi-critical devices. In November 2020, The Robert Koch Institute (RKI), the German public health institute, published a statement determining that they were unable to identify any standard or guidelines that demonstrated the validation of wipes as a final disinfection step for semi-critical devices². The Dusseldorf health authority responded with a statement that wipes are no longer acceptable for semi-critical device disinfection³. This represents a fundamental shift in both the recognition of risk and in re-affirming the need for validated and reproducible reprocessing solutions – a key benefit of trophon technology.

TROPHON[®] – UNRIVALLED HLD EFFICACY

The body of evidence demonstrating trophon technology efficacy continues to set the standard in automated HLD. As the only automated technology with both FDA classification and CE-Mark registration, trophon continues to represent the gold standard. trophon technology has demonstrated microbial efficacy against the widest range of clinically relevant pathogens, including bacterial endospores, mycobacteria, fungi, vegetative bacteria and 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 (HPV). 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.

This year has seen a strengthening of Nanosonics' continued relationships with all ultrasound equipment manufacturers. Our probe compatibility program continues to set the standard with more than 1,000 probes tested, approved, endorsed and recommended for use with trophon technology, by all major and many specialised ultrasound equipment manufacturers.

TROPHON REPRODUCIBLE AND SAFE OUTCOMES

trophon technology continues to represent a transformation in HLD for ultrasound probes. This patented novel technology works by generating a sonically-activated hydrogen peroxide (H2O2) mist able to access all surfaces of the probe and handle suspended within the closed trophon chamber, including crevices and tiny imperfections. Sensors monitor critical parameters, including temperature, mist volume and flow rates with sophisticated software controls monitoring the process throughout the cycle, ensuring that effective disinfection is delivered with every cycle.

Most importantly, trophon effectively delivers HLD to all surfaces of the probe and handle without damaging the sensitive probe or exposing patients, staff and the environment to dangerous chemicals, as the only by-products of every trophon cycle are oxygen and water.

TROPHON IS THE ONLY ULTRASOUND HLD TECHNOLOGY TO DEMONSTRATE EFFICACY ON PATIENT-USED PROBES ACCORDING TO ITS LABELED CYCLE TIME.



1. Nanosonics analysis, SDMS guidelines, market reports.



APPROXIMATELY 88,000 PATIENTS EVERY DAY ARE PROTECTED FROM THE RISK OF ULTRASOUND PROBE CROSS-CONTAMINATION BY TROPHON TECHNOLOGY. THIS EQUATES UP TO 22 MILLION PATIENTS EVERY YEAR.

TROPHON – EFFICIENT WORKFLOW INTEGRATION AND DEMONSTRATED COMPLIANCE

trophon technology seamlessly integrates infection prevention practice into the clinical workflow. Designed with the user and their workflow needs in mind, trophon guides the user through the required steps of cleaning, loading and capturing critical HLD cycle compliance information in a process that requires minimal hands-on time for the user. Once the user presses the cycle start button, trophon disinfects the probe while the user completes other critical workflow tasks including room turnover and patient documentation. trophon digitally captures critical compliance information through AcuTrace® RFID technology as part of the trophon workflow. As a closed system, trophon can be placed in the examination room next to the ultrasound, further maximising patient throughput and clinical workflow efficiencies.

To add further efficiencies, trophon offers a range of complementary consumable products and accessories to further support effective disinfection. These include companion cleaning and drying wipes to clean the probe before the HLD process, specialised probe bags to provide effective probe storage between patients, and connectivity solutions and services to facilitate automated disinfection record management.

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2. RKI 2020. Aufbereitung von Medizinprodukten. Zur Frage der Validierbarkeit der abschließenden Desinfektion von semikritischen Medizinprodukten mittels Wischtüchern
3. Bezirksregierung Dusseldorf 2020. Desinfektion von semikritischen Medizinprodukten mittels Wischtüchern. Fachliche Einschätzung des RKI
4. Wessner, C. E., et al. (2020). "A Sonographer's Step-by-Step Approach for Preventing Transmission of COVID-19." Journal of Diagnostic Medical Sonography.
5. Sheth, S., et al. (2020). "Guidelines for Ultrasound in the Radiology Department During the COVID-19 Pandemic." Ultrasound Q 36(3): 200-205.

The trophon® family includes trophon® EPR and trophon®2 which share the same core technology of 'sonically activated' hydrogen peroxide.





NANOSONICS AUDITPRO™ – STANDARDISING ULTRASOUND INFECTION PREVENTION PRACTICES TO MEET ACCREDITATION REQUIREMENTS AND DELIVER BEST PRACTICE PATIENT CARE.

Traceability that links infection control cycle to the patient is required to meet best practice standards.

Many national infection control standards and guidelines across the world require facilities to collect reprocessing cycle information, medical device identifiers, procedure information and patient details to demonstrate that semi-critical and critical devices have been appropriately high-level disinfected between patients.¹⁻⁸ The tracking and traceability of this information allows a facility to demonstrate compliance to these standards and in the event of an outbreak or infection prevention breach, a reliable traceability system becomes instrumental for a facility in investigating, identifying and notifying patients.

EVERY DATA POINT, ON EVERY PROBE, FOR EVERY PROCEDURE AND EVERY PATIENT.

trophon AcuTrace® RFID technology digitally captures the clinical workflow – the introduction of AuditPro now seamlessly links this workflow information through to the procedure and the patient, representing a new level of traceability for the first time.

AuditPro provides facilities with the opportunity to improve and standardise ultrasound infection prevention and control compliance across all ultrasound procedures, supporting the management of organisational and facility risk and delivering best practice patient care.

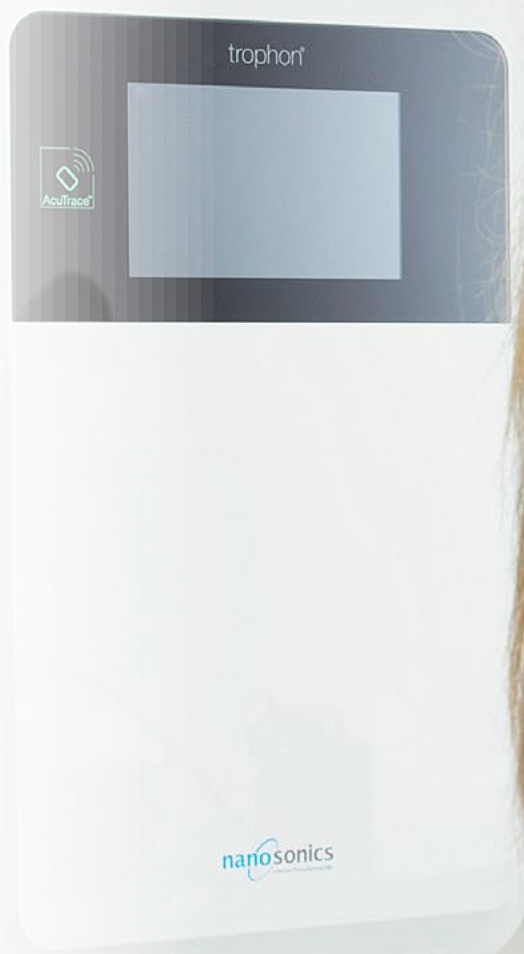
A WORKFLOW COMPLIANCE SOLUTION THAT EDUCATES THE USER WITH EVERY CYCLE

AuditPro comprises a mobile scanning device (MSD) for ultrasound users to integrate infection control decision-making and practice as part of the clinical workflow. This is coupled with sophisticated software to support compliance across the organisation. The MSD uniquely sits with the ultrasound console at point of care. With built-in education as part of the workflow, users qualify every procedure against the Spaulding classification for probe disinfection, thereby standardising the infection prevention decision every time.


“100% COMPLIANCE, 100% OF THE TIME” – STANDARDISED BEST PRACTICE ACROSS THE FACILITY




AuditPro software combines ultrasound patient procedures and probe disinfection information, including HLD records from the trophon®2 device, and interrogates the data captured through the clinical workflow to create non-compliance notifications and intuitive information-rich dashboards to not only deliver standardisation across the organisation, but to mitigate risk to patients and healthcare facilities by equipping users, infection preventionists, and quality managers with tools and information to drive better compliance.




AUDITPRO




1:1



ULTRASOUND





271K⁹

Designed to sit alongside the ultrasound console to track all types of procedures

ULTRASOUND INSTALLED BASE U.S.

REFERENCES

1. AAMI ST58:2013 Chemical sterilization and high-level disinfection in health care facilities.
2. Association of periOperative Registered Nurses (AORN). High-Level Disinfection. AORN Guidelines for perioperative practice. Online: AORN, Inc; 2018
3. Canadian Standards Association (CSA) (2018). CAN/CSA-Z314-18 Canadian medical device reprocessing.
4. ASNZS 4187:2014 Cleaning, disinfecting and sterilizing reusable medical and surgical instruments and equipment, and maintenance of associated environments in health care facilities.



“

We looked to implement Nanosonics AuditPro to automate the linking of reprocessing of ultrasound probes to patient procedures. However, by far the most beneficial part has been the workflow education built into the system... the system guides [our users] to make the right decision, it challenges how we can learn from it and this grows the hospital as a whole to help us in our aim of *100% compliance, 100% of the time*. This ensures we are a high reliability organisation making sure our patients are always protected.

”

LINDSAY TURNER

RT(R), (M), RDMS(AB)(OB/GYN), RVT,
LEAD SONOGRAPHER, IMAGING
SERVICES HUTCHISON REGIONAL
MEDICAL CENTER.

5. Kommission für Krankenhaushygiene und Infektionsprävention (KRINKO) 2012. Anforderungen an die Hygiene bei der Aufbereitung von Medizinprodukten. Bundesgesundheitsblatt – Gesundheitsforschung – Gesundheitsschutz: 66
6. Health Service Executive (HSE) Quality Improvement Division (2017). HSE Guidance for Decontamination of Semi-critical Ultrasound Probes; Semi-invasive and Noninvasive Ultrasound Probes. Document: QPSD-GL-028-1.
7. European Society of Radiology (ESR) 2017. Infection prevention and control in ultrasound – best practice recommendations from the European Society of Radiology Ultrasound Working Group.
8. Society and College of Radiographers and British Medical Ultrasound Society 2020. Guidelines for Professional Ultrasound Practice.
9. Nanosonics analysis based on updated ultrasound information commissioned by Nanosonics and an estimated trophon to ultrasound attachment rate. The North America market has been the focus of the TAM analysis undertaken.

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
Bus, 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 U.S. 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 three 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.

THE 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 25 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 close to 300 granted and pending patents and an active proponent of STEM education. He has been a past Adjunct Professor of Engineering at the University of Sydney and is currently a member of the Biomedical Engineering, Industry Advisory Committee at the University of Sydney and a member of the Graduate School of Biomedical Engineering, Industry Advisory Committee at the University of New South Wales.

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 since 2006, with MGSM, AGSM and the University of Sydney Business School.



JODI SAMPSON
MBA(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 Eclix 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 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 2021, 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 disinfectant 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 \$103,079,000 (2020: \$100,054,000), an increase of \$3,025,000 or 3%. North American revenue decreased by \$912,000 or 1% to \$89,229,000 reflecting a 22% reduction in capital revenue offset by an 8% increase in consumables and service revenue. Revenue in Europe and Middle East increased by \$1,955,000 or 38% to \$7,157,000 with capital revenue increasing by 91% and consumables and service revenue increasing by 18%. Revenue in Asia Pacific increased \$1,982,000 or 42% to \$6,693,000, with capital revenue increasing by 143% and consumables and service revenue increasing by 12%.

Gross profit increased by 6% to \$80,384,000 compared with \$75,513,000 in the prior period. Gross margin as a percentage of sales was 78.0% compared with 75.5% in the previous year.

Selling and general expenses (S&G) were \$37,562,000, (2020: \$34,659,000). The increase in S&G of \$2,903,000 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. Administration expenses were \$16,003,000 (2020: \$12,965,000), an increase of \$3,038,000 relating to investments in back office support and increased compliance and risk management activities of a global business. Research and development expenses (R&D) for the year were \$17,194,000, (2020: \$15,558,000), an increase of 11%. This increase of \$1,636,000 was a result of the Company's continued investment in its product expansion strategy.

Other income for the year amounted to \$156,000 (2020: \$10,000).

Other net gains of \$982,000 comprised mainly of net gain in foreign currency changes and derivative financial instruments, compared with a net loss of \$670,000 in 2020.

Finance income amounted to \$559,000 (2020: \$1,132,000) which related to interest earned on cash investments. Finance expense for the year of \$338,000 related mainly to interest on leases and the financing component on cash received in advance on customer contracts (2020: \$344,000).

Income tax expense for the year was \$2,406,000 compared with income tax expense of \$2,322,000 in 2020. 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 \$8,578,000 (2020: \$10,137,000).

The Group ended the year with \$96,027,000 (2020: \$91,781,000) in cash and cash equivalents, an increase of \$4,246,000. The cash and cash equivalents balance provides a strong balance sheet for the Company to continue executing on its growth strategies.

Further information on the operations of the Group and its business strategies and prospects are included in the CEO's report on pages 6 to 21 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 2021 Corporate Governance Statement, which is available on the Company's website. Nanosonics' material business risks and how they are addressed are outlined below. These are risks that may materially adversely affect the Group's business strategy, financial position or future performance. It is not possible to identify every risk that could affect the Group's business, and the actions taken to mitigate these risks cannot provide absolute assurance that risk will not materialise. Other risks besides those detailed below or in the financial statements could also adversely affect Nanosonics' business and operations. Accordingly, the material business risks below should not be considered an exhaustive list of potential risks that may affect Nanosonics.

Risk	Description and potential consequences	Strategies used by Nanosonics to mitigate the risk
COVID-19	<p>Sales</p> <p>There is a risk that direct access to hospitals and other healthcare facilities may be impacted by further waves of COVID-19 infection rates in key markets, which may extend the timeline for adoption of trophon by some customers.</p> <p>There is also a risk that there may be a reduction in hospital procedures requiring ultrasound (for example, as part of 'further waves' of COVID-19) which may impact demand for consumables.</p>	<p>Sales</p> <p>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.</p> <p>The Company has introduced selling models aimed at reducing the up-front capital outlay required to purchase trophon.</p>

Risk	Description and potential consequences	Strategies used by Nanosonics to mitigate the risk
COVID-19 <i>continued</i>	<p>People</p> <p>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.</p> <p>Further, there is a risk that it will be more difficult to hire talent internationally and locally whilst mobility restrictions are in place. Increased competition for local talent may also impact talent retention.</p> <p>Operations and supply chain</p> <p>There is a risk of COVID-19 related disruption to Nanosonics' operations, including its global supply chain.</p>	<p>People</p> <p>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 sanitiser stations were also introduced, together with widespread education on the importance of good hand hygiene.</p> <p>The Company is also enhancing its programs in place for attracting, recruiting and retaining talent in the current environment.</p> <p>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.</p> <p>Operations and supply chain</p> <p>The supply chain is being closely managed and is currently well positioned to meet customer demand, having increased inventory of raw materials and finished goods for capital equipment and consumables.</p> <p>No major disruption has occurred to the Company's global supply chain for its main products arising from COVID-19 and this risk is actively managed.</p>
Significant distribution customer	<p>The Group's key distribution customer accounts for approximately 60% of the Group's revenue (see note 2.2 of the financial statements), the majority of which is in the United States, Nanosonics' largest market. Nanosonics is aware of the need to continue to closely manage its key distribution customer, including closely managing any changes in its commercial and contractual relationship with that distributor.</p>	<p>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 has appointed other distributors and resellers in the USA (many of whom are ultrasound OEMs) and its other key markets.</p> <p>Whilst revenue from the Group's key distribution customer amounts to approximately 60% of the Group's revenue, a large proportion of this flows from the sale of consumables by the distribution customer to the Group's installed base. That proportion of the Group's revenue could continue to be generated by Nanosonics independently of the key distribution customer.</p> <p>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.</p> <p>Importantly, the business continues to grow in other key regions (Asia Pacific, Europe and Middle East).</p>
Research & development and commercialisation	<p>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.</p>	<p>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 supported with an appropriate level of investment. In late FY21, the Company launched a new digital traceability product, Nanosonics AuditPro™.</p> <p>Nanosonics also engages with a range of experts in relevant fields, as well as customers, to determine the focus of its R&D efforts.</p>
Competition	<p>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.</p>	<p>To address this risk, the Company has invested in R&D for the second generation of trophon, trophon®2, 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.</p>

DIRECTORS' REPORT

Risk	Description and potential consequences	Strategies used by Nanosonics to mitigate the risk
Intellectual Property	<p>The Company relies heavily on its ability to maintain and protect its intellectual property (IP), including registered and unregistered IP.</p> <p>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.</p>	<p>Nanosonics seeks appropriate patent, design and trademark protection and manages any identified IP risks. Nanosonics also recognises the significant value in unregistered IP. Along with internal personnel to manage IP opportunity and risk, Nanosonics works closely with specialists and advisors internationally to monitor and manage its IP portfolio, opportunities and risks.</p> <p>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. Further, the Company's new digital product, AuditPro, is the subject of a patent filing.</p> <p>The Group has a dedicated IP function and an active program to continue to protect the IP in its technology having regard to its commercial strategy as well as defensive purposes, as well as maintain other barriers to entry.</p> <p>Nanosonics ensures that its projects, products and related activities include an appropriate assessment of any third-party IP profile against its own IP profile.</p>
Supply chain	<p>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. There is also a risk of COVID-19 related disruption to Nanosonics' global supply chain.</p>	<p>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.</p>
Regulation	<p>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.</p>	<p>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.</p>
Financial	<p>The Group is exposed to foreign currency risk and credit risk in light of the international nature of its operations.</p>	<p>The management of these risks is guided by the Group's internal financial risk management policy. The Company seeks external advice, as appropriate. Further information is available in Note 8 to the financial statements.</p>
Product liability	<p>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.</p>	<p>The Group operates a compliant Quality Management System across all aspects of the design, manufacture and release of products to market. The Group also has product liability insurance in place.</p>
Personnel	<p>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.</p>	<p>The Company has programs in place both for Workplace, Health and Safety (WHS), and the attraction, recruitment and retention of talent.</p>

DIRECTORS' REPORT CONTINUED

Risk	Description and potential consequences	Strategies used by Nanosonics to mitigate the risk
Cyber security	<p>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.</p> <p>The Company also recognises the need to ensure operations can continue in the event of a disaster impacting its critical IT systems.</p>	<p>Nanosonics is taking steps to enhance its cyber-security strategy and disaster recovery plans with a view to safeguarding the business against these risks.</p>

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 on pages 6 to 21 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 2021. No dividends were proposed, declared or paid during the financial year (2020: Nil).

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

Matters subsequent to the end of the financial year

On 18 August 2021, the Company issued 37,201 shares at \$4.51 per share for a total of \$167,777 under the Global Employee Share Plan (GESP).

No other matters or circumstances have arisen since 30 June 2021 that have significantly affected, or may significantly affect:

- The Group's operations in future financial years;
- The results of those operations in future financial years; or
- 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 and business outlook are in the 'review of operations' included in the CEO's report on pages 6 to 21 of this Annual Report.

The inherent uncertainties and ongoing risks associated with the COVID-19 pandemic make accurate forecasting challenging, in particular the uncertainties associated with hospital access, emergence of further waves, and associated lockdowns.

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

During the year and to the date of this report, the Board of Nanosonics Limited comprised Maurie Stang, Steven Sargent, Geoff Wilson, David Fisher, Marie McDonald, Lisa McIntyre, and Michael Kavanagh.

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 pages 28 to 31 of the Annual Report.

As at the date of this report, Nanosonics Limited has the following committees of the Board: Audit and Risk, Remuneration, People and Culture Committee, Nomination, and R&D and Innovation. Details of members of the committees of the Board during the year are included below and on page 40 of the Remuneration Report.

DIRECTORS' REPORT CONTINUED

Meetings of Directors

The number of Directors' meetings, including meetings of the committees, held during the year ended 30 June 2021, and numbers of meetings attended by each of the Directors were as follows:

	Meetings of committees									
	Full meetings of Directors		Audit and Risk		Nomination		Remuneration, People and Culture		R&D and Innovation ¹	
	Held ²	Attended	Held ²	Attended	Held ²	Attended	Held ²	Attended	Held ²	Attended
Maurie Stang	12	11 ³	5	5 ⁴	1	1	4	4	4	4
Steven Sargent	12	12	5	5 ⁴	1	1	4	4	4	4
Geoff Wilson	12	12	5	5	1	1	4	4	4	4 ⁴
David Fisher	12	12	5	5	1	1	4	4 ⁴	4	4
Marie McDonald	12	12	5	5	1	1	4	4	4	4 ⁴
Lisa McIntyre	12	12	5	5	1	1	4	4 ⁴	4	4
Michael Kavanagh	12	12	5	5 ⁴	1	1 ⁴	4	4 ⁴	4	4

1. 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.

2. Indicates the number of meetings held which the Director is eligible to attend.

3. The Board meeting not attended by Mr Stang covered transactions with organisations of which Mr Stang is a related party.

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

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 2021, the Company issued a total of 861,449 (2020: 636,291) new ordinary shares in Nanosonics Limited of which 69,302 shares were issued under the Global Employee Share Plan at an average price of \$5.23 per share and 792,147 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 2021, there were 301,465,019 (2020: 300,603,570) ordinary shares in Nanosonics Limited on issue. At the date of this report, there were 301,502,220 shares on issue. Further information on issued shares is provided in the Share-based payments Note 4.3 and Capital and 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, 771,787 (2020: 256,931) unquoted performance rights and 920,633 unquoted share appreciation rights (2020: 922,444 unquoted share 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 4,821,596 unissued ordinary shares of Nanosonics Limited under option under the Nanosonics Omnibus Equity Plan. As at 30 June 2021, there were 4,825,225 (2020: 4,116,344) 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
Total shares under option at 30 June 2021	4,825,225
Performance rights and options lapsed	(3,629)
Total shares under option to the date of this report	4,821,596

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

DIRECTORS' REPORT CONTINUED

Indemnifying officers or auditor

During the financial year, the Company paid insurance premiums to insure the Directors and Secretary and Key Management Personnel of the Company and its controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a 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.

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.
- 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 are former audit partners of Ernst & Young.

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 59 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 <http://www.nanosonics.com/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 (on pages 6 to 21), the Information on the Board and the Executive Team (on pages 28 to 31) and the Remuneration Report (on pages 38 to 57), is made on 24 August 2021 and signed in accordance with a resolution of directors, pursuant to section 298(2) of the Corporations Act.



GEOFF WILSON

Director, Sydney

24 August 2021

REMUNERATION REPORT

LETTER FROM THE CHAIR OF THE REMUNERATION, PEOPLE AND CULTURE COMMITTEE

Dear Shareholders,

On behalf of the Remuneration, People and Culture Committee (RPC) and the Board, I am pleased to present the Remuneration Report for the year ended 30 June 2021 (FY21).

Nanosonics in FY21

Acknowledging the COVID-19 related challenges throughout the year, in particular during the first half, the Nanosonics team adapted well, focusing on customer support and progressing its growth agenda. For the total year, revenue grew 3% (11% in constant currency). Importantly in the second half, the team grew revenue 39% over the first half as market conditions improved. The total global installed base for the year grew 13% and as hospital access improved in the second half, new installed base growth was up 20% over the first half. The team also managed to progress the R&D program with the launch of an important new digital innovation, Nanosonics AuditPro™, while progressing a number of other product expansion projects. Attraction of new talent to expand the capability of the organisation was also a focus throughout the year, with the total number of employees increasing 9% to 339 employees while ensuring diversity was a cornerstone of the human capital growth. 41% of Nanosonics employees globally are female and importantly 38% of senior management positions in the organisation are now held by females.

During the year the Company had no COVID-19 related job losses, nor did the Company access any government subsidies, such as JobKeeper in Australia, or similar programs in markets such as Canada or the U.S.

Nanosonics' culture remained strong during FY21, illustrated by the outcomes of the Nanosonics Global Employee Engagement Survey, where 97% of employees participated in the survey and 94% of the employees are highly engaged with the overall purpose of Nanosonics.

FY21 remuneration outcomes

Details of the performance of the team against their metrics is detailed in Section 4 of this Remuneration Report. The STI overall outcomes for the year reflected:

- An on-target (100%) performance for Profit Before Tax;
- Slightly below (92.7%) target performance on Global Installed Base;
- Good progress on R&D activities;
- Good progress on geographic regional growth; and
- Good progress on commercial terms with our large customers and partners.

Profit Before Tax (PBT) result exceeded the Stretch hurdle set by the Board when agreeing the FY21 operating plan, which would have resulted in 150% achievement of the PBT metric. Notwithstanding this solid financial performance, having regard to the difficulties and uncertainties experienced in forecasting revenue

and operating expenses, the Board agreed with the CEO&P's recommendation to apply discretion to reduce the achievement of the PBT metric to be assessed at Target or 100%.

In summary for FY21:

- The CEO's STI outcome was 72.77% of maximum (94.60% of target);
- Other Executive KMP STI outcomes range between 66.81% and 73.38% of maximum (90.20% to 95.40% of target);
- The aggregate STI outcome was 71.74% of maximum (93.85% of target); and
- The 2017 LTI outcome was 100% of target due to the performance conditions (TSR hurdles) being met, 100% of the Performance Rights and Options vested.

There were no downward Values rating modifiers applied to the CEO&P or Executive KMP in FY21.

In FY20, following a comprehensive assessment undertaken with external remuneration consultants, Godfrey Remuneration Group (GRG), the Board approved changes to the Executive Remuneration Framework, in particular the design of the STI and LTI Plans. These changes were introduced in FY21 and we believe they strike an appropriate balance between driving accountability for sustainable short-term results and generating long-term growth and value creation for shareholders. Following extensive engagement with investors and proxy advisor organisations, these changes were strongly supported by shareholders last year. Full details are set out in section 3.3 and 3.4 of the Remuneration Report.

The Company received some feedback and questions on the LTI metrics. To ensure transparency, we have reiterated our rationale here for adopting these metrics. The FY21 LTI award introduced two new performance metrics: an external, market-based metric – Relative TSR (Index-TSR); and an internal, financial metric – Underlying Return on Equity (UROE).

After careful consideration as to what would be the most appropriate comparator group for the Index-TSR metric, the Company adopted the ASX300 Industrials Index, excluding financial services, mining and energy. We received some feedback that a comparator group of companies in a broadly defined Healthcare index may be more appropriate. The Board did consider an industry-based comparator group, however determined that identifying a group of companies within the Health Care industry that were similar enough to Nanosonics and could be considered as a suitable 'relative comparator', was not possible. In considering a Healthcare comparator group in 2020, there was a total of 38 companies classified as Health Care Equipment & Supplies Industry, with only five being larger than Nanosonics (four significantly larger).

REMUNERATION REPORT CONTINUED

This has largely remained the same in 2021, with only eight companies larger than Nanosonics (seven significantly larger). Of the companies analysed in 2020 that had a lower market capitalisation, the closest had a market capitalisation of \$313 million, representing approximately one-sixth of Nanosonics' market capitalisation, and this dropped rapidly to a \$10 million market capitalisation for other companies in this industry.

The Board and its advisors were therefore unable to identify an appropriate bespoke list of suitable health care companies to form an effective comparator group at the time, and this remains the case in 2021 due to there not being enough relative health care comparators available.

After considering the advice received, the Board determined that due to Nanosonics' position within the ASX based on market capitalisation in 2020, the TSR of the ASX300 Industrials Index was an appropriate comparator group. The upcoming 2021 LTI award will again feature this same comparator group and will be disclosed in the 2021 Notice of Annual General Meeting. Nanosonics also took independent advice regarding the risk/return profile and adjusted the NAN beta to 1.35 (i.e. a 3.5% percentage premium vs. the Index for setting the target and a 7% percentage premium at stretch).

The rationale for applying a third of the grant value to the Index-TSR metric was due to the relative volatility of Nanosonics' stock price performance historically and uncertainty regarding future TSR, given the current high PE ratio which requires a significant stretch performance of management to deliver inbuilt expectations, evident in the existing share price. It is also important to note that there is a positive TSR gate.

The second LTI metric, representing two thirds of the award, is Underlying Return on Equity, which excludes R&D expenses from the calculation. The rationale for assigning two-thirds of the award to the UROE metric is to encourage management to work towards driving long-term sustainable value for shareholders in the 'core business', noting the correlation between long-term ROE in excess of the cost of equity has a strong correlation with strong TSR outcomes for shareholders.

Nanosonics is very much in investment/growth phase and if the R&D expenses were not excluded, a perverse incentive could be created for management to reduce investment in future developments/growth, to the detriment of long-term growth and value creation for shareholders. Furthermore, the structure of the STI scheme is designed to capture the R&D expenses and therefore address the disciplined management of R&D expenditure in the short term because a significant portion of the award is tied to the achievement of current year profit before tax (including R&D expenditure). The Board believes this framework provides the elegant balance of running the business well for the short term while investing for the long term.

Prior to recommending this metric we engaged extensively with a significant number of our large shareholders, by whom it was well received. That support is evidenced

with the support of the Remuneration Report resolution approval last year. These shareholders were unsupportive of a typical ROE for LTI because they view Nanosonics as a growth Company with significant investment opportunities and they believed a traditional ROE metric would disincentivise investment for the future. The feedback we received confirmed we had the balance right and the Board considers the calculation of ROE as the measure that is best fit-for-purpose for the LTI award.

The STI Plan introduced discrete metrics with a focus on the Company financial performance, being Profit Before Tax and Global Installed Base growth which was determined as the most important metric as a proxy for current and future annuity revenue growth. The PBT metric includes R&D expenses to ensure effective management of the R&D expenditure and drive profitability for the year.

FY22 remuneration

Other Board approved changes to the FY21 Executive Remuneration framework arising from the external benchmarking review conducted by GRG will be implemented in FY22. The changes include the second phase of the increase in the target STI opportunity for Executive KMP which was increased from 30% to 40% in FY21 and will be increased to 50% in FY22. The changes also include a remuneration review of Total Fixed Remuneration (TFR) for the CEO&P and Executive KMP which was postponed in FY20 due to the uncertain business environment associated with COVID-19 and the impacts on our customers and the broader community. That review has resulted in an increase to the base remuneration of 4.5% for the CEO&P and an average of 5.31% for Executive KMP. The remuneration increase was considered appropriate by the Board as the FY20 GRG benchmarking review indicated that the TFR for the CEO&P and each Executive KMP was low in comparison to the market median. The 4.6% increase in the CEO&P's TFR is well below the median (P50) when compared to the comparator group.

There were no increases recommended for the Non-Executive Directors' (NED) Board fees for FY22, with the last review and increase having occurred in FY19.

The focus for FY22 will be to continue to reward performance to align the interests of employees and shareholders, with a clear focus on attraction and retention of key talent to deliver on the Company's continued growth and investment strategy.

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 and Culture Committee
24 August 2021

REMUNERATION REPORT – AUDITED

The Remuneration Report for the year ended 30 June 2021 (2021 Financial Year or FY21) 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, where statutory requirements are not sufficient.

Report Structure

The report is divided into the following sections:

- 1 Key Management Personnel
- 2 Remuneration link with Company performance and strategy
- 3 Remuneration Framework
- 4 Company performance and remuneration outcomes
- 5 Governance
- 6 Non-executive Director remuneration
- 7 Statutory tables and disclosures

1 KEY MANAGEMENT PERSONNEL

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.

Name	Role	Appointed	Committee membership			
			Nomination	Audit & Risk	RPC	R&D and Innovation
Non-executive						
Maurie Stang	Chairman, Non-independent Director	14 Nov 2000	✓	✓	✓	✓
Steve Sargent	Deputy Chairman, Lead Independent Director	6 Jul 2016	✓	✓	C	✓
Geoff Wilson	Independent Director	17 Jul 2019	✓	C	✓	
David Fisher	Independent Director	30 Jul 2001	✓	✓		C
Marie McDonald	Independent Director	24 Oct 2016	✓	✓	✓	
Lisa McIntyre	Independent Director	13 Dec 2019	✓	✓		✓
Executive						
Michael Kavanagh	Chief Executive Officer & President (CEO&P) and Managing Director	21 Oct 2013 ¹				✓
McGregor Grant	Chief Financial Officer (CFO) and Company Secretary	28 Apr 2011				
Steven Farrugia	Chief Technology Officer	5 Sep 2016				
David Morris	Chief Strategy Officer and Regional President, APAC	4 Feb 2019				
Rod Lopez	Chief Operating Officer	4 Mar 2019				

✓ = member C = Chair

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

There were no changes to KMP during FY21 and to the date of this report.




REMUNERATION REPORT – AUDITED CONTINUED

2 REMUNERATION LINK WITH COMPANY PERFORMANCE AND STRATEGY

2.1 OVERVIEW OF REMUNERATION FRAMEWORK

Nanosonics' Remuneration Framework, outlined below, is designed to support the Company's strategy and reward executives for successful implementation. 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			
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 shareholder value creation.	
Delivery			
Base salary plus any fixed elements related to local markets, including superannuation or equivalents.	Part cash and part equity. The delivery of equity as part of the award facilitates Executive KMP share ownership in the business as encouraged by the Company's Share Ownership Policy. 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 aligned with the financial interests of the Company shareholders.	
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 is inextricably linked to sustainable long-term value creation for shareholders. Our values, desired behaviours and the relationship with our customers and the broader community are taken into consideration when assessing individual performance which has implications on the modification of variable remuneration where appropriate. The Board conducts a formal behavioural assessment of each Executive KMP as part of their overall performance review.

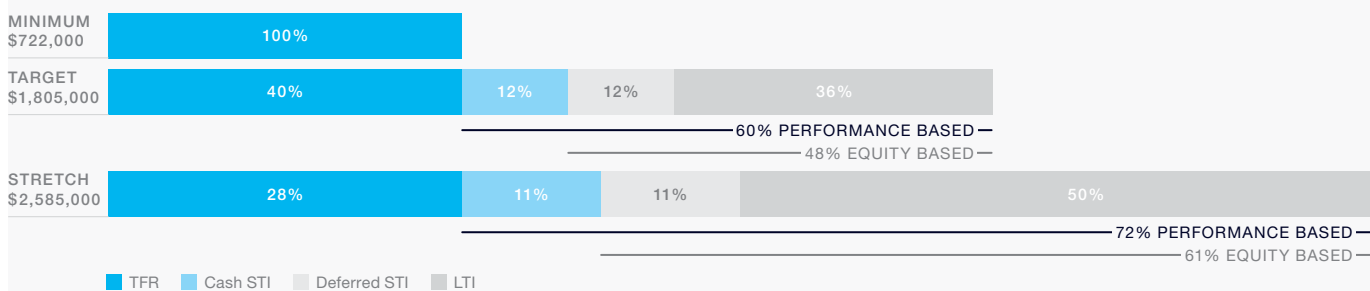
REMUNERATION REPORT – AUDITED CONTINUED

3 REMUNERATION FRAMEWORK

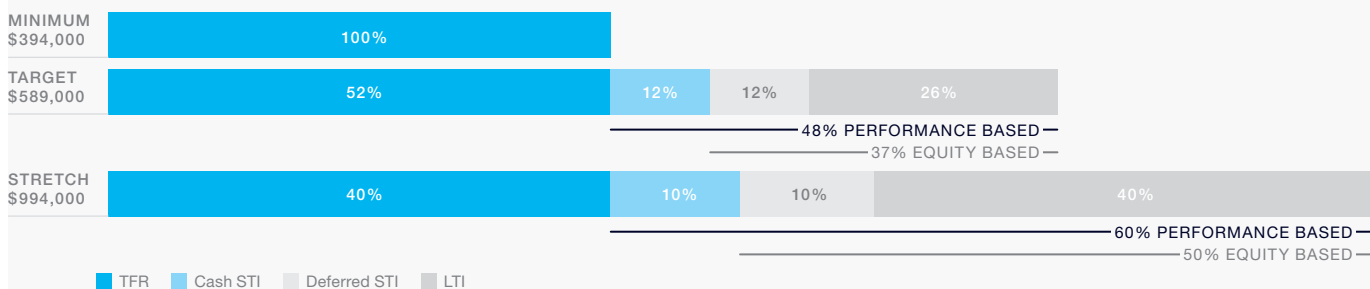
3.1 TARGET REMUNERATION MIX

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. A portion of executive remuneration is paid in equity (48% for the CEO&P and 37% for Other Executive KMP at Target achievement).

CEO&P REMUNERATION MIX



OTHER EXECUTIVE KMP REMUNERATION MIX



3.2 TOTAL FIXED REMUNERATION (TFR)

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

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

Target Total Remuneration is comprised of an appropriate mix of remuneration elements including TFR, short-term and long-term variable components. The intended long-term market pay position is P62.5.

3.3 SHORT-TERM INCENTIVE (STI)

The FY21 STI structure was adjusted in FY20 in response to the Board identifying an opportunity to improve executive remuneration. The changes included:

- Increased STI % opportunity and calculated on TFR based on the market review;
- Defined outcomes for each Group Financial metric at threshold, target and stretch;
- Calculation of the overall STI % outcome based on the sum of discrete metrics with stand-alone results (FY20 STI outcome was determined by the achievement of Company Performance Objectives multiplied by Individual Performance Objectives);
- The introduction of a Values rating modifier to recognise the impact of an individual's behaviour when not aligned with the Company's Core Values; and
- 50% of the STI payment to be delivered in Service Rights, subject to one-year service condition and one-year exercise restriction period, i.e. two-year lockup.

REMUNERATION REPORT – AUDITED CONTINUED

3.3 SHORT-TERM INCENTIVE (STI) continued

The FY21 STI is dependent on meeting Group Financial and Operational metrics, as detailed below:

Purpose	To motivate and reward executives for the achievement against annual weighted metrics which are approved by the Board at the beginning of the financial year.									
Performance measures	<p>The measure for metrics with stretch outcomes, for example Group Financial metrics, will be scaled according to outcome levels with the reward calculated on a straight-line basis between each level. The three performance levels are:</p> <p>Threshold: Represents a minimum level of outcome that would result in a reward;</p> <p>Target: Represents the desired outcome that is considered challenging and reasonably achievable; and</p> <p>Stretch: Represents the upper limit of outcomes that are inherently challenging.</p> <p>The targets for the performance levels within each discrete metric is approved by the Board, taking into consideration prior performance, market conditions and Board approved budgets. The CEO&P metrics for FY21 are:</p> <ul style="list-style-type: none"> – Group Financial metrics (60% weighting) with Threshold opportunity of 50%, Target opportunity of 100% and Stretch opportunity up to a maximum of 150%: <ul style="list-style-type: none"> • Profit Before Tax (PBT) (20% weighting): PBT is considered to be an appropriate metric aligned with the Company's growth. The 20% weighting was applied in recognition of the market uncertainties associated with COVID-19 in FY21. • Global Installed Base (40% weighting): Global Installed Base is considered to be an appropriate metric as it aligns with shareholders' long-term interests in driving profit. The 40% weighting was applied in recognition of the strategic importance of growing the installed base in FY21. – Operational metrics (40% weighting) with the maximum opportunity of 100%: Aligned with the business priorities – Customer Experience, Product Innovation, Operational Excellence, People Engagement and Value Creation and does not include a stretch opportunity. <p>The weightings indicated above apply to all Executive KMP with the exception of David Morris, Chief Strategy Officer and Regional President, APAC, who had a higher weighting attached to the achievement of Operational metrics.</p>									
Opportunity	<p>CEO&P: Target opportunity is 60% of TFR, with maximum of up to 78% of TFR for achievement of Stretch outcomes.</p> <p>Executive KMP: Target opportunity is 40% of TFR, with a maximum of up to 52% of TFR (or up to 54% for Regional Presidents) for achievement of Stretch outcomes.</p>									
Calculation	<p>The overall STI outcome is calculated as demonstrated below, including the impact of the Values rating modifier. The values rating is a downward modifier and is based on each executive's individual behaviour in relation to living the Company's Core Values of <i>Collaboration, Innovation, Discipline, Agility</i> and <i>Will to Win</i>. The Values rating modifier is applied to the total STI outcome % in recognition of the contribution of behaviour.</p> <p>In determining the total STI award, the TFR used is calculated on the amount paid to the individual during the financial year (1 July 2020 to 30 June 2021).</p> <div style="text-align: center; margin-top: 10px;"> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border: 1px solid black; padding: 5px; text-align: center;">Total STI award (\$)</td> <td style="padding: 0 10px;">=</td> <td style="border: 1px solid black; padding: 5px; text-align: center;">TFR (\$) (calculated on the amount paid during the financial year)</td> <td style="padding: 0 10px;">X</td> <td style="border: 1px solid black; padding: 5px; text-align: center;">STI opportunity (% of TFR)</td> <td style="padding: 0 10px;">X</td> <td style="border: 1px solid black; padding: 5px; text-align: center;">STI outcome % (includes total results of each discrete metric, including stretch outcomes, where applicable)</td> <td style="padding: 0 10px;">X</td> <td style="border: 1px solid black; padding: 5px; text-align: center;">Values rating modifier (0% to 100%)</td> </tr> </table> </div>	Total STI award (\$)	=	TFR (\$) (calculated on the amount paid during the financial year)	X	STI opportunity (% of TFR)	X	STI outcome % (includes total results of each discrete metric, including stretch outcomes, where applicable)	X	Values rating modifier (0% to 100%)
Total STI award (\$)	=	TFR (\$) (calculated on the amount paid during the financial year)	X	STI opportunity (% of TFR)	X	STI outcome % (includes total results of each discrete metric, including stretch outcomes, where applicable)	X	Values rating modifier (0% to 100%)		
Delivery	<p>The STI is delivered as follows:</p> <ul style="list-style-type: none"> – 50% of STI paid in cash; and – 50% of STI delivered as Service Rights subject to one-year service condition and one-year exercise restriction period i.e. two-year lockup. <p>STI awards issued prior to the FY21 STI were delivered as Performance Rights subject to one-year service vesting condition. After which these are automatically exercised into Shares and subject to a further one-year holding lock.</p>									
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 full year results.									
Dividends	Rights do not carry any dividend or voting rights prior to exercise.									
Termination of employment	<p>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.</p> <p>To be eligible to receive the equity component, the participants must be employed by the Company and not working out a notice period from the date of grant to the vesting date.</p>									
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 Executive KMP STI awards, when applicable.									

REMUNERATION REPORT – AUDITED CONTINUED

3.4 LONG-TERM INCENTIVE (LTI)

The LTI structure was adjusted in FY20 in response to the Board identifying an opportunity to improve executive remuneration and in response to feedback through engagement with shareholders and proxy advisory firms. The changes included introducing two financial measures: an external, market-based metric (Index-TSR) reflecting a Nanosonics specific risk adjusted return relative to return of an index, and an internal, earnings-based metric Underlying Return on Equity (UROE) to support investment in growth. Further, the target LTI opportunity for the CEO&P and Executive KMP was increased. Details of these metrics that are intended to drive the creation of value for shareholders are provided below.

Index-TSR (iTSR) – 33.3% weighting

- The Board determined the ASX300 Industrials Index, excluding financial services, mining and energy, was an appropriate comparator group due to Nanosonics' position within the ASX based on market capitalisation in 2020. The Board did consider an industry-based comparator group, however determined that identifying a group of companies within the Health Care industry that were similar enough to Nanosonics and could be considered as a suitable 'relative comparator' was not possible. In considering a Healthcare comparator group in 2020, there was a total of 38 companies classified as Health Care Equipment & Supplies Industry, with only five being larger than Nanosonics (four significantly larger). Of the companies analysed in 2020 that had a lower market capitalisation, the closest had a market capitalisation of \$313 million, representing approximately one-sixth of Nanosonics' market capitalisation, and this dropped rapidly to a \$10 million market capitalisation for other companies in this industry. The Board and its advisors were therefore unable to identify an appropriate bespoke list of suitable health care companies to form an effective comparator group at the time.
- Nanosonics' risk-return profile was considered within the ASX300 Industrials and independent advice confirmed that over a three-year period the beta of Nanosonics' shares is approximately 1.35. Accordingly, a premium of +3.5% was applied to increase the iTSR hurdle at Target performance and a premium of +7.0% was applied for Stretch performance.
- The weighting of this measure reflects the volatility of Nanosonics' historical performance and the future uncertainty, given the Company's high PE ratio.
- A positive TSR must be achieved before any securities associated with the iTSR metric will vest.

Underlying Return on Equity (UROE) – 66.6% weighting

- Nanosonics is very much in an investment/growth phase and invests a relatively high proportion of its total expenses in R&D activities that are directed to driving long-term growth and value creation for shareholders. The decision to exclude R&D expenses from the ROE metric was made to drive management actions towards both short-term results and long-term outcomes. The exclusion of R&D expenses ensures that management is incentivised to drive the growth and profitability of the underlying business as well as investing in activities that will drive Nanosonics' long-term growth.
- R&D expenses are included in the Group Financial metric of the STI (PBT) which encourages management accountability of the R&D expenditure to control profitability of the underlying business.
- The higher weighting on the UROE metric, excluding R&D expenses, is to encourage management to drive long-term sustainable value for shareholders through investments in identified strategic growth priorities.

At the 2020 Annual General Meeting held on 24 November 2020, shareholders approved the 2020 LTI award for the CEO&P. The description of the approved 2020 LTI award, which also applies to the Executive KMP, 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.								
Opportunity	<p>CEO&P: Target opportunity is 90% of TFR, with a maximum of up to 180% of TFR for achievement of Stretch outcomes.</p> <p>Executive KMP: Target opportunity is 50% of TFR, with a maximum of up to 100% of TFR for achievement of Stretch outcomes.</p> <p>The maximum LTI opportunity for awards granted prior to the 2020 LTI was 60% of base salary for the CEO&P and 30% of base salary for Other Executive KMP.</p>								
Delivery	<p>Equity grants to the Executive KMP will be awarded as follows:</p> <ul style="list-style-type: none"> – The iTSR component will be awarded as Share Appreciation Rights (SARs), which are cashless exercise options that have a notional exercise price of \$6.0436 (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); and – The UROE component will be awarded as Performance Rights with a nil exercise price. 								
Allocation method	The number of Share Appreciation Rights or Performance Rights granted is calculated as follows:								
	Number of Rights	=	TFR (\$)	X	LTI opportunity % at Stretch	X	Tranche weighting	÷	Value of Right
	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).								

REMUNERATION REPORT – AUDITED CONTINUED

3.4 LONG-TERM INCENTIVE (LTI) continued

Measurement period	<p>The measurement period for the Share Appreciation Rights and Performance Rights are:</p> <ul style="list-style-type: none"> – Share Appreciation Rights: From the announcement of the Company's FY20 financial results to the announcement of the Company's FY23 financial results based on the 20-day VWAP of the Company's shares following those dates. – Performance Rights: From 1 July 2020 to 30 June 2023.
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The performance measurement periods for the LTI plans issued prior to 2020 that have not yet vested 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

Exercise restriction period	<p>The Rights will be subject to an exercise restriction period of one year after the Vesting Date and may only be exercised after that date.</p> <p>In the event that a taxing point arises during employment with the Company in relation to vested Rights, and the Exercise Restriction or disposal restrictions have not elapsed, then those restrictions will cease to apply to 50% of the taxable Rights.</p> <p>LTI awards issued prior to the 2020 LTI do not have an exercise restriction period once vested.</p>
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Gate and Performance Conditions	<p>Gate</p> <p>A Gate is a condition that, if not fulfilled, will result in nil vesting of certain Rights, irrespective of performance in relation to the Performance Conditions. The Gate for the 2020 LTI is as follows:</p> <ul style="list-style-type: none"> – For the Share Appreciation Rights (iTSR), the Gate is that the Company's TSR must be positive over the Measurement Period. – For UROE Performance Rights, no Gate applies.
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Performance Conditions

The Performance Conditions for the 2020 LTI are:

- For the Share Appreciation Rights (iTSR), the Performance Condition will be based on the Total Shareholder Return (TSR) of the Company over the Measurement Period (equivalent to the change in Share Price, plus dividends declared assumed to be reinvested), compared to the TSR of the ASX 300 Industrials Total Return Index (excluding the energy and metal & mining industries) after adding a premium of 3.5% at Target and 7% at Stretch which was determined by the Board in assessing the Company's risk profile. Vesting will be determined based on delivery of expectations which are inherently challenging according to the following scale:

Outcome	NAN TSR performance	% vesting of grant	% of opportunity
Stretch	Index TSR% + 7.0% TSR CAGR	100%	200%
Target	Index TSR% + 3.5% TSR CAGR	50%	100%
Threshold	Index TSR%	25%	50%
Below	<Index TSR%	0%	0%

- For the Performance Rights (UROE), the Performance Condition will be based on the three-year average Underlying Return on Equity of the Company over the Measurement Period associated with the Performance Rights (calculated as the average PBT in each year of the Measurement Period excluding the impact of reported R&D expenses), divided by the average shareholders' equity over the Measurement Period. Vesting will be determined according to the following scale:

Outcome	Three-year average UROE	% vesting of grant	% of opportunity
Stretch	28% (+3%)	100%	200%
Target	25%	50%	100%
Threshold	22% (-3%)	25%	50%
Below	<22%	0%	0%

REMUNERATION REPORT – AUDITED CONTINUED

3.4 LONG-TERM INCENTIVE (LTI) continued

Gate and Performance Conditions

LTI awards prior to the 2020 LTI

The 2019 and 2018 LTI awards are subject to an Absolute Compounded Annual Growth Rate of Total Shareholder Return (Absolute CAGR TSR) and have a Gate, which requires PBT to be accretive over the measurement period before the equity grant will be eligible to vest. For the Gate to open for the 2019 and 2018 LTI awards, the average PBT of the Company for the last three financial years of the measurement period has to be greater than the PBT of the Company in the financial years ending 30 June 2019 and 30 June 2018, respectively.

The Absolute CAGR TSR for the 2019 and 2018 LTI award 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 2019 and 2018 results compared to the VWAP of the shares in the Company in the month from and including the announcement of the Company's FY22 and FY21 full year results, respectively.

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

Performance Level	Absolute CAGR TSR		% Tranche Vesting
	2019	2018	
Target	Reaches or exceeds 13%	Reaches or exceeds 20%	100%
Threshold	Reaches 8% but does not reach 13%	Reaches 10% but does not reach 20%	50%-100%
Below threshold	Does not reach 8%	Does not reach 10%	0%

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:

$$\boxed{\text{Exercised Rights Value}} = \boxed{\text{Number of Rights Exercised}} \times \boxed{\text{Share Price at Exercise} - \text{Exercise Price}}$$

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:

- Specified disposal restrictions specified in the Invitation;
- Disposal is prohibited by the Company's securities trading policy, including trading blackouts; and
- Disposal is prohibited due to the insider trading restrictions contained in the Corporations Act.

Dividends

Share Appreciation Rights or Performance Rights do not carry any dividend or voting rights prior to exercise.

Term

Rights will have a term ending on the 30 September 2027 (last exercise date).

For 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.

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, 100% of award is forfeited, subject to Board discretion.

Malus/ Clawback

The Plan rules incorporate the Company's Malus and Clawback Policy and include a malus clause that, among other things, 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

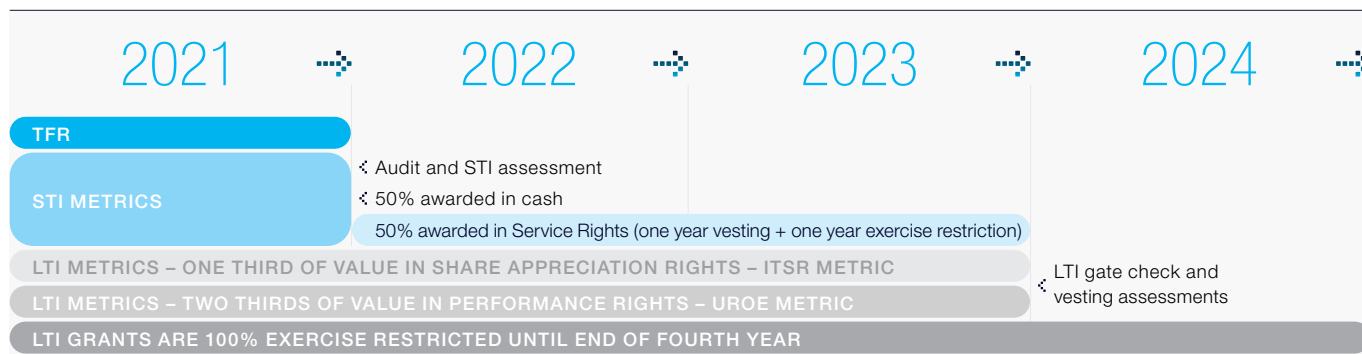
It should be noted that the Board has discretion to amend the Plan Rules, trigger vesting and/or adjust vesting outcomes to ensure that inappropriate outcomes do not occur.

The details of the 2017 LTI award that vested in FY21 are provided in section 4.3.

REMUNERATION REPORT – AUDITED CONTINUED

3.5 REMUNERATION CYCLE

The Executive KMP remuneration cycle is illustrated below.



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 KMPs 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 FY17 to FY21 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	FY21	FY20	FY19	FY18	FY17
Earnings and cash flows					
Revenue (\$'000)	103,079	100,054	84,324	60,698	67,507
Profit before tax (\$'000)	10,984	12,459	16,830	5,583	13,852
Net profit after tax (\$'000)	8,578	10,136	13,602	5,261	26,158 ⁹
Pre-tax basic earnings per share (Pre-tax EPS) (cents)	3.65	4.15	5.61	1.87	4.66
Basic earnings per share (EPS) (cents)	2.85	3.37	4.54	1.76	8.79
Free cash flow (\$'000)	5,935	20,876	2,625	6,196	15,143
Returns					
Share price as at 30 June (\$)	5.87	6.82	5.62	3.16	2.54
Relative TSR percentile ranking	n/a	93.1/75.8 ³	90.9/88.4 ⁴	94th/95th ⁵	78th/85th ⁶
Three-year rolling CAGR TSR % ⁷	22.9	39.0	36.9	23.0	47.6
STI award outcomes					
Executive KMP outcome (Average % of \$ target for the completed year)	94.9	64.8	80.3	63.1	87.4
Executive KMP outcome (Average % of \$ maximum for the completed year) ⁸	71.7	43.2	53.5	63.1	87.4
LTI outcomes					
% that Vested during the year	tbd ^{1,2}	100	75	100	100

1. To be determined.

2. Relates to the 2018 LTI, refer to section 4.4 for additional information.

3. Relates to the 2017 LTI, refer to section 4.3 for additional information.

4. Relates to the 2016 LTI Nanosonics percentile ranking of Comparator Group 1 and Comparator Group 2, respectively.

5. Relates to the 2015 LTI Nanosonics percentile ranking of Comparator Group 1 and Comparator Group 2, respectively.

6. 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.

7. Three-year CAGR TSR shown for the five years' performance period was calculated using the 30 June closing share price.

8. Stretch STI opportunity was first introduced in FY19, hence prior to FY19 maximum STI outcome is the same as the target STI outcome.

9. FY17 profit after tax included income tax benefit of \$12,306,000 driven by the initial recognition of deferred tax assets of \$14,134,000.

4.2 FY21 STI OUTCOMES

Nanosonics' STI is designed to reward executives for the achievement against weighted outcome metrics set by the Board at the beginning of the performance period. The FY21 metrics are financial and operational in nature and designed to strengthen alignment between management and shareholders. The payment of the STI is dependent on meeting Group Financial and Operational metrics.

Profit Before Tax (PBT) exceeded the Stretch hurdle set by the Board when agreeing the FY21 operating plan, which would have resulted in 150% achievement of the PBT metric. Notwithstanding this solid financial performance, having regard to the difficulties and uncertainties experienced in forecasting revenue and operating expenses, the Board agreed with the CEO&P's recommendation to apply discretion to reduce the achievement of the PBT metric to be assessed at Target or 100%.

REMUNERATION REPORT – AUDITED CONTINUED

4.2 FY21 STI OUTCOMES continued

Achievement of the Global Installed Base metric was assessed at 92.7%. The Board did not exercise any discretion to either the Global Installed Base or Operational metrics. There were no downward Values rating modifiers applied to the CEO&P or Executive KMP in FY21.

The table below summarises the achievement against the Group Financial metrics for FY21 STI.

Metric	Measure	Outcome	Comments on outcomes
Financial: Profit Before Tax (20% weighting)	Achievement of Profit Before Tax	100%	The Company exceeded the Stretch PBT hurdle set by the Board. Discretion was applied by the Board and achievement was determined to be at 100%
Financial: Global Installed Base (40% weighting)	The number of new trophon units installed globally	92.7%	This outcome was a solid result considering the global market restrictions that prevailed during the year

In addition to the Group metrics, each Executive KMP is required to achieve other metrics which could include regional financial or operational metrics that are set by the Board. These metrics are aimed at achieving specific outcomes across a range of areas, including customer experience, product innovation, operational excellence, people engagement and value creation, as well as the consideration of the Company risk register. The outcome of the remaining metrics excluding the Group metrics for FY21 demonstrated a solid result and were as follows:

- CEO&P: 93.75% (37.5% weighted outcome); and
- Other Executive KMP 92.22% (average) (43.5% average weighted outcome).

The outcomes of the remaining metrics excluding the Group metrics that were set for the CEO&P and Executive KMP include:

- Achievement of defined R&D milestones to support expansion of the Company's product portfolio;
- Launch of Nanosonics AuditPro, a new digital product to support infection control through workforce compliance management;
- Efficiency gains in the supply chain, customer service and procurement;
- Increased operational efficiency through the implementation of LEAN throughout the manufacturing processes;
- The expansion of the geographical footprint across Europe and Asia Pacific;
- Further embedding of the Company's Core Values throughout the employee lifecycle;
- Ongoing implementation of the Company's risk management program further strengthening compliance and governance practices; and
- Implementation of marketing programs to support growth in the global installed base.

The total STI award value and payout for each Executive KMP for the completed period is summarised in the table below.

Executive KMP	Target STI (100%) \$	Total weighted Group financial metrics outcome %	Weighted individual/operational metrics outcome %	STI Achievement		Cash \$	Equity portion deferred ² \$	Forfeited %
				% ¹	\$			
Michael Kavanagh	433,017	57.1%	37.5%	94.6%	409,634	204,817	204,817	5.4%
McGregor Grant	158,839	57.1%	37.5%	94.6%	150,262	75,131	75,131	5.4%
Steven Farrugia	148,678	57.1%	36.5%	93.6%	139,163	69,581	69,582	6.4%
David Morris ³	173,478	28.5%	61.7%	90.2%	156,477	78,239	78,238	9.8%
Rod Lopez	148,678	57.1%	38.3%	95.4%	141,839	70,919	70,920	4.6%

1. STI achievement % includes values rating modifier, where applicable.

2. Equity portion deferred will be awarded as service rights subject to a further year service condition and will vest on 31 August 2022. Once vested, these service rights will be subject to an exercise restriction which will end on 31 August 2023, after which the Executive KMP has three years to exercise these rights.

3. Mr Morris' group weighting differs from other Executive KMP due to his dual role of Chief Strategy Officer and Regional President for APAC and includes a higher weighted outcome for operational, including regional financial metrics. The Board exercised positive discretion, and applied 75% achievement outcome, for the APAC Installed Base metric (weighting 10%). This was in recognition of 200 upgrades and a large transaction of additional IB sold to IMED which were not included in the regional financial metrics.

Mr. Kavanagh's individual performance was assessed by the Board having regard to the Group Financial, Strategic and Operational metrics and there was no downward modifier applied in relation to behaviours aligned to the Company's Core Values.

4.3 2017 LTI OUTCOMES

The performance conditions associated with the 2017 LTI included two TSR hurdles that were associated with two Comparator Groups, TSR-1 and TSR-2, each representing 50% of the award.

Following the release of the Company's FY20 financial statements, Nanosonics' relative TSR ranking was determined to be at the 93.1 percentile in relation to TSR-1 and at the 75.8 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.

REMUNERATION REPORT – AUDITED CONTINUED

4.4 2018 LTI OUTCOME

The 2018 LTI award is subject to a PBT Gate and an Absolute CAGR TSR. The average PBT of the Company in the last three years exceeded the PBT of the Company for the period ended 30 June 2018. Accordingly, the Gate is expected to open. To achieve 100% vesting, the Absolute CAGR TSR has to reach or exceed 20%. As at 30 June 2021, the VWAP of the Company was \$5.654, representing an Absolute CAGR TSR of 18.9%. A final calculation will be conducted at the end of the measurement period in respect of the Absolute CAGR TSR hurdle.

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/(loss) on vested STI from change in value during deferral ⁵ \$	Gain/(loss) on vested LTI from change in value during vesting period ⁶ \$
Michael Kavanagh	2021	721,694	115,500	185,438	306,211	1,328,843	—	34,815	1,120,799
	2020	721,003	127,387	58,054	225,176	1,131,620	75,056	52,014	591,017
McGregor Grant	2021	397,097	32,942	44,146	99,515	573,700	—	(2,757)	312,181
	2020	396,406	44,146	46,026	73,175	559,753	24,390	41,237	207,725
Steven Farrugia	2021	371,694	36,225	41,437	79,560	528,916	—	(2,583)	249,580
	2020	371,003	41,437	38,054	58,503	508,997	19,499	34,095	178,595
David Morris	2021	433,694	37,080	21,038	—	491,812	—	(1,308)	—
	2020	433,003	21,038	—	—	454,041	—	—	—
Rod Lopez	2021	371,694	36,225	14,698	—	422,617	—	(914)	—
	2020	371,003	14,698	—	—	385,701	—	—	—
Total	2021	2,295,873	257,972	306,757	485,286	3,345,888	—	4,395,903	1,682,560
	2020	2,292,418	248,706	142,135	356,853	3,040,112	118,945	3,787,806	977,337

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.

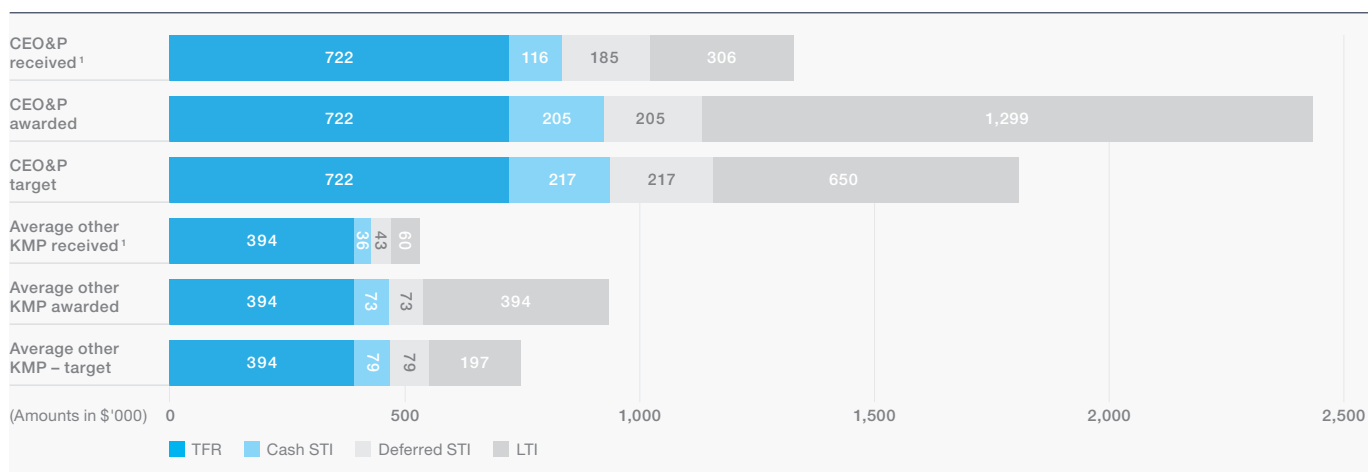
3. Deferred STI vested in FY21 was from the FY19 STI award (FY20 was from the FY18 STI award). Value vested represents the STI allocation value (STI award value) for the relevant award year.

4. The value of the LTI vested/forfeited (2017 LTI in FY21, 2016 LTI in FY20) 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 FY21 in comparison to awarded and target remuneration for FY21.



1. "Received" remuneration refer to TFR received during FY21, Cash STI during FY21 in respect of FY20 performance, deferred FY19 STI (and deferred FY18 STI Tranche 2 for the CEO&P and 2017 LTI which vested (using the award value) in FY21.

REMUNERATION REPORT – AUDITED CONTINUED

5 GOVERNANCE

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

5.1 ROLE OF THE BOARD AND THE REMUNERATION, PEOPLE AND CULTURE COMMITTEE (RPC)

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

The role and responsibilities of the RPC are set out in its Charter, which was last reviewed and approved by the Board in September 2020. The RPC role and its relationship with the Board, internal and external advisors is illustrated below.

THE BOARD

Reviews, applies judgement and, as appropriate, approves the RPC's recommendations



The Remuneration, People and Culture 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 CEO&P and Executive KMP, including STI performance metrics. Remuneration policy in respect of Non-executive Directors.

Incentive schemes for CEO&P, Executive KMP and employees, including equity-based remuneration plans, including structure, performance measures and vesting conditions.

People policies and practices to support the culture and Company's purpose, values and behaviours. Recommendations on future talent, succession planning and people development programs.

Executive leadership appointments, development, and succession planning.



External consultants



Internal resources

Further information on the Remuneration, People and Culture Committee's role, responsibilities and membership is contained in the Corporate Governance Statement. The Remuneration, People and Culture 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 and Culture Committee obtain and consider advice directly from Godfrey Remuneration Group (GRG), external remuneration advisors, who are independent of management.

The Board adopts practices in accordance with the *Corporations Act 2001* to ensure that any advice received from GRG is free from undue influence of the KMP to whom the remuneration recommendations relate.

In FY20, the Board engaged independent remuneration consultants to provide Executive KMP remuneration recommendations directly to Non-Executive Directors. There were no 'remuneration recommendations' made during the FY21 reporting period, however, GRG were engaged to provide the following other advisory services:

- Review of and assistance with drafting the Company's FY20 Remuneration report;
- Review of and assistance with drafting the Annual General Meeting notice of meeting resolutions relating to the CEO&P's STI and LTI award; and
- Discuss recommendations to the Board that were developed by management.

The Company paid fees totalling \$44,616 including GST for these services.

REMUNERATION REPORT – AUDITED CONTINUED

5.3 BOARD DISCRETION, MALUS 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 as a result of a material misstatement of the Group's financial statements or misconduct of an Executive KMP. The Malus and 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, the Remuneration, People and Culture Committee receives a recommendation from the Audit & Risk Committee in relation to risk management (financial and non-financial) and compliance by Executive KMP during the year to determine whether any adjustments should be made to remuneration outcomes. The discussions held at the Audit & Risk Committee also inform any exercise of discretion concerning application of any clawback.

Under the STI and LTI Rules, the Board has absolute discretion in relation to determining what constitutes an "unfair or inappropriate benefit" and how to apply the clawback, subject to compliance with the law and the conditions set out in this Policy. This discretion can be applied at any time.

The Board is committed to transparency regarding the application of its discretion in relation to each of these matters. Discretion was exercised by the Board to modify performance outcomes in respect of FY21 STI, as detailed in section 4.

5.4 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, 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.

5.5 MINIMUM SHAREHOLDING REQUIREMENTS FOR KMP

The Company has a policy that requires Non-executive Directors and Executive KMP to have a minimum equity holding equivalent to the previous year's Board fee or base salary which is expected to be met within four years of appointment or commencement.

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 long-term holding of equity through the design of the STI and LTI awards.

Progress towards compliance with the policy is outlined in section 7.3. It should be noted that the minimum level of share ownership includes vested but unexercised securities and shares held directly, or indirectly as the beneficial owner, by the KMP.

6 NON-EXECUTIVE DIRECTOR REMUNERATION

6.1 PRINCIPLES

The principles that Nanosonics applies in governing Non-executive Director (NED) remuneration are set out below.

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 and Culture 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 2021 is within the aggregate amount of \$1,000,000 a year, approved at a general meeting of the Company held 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.

REMUNERATION REPORT – AUDITED CONTINUED

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 generally 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. Directors with other employers can apply to opt out receiving super guarantee contributions, where applicable.
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 from 1 July 2019. There were no proposed changes for FY22.

2. The Chairman does not receive separate Committee fees.

3. No Committee fees are payable in relation to the Nomination Committee.

7 STATUTORY TABLES AND DISCLOSURES

7.1 EXECUTIVE KMP STATUTORY REMUNERATION FOR FY21

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

Name	Year	Short-term			Long-term		Post-employment		TFR		Variable Remuneration		Total Remuneration
		Base salary	Accrued leave benefits	Super-annuation	TFR	Cash STI ¹	Deferred STI equity compensation ²	LTI equity compensation ²					
		\$	\$	\$	\$	% of TR	\$	% of TR	\$	% of TR	\$	% of TR	\$
Michael Kavanagh	2021	642,046	73,361	21,694	737,101	52%	204,817	14%	172,649	12%	308,847	22%	1,423,414
	2020	651,539	108,092	21,003	780,634	56%	115,500	8%	150,087	11%	347,722	25%	1,393,943
McGregor Grant	2021	342,195	36,516	21,694	400,405	66%	75,131	12%	64,547	11%	71,015	12%	611,098
	2020	330,770	45,760	21,003	397,533	73%	32,942	6%	41,379	8%	75,813	14%	547,667
Steven Farrugia ³	2021	322,458	33,654	21,694	377,806	62%	69,581	11%	64,384	11%	99,521	16%	611,292
	2020	310,962	31,856	21,003	363,821	68%	36,225	7%	40,971	8%	96,359	18%	537,376
David Morris ⁴	2021	394,570	34,098	21,694	450,362	60%	78,239	10%	67,403	9%	156,040	21%	752,044
	2020	404,077	33,120	21,003	458,200	71%	37,080	6%	28,656	4%	124,195	19%	648,131
Rod Lopez ⁵	2021	328,462	29,054	21,694	379,210	61%	70,919	11%	62,824	10%	109,323	18%	622,276
	2020	338,523	27,831	21,003	387,357	73%	36,225	7%	24,791	5%	81,829	15%	530,202
Total	2021	2,029,731	206,683	108,470	2,344,884	58%	498,687	12%	431,807	11%	744,746	19%	4,020,124
	2020	2,035,871	246,659	105,015	2,387,545	65%	257,972	7%	285,884	8%	725,918	20%	3,657,319

1. Cash STI is for the performance during the respective financial year. 2021 Amounts represents the Cash STI opportunity accrued related to the financial year based on the achievement of the Company's Group metrics and Individual metrics.

2. The amount disclosed is the amount of the fair value of rights and options recognised as an expense in each reporting period. The ability to exercise the rights and options is subject to vesting conditions.

3. 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.

4. 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 condition and this is included in the LTI amount.

5. 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.

No termination payments were made to Executive KMP during this or the previous period.

REMUNERATION REPORT – AUDITED CONTINUED

7.2 NON-EXECUTIVE DIRECTOR REMUNERATION FOR FY21

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

Name	Year	Board fees \$	Committee fees \$	Superannuation \$	Total \$
Maurie Stang	2021	215,240	—	9,760	225,000
	2020	203,997	—	21,003	225,000
Steven Sargent	2021	123,288	27,397	14,315	165,000
	2020	123,288	27,397	14,315	165,000
Geoff Wilson	2021	91,324	27,397	11,279	130,000
	2020	87,354	25,081	10,681	123,116
David Fisher	2021	91,324	27,397	11,279	130,000
	2020	91,324	27,397	11,279	130,000
Marie McDonald	2021	91,324	18,265	10,411	120,000
	2020	91,324	18,265	10,411	120,000
Lisa McIntyre	2021	91,324	18,265	10,411	120,000
	2020	50,159	10,032	5,718	65,909
Richard England ¹	2021	—	—	—	—
	2020	15,221	4,566	1,880	21,667
Total	2021	703,824	118,721	67,455	890,000
	2020	662,667	112,738	75,287	850,692

1. Richard England retired as Independent Director, Chairman of Audit & Risk Committee, Member of R&D and Innovation Committee and Member of Nomination Committee effective 31 August 2019.

REMUNERATION REPORT – AUDITED 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 achieving the holding policy requirement.

Name	Instrument	Number held at open 2021	Granted FY21		Forfeited during FY21	Vested during FY21	FY21 exercised (or shares received from exercising) ¹	Number held at close 2021	% of holding policy met ²
		Number	Date granted	Number	Number	Number	Number	Number	%
Michael Kavanagh	Unrestricted Shares	1,018,363	—	—	—	—	342,735	1,361,098	100%
	Restricted Shares	—	—	—	—	—	19,547	19,547	
	Vested Rights	300,501	—	—	—	61,781	(362,282)	—	
	Unvested Rights	95,591	24 Nov 20	162,410	—	(61,781)	—	196,220	
	Vested Options/SARs	158,480	—	—	—	340,424	—	498,904	
	Unvested Options/SARs	806,223	24 Nov 20	208,884	—	(340,424)	—	674,683	
McGregor Grant	Unrestricted Shares	673,348	—	—	—	—	—	673,348	100%
	Restricted Shares	—	—	—	—	—	6,774	6,774	
	Vested Rights	—	—	—	—	23,500	(6,774)	16,726	
	Unvested Rights	33,316	3 Mar 21	43,804	—	(23,500)	—	59,071	
		—	4 Jan 21	5,451	—	—	—	—	
	Vested Options/SARs	—	—	—	—	82,976	—	82,976	
Unvested Options/SARs	218,162	3 Mar 21	63,853	—	(82,976)	—	199,039		
Steven Farrugia	Unrestricted Shares	—	—	—	—	—	—	—	100%
	Restricted Shares	—	—	—	—	—	6,359	6,359	
	Vested Rights	—	—	—	—	19,731	(6,359)	13,372	
	Unvested Rights	64,997	3 Mar 21	41,002	—	(19,731)	—	92,262	
		—	4 Jan 21	5,994	—	—	—	—	
	Vested Options/SARs	—	—	—	—	66,337	—	66,337	
Unvested Options/SARs	149,624	3 Mar 21	59,768	—	(66,337)	—	143,055		
David Morris	Unrestricted Shares	—	—	—	—	—	—	—	5%
	Restricted Shares	—	—	—	—	—	3,229	3,229	
	Vested Rights	—	—	—	—	3,229	(3,229)	—	
	Unvested Rights	73,776	3 Mar 21	47,841	—	(3,229)	—	124,524	
		—	4 Jan 21	6,136	—	—	—	—	
	Vested Options/SARs	—	—	—	—	—	—	—	
Unvested Options/SARs	133,768	3 Mar 21	69,737	—	—	—	203,505		
Rod Lopez	Unrestricted Shares	—	—	—	—	—	—	—	4%
	Restricted Shares	—	—	—	—	—	2,256	2,256	
	Vested Rights	—	—	—	—	2,256	(2,256)	—	
	Unvested Rights	46,120	3 Mar 21	41,002	—	(2,256)	—	90,860	
		—	4 Jan 21	5,994	—	—	—	—	
	Vested Options/SARs	—	—	—	—	—	—	—	
Unvested Options/SARs	113,564	3 Mar 21	59,768	—	—	—	173,332		

1. Share received on exercise of rights at nil exercise price.

2. 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 interests' equals 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 average share price over the prior 365 calendar days using the closing share price, as reported by the ASX.

Other than as disclosed above, there were no other equity transactions including purchase or sales of shares by KMP during the year.

REMUNERATION REPORT – AUDITED CONTINUED

7.3 KMP EQUITY MOVEMENTS AND HOLDING POLICY STATUS *continued*

The following outlines changes in Non-executive Director equity interests during FY21:

Name	Instrument	Held at open	FY21 purchased/other	FY21 sold	Held at close	% of holding policy met ¹
		Number	Number	Number	Number	Percent
Maurie Stang ²	Shares	19,006,517	—	—	19,006,517	100%
Steven Sargent	Shares	107,000	16,400 ³	—	123,400	100%
Geoff Wilson	Shares	19,902	8,585 ⁴	—	28,487	100%
David Fisher	Shares	413,940	—	—	413,940	100%
Marie McDonald	Shares	19,600	—	—	19,600	100%
Lisa McIntyre	Shares	—	16,351 ⁵	—	16,351	100%
Total		19,566,959	41,336	—	19,608,295	

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 interests' equals or exceed the previous year's board fees, the minimum shareholding requirement is 100% met. The intrinsic value of shareholding interests includes full shares held at the end of the financial year multiplied by the average share price over the prior 365 calendar days using the closing share price, as reported by the ASX.

2. Includes shares held by a close family member.

3. Mr. Sargent purchased shares on market for \$99,548 at \$6.07 per share.

4. Mr. Wilson purchased shares on market for \$50,253 at a weighted average price of \$5.85 per share.

5. Dr. McIntyre purchased shares on market for \$99,911 at a weighted average price of \$6.11 per share.

The following outlines potential future costs of equity remuneration granted during FY21 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 FY21 \$	Max value to be expensed in future years \$	
Michael Kavanagh										
2020 LTI Performance Rights ³	24 Nov 20	30 Sep 23	30 Sep 27	—	6.68	866,033	957,231	201,571	755,660	
2020 LTI Share Appreciation Rights ³	24 Nov 20	30 Sep 23	30 Sep 27	6.0436	2.22	433,017	463,722	97,649	366,073	
FY20 Service Rights ⁴	24 Nov 20	31 Aug 21	31 Aug 21	—	6.68	115,500	127,668	64,460	9,833	
McGregor Grant										
2020 LTI Performance Rights ³	3 Mar 21	30 Sep 23	30 Sep 27	—	6.05	264,731	265,014	32,312	232,702	
2020 LTI Share Appreciation Rights ³	3 Mar 21	30 Sep 23	30 Sep 27	6.0436	1.73	132,366	110,466	13,469	96,997	
FY20 Service Rights ⁴	4 Jan 21	31 Aug 21	31 Aug 21	—	8.25	32,941	44,971	26,284	3,464	
Steven Farrugia										
2020 LTI Performance Rights ³	3 Mar 21	30 Sep 23	30 Sep 27	—	6.05	247,796	248,062	30,245	217,817	
2020 LTI Share Appreciation Rights ³	3 Mar 21	30 Sep 23	30 Sep 27	6.0436	1.73	123,898	103,399	12,607	90,792	
FY20 Service Rights ⁴	4 Jan 21	31 Aug 21	31 Aug 21	—	8.25	36,225	49,451	28,902	3,809	
David Morris										
2020 LTI Performance Rights ³	3 Mar 21	30 Sep 23	30 Sep 27	—	6.05	289,129	289,438	35,290	254,148	
2020 LTI Share Appreciation Rights ³	3 Mar 21	30 Sep 23	30 Sep 27	6.0436	1.73	144,565	120,645	14,710	105,935	
FY20 Service Rights ⁴	4 Jan 21	31 Aug 21	31 Aug 21	—	8.25	37,080	50,622	29,588	3,899	
Rod Lopez										
2020 LTI Performance Rights ³	3 Mar 21	30 Sep 23	30 Sep 27	—	6.05	247,796	248,062	30,245	217,817	
2020 LTI Share Appreciation Rights ³	3 Mar 21	30 Sep 23	30 Sep 27	6.0436	1.73	123,898	103,399	12,607	90,792	
FY20 Service Rights ⁴	4 Jan 21	31 Aug 21	31 Aug 21	—	8.25	36,225	49,451	28,902	3,809	
Totals						3,131,200	3,231,601	658,841	2,453,547	

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 TFR) and the 50% deferred component of the FY20 STI.

2. Total fair value at grant is calculated as the number of options or rights issued multiplied by the accounting fair value per options or rights at grant date.

3. The 2020 LTI grant of performance rights and SARs are subject to UROE and iTSR conditions, respectively. These grants are also subject to service condition. The 2020 LTI SARs offer requires a positive TSR for the gate to open. If this LTI gate does not open, the performance condition will be deemed to have not been met, regardless of the performance against the iTSR. Further details of the LTI grant are provided in Section 3.3.

4. FY20 STI will vest and automatically exercise into restricted shares with restriction period ending a year after.

The minimum value to be expensed in future years for each of the above grant made in FY21 may be negative. 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 of the LTI gate to open.

REMUNERATION REPORT – AUDITED 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		Termination payments ¹
		By company	By KMP	
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. 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. 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. 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. 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. 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.

1. 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's 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 their appointment.

REMUNERATION REPORT – AUDITED CONTINUED

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 2021 (2020: 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 FY20 and FY21 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 Board has an adhoc Related Party Committee chaired by the Deputy Chairman and Lead Independent Director and is comprised of all Independent NEDs, which excludes Mr. Stang. All related party transactions are reviewed and assessed to ensure they are on arms-length terms and conditions.

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

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

Transaction	FY21 \$	FY20 \$
Sale of products and services to Related Parties	5,089,524	2,661,573
Purchases of goods and services from Related Parties	9,137	3,384
Reimbursement of costs incurred on behalf on Nanosonics	—	1,576

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

	2021 \$	2020 \$
Current trade receivables (supply of goods and services)	1,821,163	562,396

There were no other amounts due from or to other Related Parties. There were no provisions for impaired receivables in relation to any outstanding balances from Related Parties (2020: Nil) and no expense has been recognised during the period in respect of impaired receivables due from Related Parties.

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

Outstanding balances are unsecured and are repayable in cash.

FINANCIAL STATEMENTS

For the year ended 30 June 2021

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AUDITOR'S INDEPENDENCE DECLARATION



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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 2021, 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.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Gamini Martinus'.

Gamini Martinus
Partner
24 August 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2021

	Notes	2021 \$'000	2020 \$'000
Continuing operations			
Sales revenue	2.2	103,079	100,054
Cost of sales		(22,695)	(24,541)
Gross profit		80,384	75,513
Selling and general expenses		(37,562)	(34,659)
Administration expenses		(16,003)	(12,965)
Research and development expenses		(17,194)	(15,558)
Other income		156	10
Other gains/(losses) – net	2.4	982	(670)
Results from operating activities		10,763	11,671
Finance income – interest		559	1,132
Finance expense		(338)	(344)
Net finance income		221	788
Operating income before income tax		10,984	12,459
Income tax expense	3.1	(2,406)	(2,322)
Net income after income tax expense attributable to owners of the parent entity		8,578	10,137
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on foreign currency translation		746	–
Effective portion of changes in fair value of cash flow hedges		(460)	1,054
Income tax on items of other comprehensive income/(loss)		138	(315)
Total other comprehensive income		424	739
Total comprehensive income for the year attributable to owners of the parent entity		9,002	10,876
Earnings per share information			
	Notes	Cents	Cents
Basic earnings per share	2.5(a)	2.85	3.37
Diluted earnings per share	2.5(b)	2.81	3.33

The notes on pages 64 to 95 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	2021 \$'000	2020 \$'000
Assets			
Current assets			
Cash and cash equivalents	6.1	96,027	91,781
Trade and other receivables	6.2	28,362	16,912
Inventories	7.1	11,865	11,838
Derivative financial instruments	6.3	1,920	652
Cost to obtain customer contracts	5.1	165	227
Income tax receivable		—	34
Prepayments and other current assets		3,973	3,103
Total current assets		142,312	124,547
Non-current assets			
Property, plant and equipment	7.2	7,201	7,351
Right-of-use assets	7.3	2,133	2,265
Intangible assets	7.4	278	491
Net deferred tax assets	3.2	10,048	11,746
Derivative financial instruments	6.3	134	462
Cost to obtain customer contracts	5.1	132	158
Other non-current assets		66	50
Total non-current assets		19,992	22,523
Total assets		162,304	147,070
Liabilities			
Current liabilities			
Trade and other payables	6.4	7,194	7,674
Lease liabilities	6.5	1,479	1,158
Income taxes payable		721	88
Contract liabilities	5.1	3,551	4,753
Employee benefits liabilities	4.2	5,921	3,472
Provisions	7.5	426	732
Borrowings	6.6	—	77
Derivative financial instruments	6.3	247	70
Total current liabilities		19,539	18,024
Non-current liabilities			
Lease liabilities	6.5	1,012	1,374
Contract liabilities	5.1	5,448	2,759
Employee benefits liabilities	4.2	590	504
Provisions	7.5	130	135
Derivative financial instruments	6.3	17	44
Total non-current liabilities		7,197	4,816
Total liabilities		26,736	22,840
Net assets		135,568	124,230
Equity			
Contributed equity	9.1(a)	113,539	113,177
Reserves		20,912	18,514
Retained earnings/(accumulated losses)		1,117	(7,461)
Total equity		135,568	124,230

The notes on pages 64 to 95 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2021

	Contributed equity \$'000	Reserves			Total reserves \$'000	Retained earnings (accumulated losses) \$'000	Total equity \$'000
		Share-based payments \$'000	Foreign currency translation \$'000	Hedging \$'000			
At 30 June 2019	112,713	16,324	(1,458)	(46)	14,820	(17,450)	110,083
Change in accounting policy ¹	—	—	—	—	—	(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							
Issue of shares under employee share plans	464	—	—	—	—	—	464
Share-based payments	—	1,868	—	—	1,868	—	1,868
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
At 1 July 2020	113,177	19,279	(1,458)	693	18,514	(7,461)	124,230
Profit for the period	—	—	—	—	—	8,578	8,578
Other comprehensive income/(loss)	—	—	746	(460)	286	—	286
Income tax on item of other comprehensive income	—	—	—	138	138	—	138
Total comprehensive income	—	—	746	(322)	424	8,578	9,002
Transaction with owners in their capacity as owners							
Issue of shares under employee share plans	362	—	—	—	—	—	362
Share-based payments	—	2,573	—	—	2,573	—	2,573
Income tax on share-based payments	—	(599)	—	—	(599)	—	(599)
At 30 June 2021	113,539	21,253	(712)	371	20,912	1,117	135,568

1. This relates to the adoption of AASB 16 Leases on a modified retrospective basis with initial application from 1 July 2019.

The notes on pages 64 to 95 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2021

	Notes	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST/VAT)		93,682	104,347
Payments to suppliers and employees (inclusive of GST/VAT)		(86,455)	(82,571)
Interest received		694	1,242
Income taxes paid		(605)	(206)
Net cash provided by operating activities	6.1(ii)	7,316	22,812
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,229)	(1,883)
Purchase of intangible assets		(142)	(53)
Proceeds from disposal of property, plant and equipment		(10)	—
Net cash used in investing activities		(1,381)	(1,936)
Cash flows from financing activities			
Repayment of borrowings		(77)	(445)
Interest paid on borrowings		(1)	(16)
Repayment of lease liabilities		(1,221)	(1,222)
Interest paid on lease liabilities		(97)	(94)
Proceeds from issue of shares under employee share plans		362	464
Net cash used in financing activities		(1,034)	(1,313)
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the financial year		91,781	72,180
Effect of exchange rate changes on cash and cash equivalents		(655)	38
Cash and cash equivalents at the end of the financial year	6.1(i)	96,027	91,781

The notes on pages 64 to 95 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 2021, 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 including Regional financial performance on pages 6 to 21 of this Annual Report and in the Directors' report on pages 32 to 37.

1.2 BASIS OF PREPARATION

a. Statement of compliance

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

The Board of Directors approved the consolidated financial statements on 24 August 2021.

b. Basis of measurement

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

c. Basis of consolidation

Subsidiaries

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1.2 BASIS OF PREPARATION continued

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 judgements and estimates

The preparation of financial statements in conformity with AASB/IFRS requires management to exercise judgement 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** Financial risk management

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 judgement 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. Sales 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 at 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.

Rental revenue

Rental revenue is recognised overtime on a straight-line basis for the term of the contract. Rental revenue is included in Capital revenue.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2.2 SEGMENT INFORMATION continued

Major customers

The group has a number of customers to which it provides products and services. The most significant customer accounts for approximately 60% of external revenue (2020: 54%). The next most significant customer accounts for approximately 6.6% of external revenue (2020: 3.2%).

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 2021				
Capital revenue before hedging	20,969	2,673	2,660	26,302
Foreign exchange gain on hedged sales	356	—	—	356
Total capital revenue	21,325	2,673	2,660	26,658
Consumables and spare parts	58,861	3,834	2,279	64,974
Service	8,154	650	1,754	10,558
Foreign exchange gain on hedged sales	889	—	—	889
Total consumables and service revenue	67,904	4,484	4,033	76,421
Total revenue	89,229	7,157	6,693	103,079
At a point in time	84,804	6,944	6,170	97,918
Over time	4,425	213	523	5,161
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 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:

	2021 \$'000	2020 \$'000
North America	2,382	1,540
Europe and Middle East	1,666	1,701
Asia Pacific	5,762	7,074
Total	9,810	10,315

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2.3 INDIVIDUALLY SIGNIFICANT ITEMS

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

	2021 \$'000	2020 \$'000
Included in cost of sales		
Depreciation, amortisation and impairment	192	144
Included in selling and general expenses		
Depreciation, amortisation and impairment	2,581	2,265
Inventory provision	327	208
Included in administration expenses		
Depreciation, amortisation and impairment	609	567
Included in research and development expenses		
Depreciation, amortisation and impairment	1,043	916

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.

	2021 \$'000	2020 \$'000
Realised gain/(loss) on derivative financial instruments	1,540	(841)
Unrealised gain on derivative financial instruments	1,262	11
Net foreign exchange (loss)/gain	(1,810)	160
Net gain/(loss) on foreign currency	992	(670)
Loss on disposal of fixed assets	(10)	—
Total other gains/(losses) – net	982	(670)

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.

	2021 Cents	2020 Cents
a) Basic earnings per share		
Basic earnings attributable to the ordinary equity holders of the company	2.85	3.37
b) Diluted earnings per share		
Diluted earnings attributable to the ordinary equity holders of the company	2.81	3.33
	\$'000	\$'000
c) Net earnings used in calculating earnings per share		
Net earnings after income tax expense attributable to shareholders	8,578	10,137
	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	300,980,744	300,362,881
Adjustments for calculation of diluted earnings per share:		
Performance rights and options	4,177,124	3,612,342
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	305,157,868	303,975,223

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2.6 DIVIDENDS

No dividends were proposed, declared or paid during the financial year and to the date of this report (2020: Nil).

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 national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses 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:

	2021 \$'000	2020 \$'000
Consolidated statement of profit or loss		
Current tax		
Current tax expense for the period	(9,444)	(8,722)
Adjustment relating to prior periods	(123)	20
Deferred tax		
Recognition and utilisation of deferred tax assets (net) including origination and reversal of temporary differences	7,161	6,380
Income tax expense reported in the statement of profit or loss	(2,406)	(2,322)
Tax relating to item in other comprehensive loss		
Deferred tax benefit/(expense) recognised directly in other comprehensive loss relating to derivative financial instruments	138	(315)
Tax benefit relating to items in equity		
Current tax benefit on share-based payments	586	538
Deferred tax (expense)/benefit on share-based payments	(1,185)	549
Tax benefit charged to equity	(599)	1,087

Following an assessment of the operations of the Group for the year ended 30 June 2021, it has been determined that taxable profits will continue to be generated by the Australian entity and its subsidiaries in the U.S., Canada and the U.K. against which tax credits and future deductible temporary differences and partially recognised carried forward Canadian and U.K. tax losses will be utilised.

The net deferred tax assets of the Group as at 30 June 2021 amounted to \$10,048,000 (2020: \$11,746,000) as detailed in Note 3.2.

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

	2021 \$'000	2020 \$'000
Operating profit before tax from continuing operations	10,984	12,459
The prima facie income tax expense applicable to the operating profit is calculated at the Australian tax rate of 30% (2020: 30%)	(3,295)	(3,738)
Increase in income tax expense due to:		
Non-deductible expenses	(180)	(92)
Research and development	(6,388)	(4,664)
Utilisation of unrecognised deferred tax assets in foreign jurisdictions	(488)	(222)
Decrease in income tax expense due to:		
Other deductible expenses	513	150
Utilisation of R&D tax credit in Australia	7,074	5,954
Effect of tax rate in foreign jurisdictions	235	270
Adjustment relating to prior period	123	20
Income tax expense	(2,406)	(2,322)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 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 judgement is required to determine the amount of deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. These are reviewed at each reporting date.

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

As at 30 June 2021, the net deferred tax asset recognised in the statement of financial position comprises:

	2021 \$'000	2020 \$'000
Deferred tax assets		
Non-refundable R&D tax credits	1,926	2,364
Tax losses in foreign subsidiary tax jurisdictions	236	257
Share-based payments	2,019	3,404
Employee benefits liabilities	1,689	983
Patent costs	661	601
Provisions for warranties and make good	196	260
Contract liabilities	2,030	1,698
Inventory provision	501	293
Future intercompany deductible expenses	2,019	1,475
Capital allowances in foreign subsidiary tax jurisdiction	278	367
Unrealised foreign exchange losses	—	665
Others	764	535
Total deferred tax assets	12,319	12,902
Deferred tax liabilities		
Derivative financial instruments	(538)	(300)
Unrealised foreign exchange gains	(468)	—
Accrued interest and other income	(38)	(83)
Property, plant and equipment	(1,120)	(534)
Others	(107)	(239)
Total deferred tax liabilities	(2,271)	(1,156)
Net deferred tax asset	10,048	11,746

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 CONTINUED

3.2 DEFERRED TAXES continued

As at 30 June 2021, the Group has unrecognised deferred tax assets in relation to its subsidiaries as follows:

	2021 \$'000	2020 \$'000
Estimated unrecognised tax losses carried forward:		
Unrecognised tax losses brought forward at the beginning of the period	6,627	4,452
Adjustment in respect of unrecognised tax losses carried forward relating to prior periods	101	1,931 ¹
Tax losses for the period related to non-Australia entities	1,024	714
Carried forward tax losses utilised	(1,030)	(470)
Recognition of deferred tax assets on Canadian tax losses	(21)	—
Estimated unrecognised tax losses carried forward at the end of the period	6,701	6,627
Potential tax benefit at 22.91% effective tax rate (2020: 21.5%)	1,535	1,425

1. In 2020, the Group elected to utilise a 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 related to total future deductions of \$1,931,000. The recognition of future deductible capital allowances resulted in a de-recognition of carried forward losses for the same value in that 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

	2021 \$'000	2020 \$'000
Staffing costs included in the profit and loss statement consist of:		
Salaries and wages	34,301	31,771
Bonuses and commissions	5,549	3,465
Termination benefits	666	637
Superannuation, pension and social security contribution	4,034	3,726
Workers compensation costs	268	232
Payroll tax	1,471	1,477
Insurance premiums	1,508	1,471
Other employee benefits and staffing costs	5,574	5,033
Share-based payments	2,573	1,868
	55,944	49,680
The above staffing costs have been broken down into:		
Cost of sales	5,533	6,237
Selling and general expenses	28,942	24,351
Administration expenses	10,083	7,824
Research and development expenses	11,386	11,268
	55,944	49,680

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 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, are discounted allowing for expected salary levels in the future period. Cash bonuses are classified as short-term employee benefits while annual leave and long service leave are long-term employee benefits.

Employee benefits liabilities as at the reporting date:

	2021			2020		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Provision of annual leave	2,201	—	2,201	2,027	—	2,027
Provision for long service leave	312	590	902	138	504	642
Provision for bonuses	3,408	—	3,408	1,307	—	1,307
Total employee benefit liabilities	5,921	590	6,511	3,472	504	3,976

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4.3 SHARE-BASED PAYMENTS

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

i) Share-based compensation plans

Nanosonics omnibus equity plan

The Nanosonics Omnibus Equity Plan (NOEP) was adopted in November 2016 and was last approved by shareholders on 24th November 2020. 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 (Exempt Share Awards and Salary Sacrifice 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 NOEP replaced the Nanosonics Employee Share Option Plan (ESOP) which ended during the period following the last exercise of performance rights issued under this plan.

Global Employee Share Plan

The Global Employee Share Plan (GESP) was adopted in November 2019. The GESP allows the Board to make offers to its employees, regardless of where they are located in the world, to encourage alignment between the Company's employees with the interests of shareholders. In particular, offers can be made to foreign employees in a manner that accommodates foreign legal and taxation requirements.

Under the Global Plan, eligible employees (full-time or part-time employees of a subsidiary of Nanosonics) may be offered the opportunity to acquire Shares.

Under the Global Plan, certain regular deductions are made from a Global Plan Participant's after-tax salary, which are then held on trust (Contributions). At present, each GESP Participant's gross Contributions are limited to the lesser of 15% of the Global Participant's gross remuneration and A\$25,000 each year. Shortly after the end of each consecutive six month "Offering Period", the Contributions will be used to subscribe for new shares for the Global Participant. The subscription price (Share Issue Price) is determined by the Board, but must not be less than 85% of the lower of the prevailing Share price at the beginning and the end of the relevant Offering Period.

During the year, a total of 69,302 shares were acquired by Global Participants under the GESP at an average price of \$5.23 per share.

ii) Exercise of rights and options

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 rights and options issued to the date of this report were fixed on the dates the rights and options were granted.

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

iii) Reconciliation of outstanding rights and options

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

	NOEP				ESOP				All Plans	
	2021		2020		2021		2020		2021	2020
	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	3,863,238	3.08	3,618,841	2.04	253,106	—	384,788	—	4,116,344	4,003,629
Granted during the year	1,692,420	3.29	1,179,375	5.09	—	—	—	—	1,692,420	1,179,375
Exercised during the year	(553,919)	—	(504,609)	—	(253,106)	—	(131,682)	—	(807,025)	(636,291)
Forfeited during the year	(176,514)	4.05	(430,369)	2.38	—	—	—	—	(176,514)	(430,369)
Unexpired as at 30 June	4,825,225	3.46	3,863,238	3.08	—	—	253,106	—	4,825,225	4,116,344
Exercisable at 30 June	856,684	—	271,432	—	—	—	253,106	—	856,684	524,538

807,025 performance rights and options were exercised in 2021. The weighted average share price based on the dates of the exercise was \$5.74 (2020: \$6.33). No performance rights or options expired during the periods covered by the above table.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4.3 SHARE-BASED PAYMENTS 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	Exercise 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 exercisable at end of year
NOEP	2020 LTI Tranche 1 – Others	3 Mar 21	—	6.05	30 Sep 26	—	157,710	—	—	157,710	—
NOEP	2020 LTI Tranche 1 – Executives	3 Mar 21	—	6.05	30 Sep 27	—	330,571	—	—	330,571	—
NOEP	2020 LTI SARS Tranche 1 – Others	3 Mar 21	6.04	1.79	30 Sep 26	—	229,880	—	—	229,880	—
NOEP	2020 LTI SARS Tranche 1 – Executives	3 Mar 21	6.04	1.73	30 Sep 27	—	481,869	—	—	481,869	—
NOEP	2020 STI HL Tranche 1	4 Jan 21	—	8.25	31 Aug 21	—	69,990	—	—	69,990	—
NOEP	2020 STI Tranche 1 – Others	4 Jan 21	—	8.25	31 Aug 21	—	51,106	—	—	51,106	—
NOEP	2020 STI Tranche 1 – CEO	24 Nov 20	—	6.68	31 Aug 21	—	19,112	—	—	19,112	—
NOEP	2020 LTI Tranche 1 – CEO	24 Nov 20	—	6.68	30 Sep 27	—	143,298	—	—	143,298	—
NOEP	2020 LTI SARS Tranche 1 – CEO	24 Nov 20	6.04	2.22	30 Aug 27	—	208,884	—	—	208,884	—
NOEP	2019 LTI Tranche 1 – Others	9 Apr 20	—	2.81	30 Sep 25	96,118	—	—	(10,189)	85,929	—
NOEP	2019 LTI Tranche 1 – CEO	9 Apr 20	—	4.06	30 Sep 25	12,910	—	—	—	12,910	—
NOEP	2019 LTI Tranche 2 – Others	9 Apr 20	6.51	1.51	30 Sep 25	714,748	—	—	(74,865)	639,883	—
NOEP	2019 LTI Tranche 2 – CEO	9 Apr 20	6.51	2.36	30 Sep 25	178,914	—	—	—	178,914	—
NOEP	2019 STI Tranche 1	18 Feb 20	—	6.89	31 Aug 23	49,542	—	(40,792)	(1,275)	7,475	7,475
NOEP	2019 STI Tranche 2	18 Feb 20	—	6.89	31 Aug 20	57,601	—	(57,601)	—	—	—
NOEP	2019 STI Tranche 2 – CEO	19 Nov 19	—	7.23	31 Aug 20	19,547	—	(19,547)	—	—	—
NOEP	2019 Special Award	5 Nov 19	—	6.87	09 Sep 25	7,288	—	—	—	7,288	—
NOEP	2019 Special Award	5 Nov 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	9 Nov 18	3.44	0.80	30 Sep 24	286,885	—	—	—	286,885	—
NOEP	2018 LTIS Tranche 1 – Others	4 Feb 19	3.44	0.86	30 Sep 24	888,952	—	—	(50,934)	838,018	—
NOEP	2018 LTIS Tranche 2 – CEO	9 Nov 18	—	1.24	30 Sep 24	20,900	—	—	—	20,900	—
NOEP	2018 LTIS Tranche 2 – Others	4 Feb 19	—	1.41	30 Sep 24	85,548	—	—	(4,323)	81,225	—
NOEP	2018 Deferred STI – CEO	9 Nov 18	—	3.21	31 Aug 22	16,502	—	(16,502)	—	—	—
NOEP	2018 Deferred STI – CEO	9 Nov 18	—	3.21	31 Aug 23	16,501	—	(16,501)	—	—	—
NOEP	2018 Deferred STI – Others	22 Nov 18	—	2.97	31 Aug 22	25,298	—	(17,626)	(570)	7,102	7,102
NOEP	2017 LTIS Tranche 1 – CEO	3 Nov 17	—	2.16	31 Aug 23	12,867	—	(12,867)	—	—	—
NOEP	2017 LTIS Tranche 2 – CEO	3 Nov 17	—	2.04	31 Aug 23	12,866	—	(12,866)	—	—	—
NOEP	2017 LTIS Tranche 1 – Others	9 Feb 18	—	1.95	31 Aug 23	138,825	—	(100,974)	(6,018)	31,833	31,833
NOEP	2017 LTIS Tranche 2 – Others	9 Feb 18	—	1.75	31 Aug 23	138,816	—	(100,966)	(6,016)	31,834	31,834
NOEP	2017 LTIS Tranche 1 – CEO	3 Nov 17	2.38	1.00	31 Aug 23	170,212	—	—	—	170,212	170,212
NOEP	2017 LTIS Tranche 2 – CEO	3 Nov 17	2.38	1.02	31 Aug 23	170,212	—	—	—	170,212	170,212
NOEP	2017 LTIS Tranche 1 – Others	9 Feb 18	2.38	0.84	31 Aug 23	166,176	—	(17,585)	(10,959)	137,632	137,632
NOEP	2017 LTIS Tranche 2 – Others	9 Feb 18	2.38	0.79	31 Aug 23	166,173	—	(17,585)	(10,958)	137,630	137,630
NOEP	2017 Deferred STI – CEO	3 Nov 17	—	2.81	31 Aug 21	45,513	—	(45,513)	—	—	—
NOEP	2017 Deferred STI – Others	11 Jan 18	—	2.75	31 Aug 21	17,162	—	(16,755)	(407)	—	—
NOEP	2016 Deferred STI	5 Jan 17	—	3.07	01 Sep 20	8,477	—	(8,477)	—	—	—
NOEP	2016 LTIS Tranche 1	5 Jan 17	2.85	1.00	31 Aug 22	52,827	—	—	—	52,827	52,827
NOEP	2016 LTIS Tranche 2	5 Jan 17	2.85	0.98	31 Aug 22	52,826	—	—	—	52,826	52,826
NOEP	2016 LTIS Tranche 3	5 Jan 17	2.85	1.05	31 Aug 22	52,827	—	—	—	52,827	52,827
NOEP	2016 LTIS Tranche 1	5 Jan 17	—	2.59	31 Aug 22	18,680	—	(17,255)	—	1,425	1,425
NOEP	2016 LTIS Tranche 2	5 Jan 17	—	2.33	31 Aug 22	18,676	—	(17,252)	—	1,424	1,424
NOEP	2016 LTIS Tranche 3	5 Jan 17	—	3.07	31 Aug 22	18,680	—	(17,255)	—	1,425	1,425
ESOP	2015 LTIS Tranche 1	4 Jan 16	—	1.46	31 Aug 21 ¹	126,553	—	(126,553)	—	—	—
ESOP	2015 LTIS Tranche 2	4 Jan 16	—	1.06	31 Aug 21 ¹	126,553	—	(126,553)	—	—	—
Total						4,116,344	1,692,420	(807,025)	(176,514)	4,825,225	856,684

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 August 2021. All the terms and conditions of 2015 LTIS remained the same.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4.3 SHARE-BASED PAYMENTS 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	2020 STI-HL Tranche 1	Service	—	4 Jan 21	31 Aug 21	31 Aug 21	8.25	Black-Scholes	39.45%	0.00%	0.08%	8.25
NOEP	2020 STI Tranche 1 – Others	Service	—	4 Jan 21	31 Aug 21	31 Aug 21	8.25	Black-Scholes	39.45%	0.00%	0.08%	8.25
NOEP	2020 STI Tranche 1 – CEO	Service	—	24 Nov 20	31 Aug 21	31 Aug 21	6.68	Black-Scholes	52.46%	0.00%	0.09%	6.68
NOEP	2020 LTI Tranche 1 – Others	Underlying ROE	—	3 Mar 21	30 Sep 23	30 Sep 26	6.05	Black-Scholes	46.77%	0.00%	0.12%	6.05
NOEP	2020 LTI Tranche 1 – Executives	Underlying ROE	—	3 Mar 21	30 Sep 23	30 Sep 27	6.05	Black-Scholes	44.48%	0.00%	0.12%	6.05
NOEP	2020 LTI Tranche 1 – CEO	Underlying ROE	—	24 Nov 20	30 Sep 23	30 Sep 27	6.68	Black-Scholes	43.22%	0.00%	0.11%	6.68
NOEP	2020 LTIS SARS Tranche 1 – Others	iTSR	6.04	3 Mar 21	30 Sep 23	30 Sep 26	6.05	Monte Carlo	43.13%	0.00%	0.70%	6.05
NOEP	2020 LTIS SARS Tranche 1 – Executives	iTSR	6.04	3 Mar 21	30 Sep 23	30 Sep 27	6.05	Monte Carlo	43.60%	0.00%	0.70%	6.05
NOEP	2020 LTIS SARS Tranche 1 – CEO	iTSR	6.04	24 Nov 20	30 Sep 23	30 Aug 27	6.68	Monte Carlo	43.21%	0.00%	0.30%	6.68
Granted in prior periods and unexpired at report date:												
NOEP	2019 LTI Tranche 1 – Others	Absolute CAGR ¹ TSR performance and service ²	—	9 Apr 20	30 Sep 22	30 Sep 25	6.17	Black-Scholes	45.29%	0.00%	0.25%	2.81
NOEP	2019 LTI Tranche 1 – CEO	Absolute CAGR TSR performance and service ²	—	9 Apr 20	30 Sep 22	30 Sep 25	7.23	Absolute Total Shareholder Return	41.81%	0.00%	0.76%	4.06
NOEP	2019 LTI Tranche 2 – Others	Absolute CAGR TSR performance and service ²	6.51	9 Apr 20	30 Sep 22	30 Sep 25	6.17	Absolute Total Shareholder Return	42.59%	0.00%	0.25%	1.51
NOEP	2019 LTI Tranche 2 – CEO	Absolute CAGR TSR performance and service ²	6.51	9 Apr 20	30 Sep 22	30 Sep 25	7.23	Absolute Total Shareholder Return	41.84%	0.00%	0.76%	2.36
NOEP	2019 STI Tranche 1	Service	—	18 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	—	18 Feb 20	31 Aug 20	31 Aug 20	6.89	Black-Scholes	47.17%	0.00%	0.71%	6.89
NOEP	2019 STI Tranche 2 – CEO	Service	—	19 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	—	5 Nov 19	9 Sep 22	9 Sep 25	6.87	Black-Scholes	41.65%	0.00%	0.78%	6.87
NOEP	2019 Special Award	Service	—	5 Nov 19	2 Sep 22	2 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4.3 SHARE-BASED PAYMENTS 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 (\$)
NOEP	2018 LTIS Tranche 1 – CEO	Absolute CAGR TSR performance and service ²	3.44	9 Nov 18	30 Sep 21	30 Sep 24	3.21	Monte Carlo	41.09%	0.00%	2.19%	0.8
NOEP	2018 LTIS Tranche 1 – Others	Absolute CAGR TSR performance and service ²	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 ²	—	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 ²	—	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	—	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
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
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 – 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
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 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

1. CAGR – Compounded annual growth rate.

2. Subject to accretive PBT gate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4.3 SHARE-BASED PAYMENTS continued

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.

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 are conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were \$2,572,000 (2020: \$1,868,000).

During the financial year there were no shares directly granted under the NOEP (2020: 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:

	2021 Number of shares	2020 Number of shares
Employee shares on issue at 1 July	432,811	821,433
Issued on exercise of performance rights and options during the year	807,025	636,291
Shares purchased by the trustee under the deferred salary sacrifice share scheme	12,930	24,128
Withdrawn during the year	(447,104)	(1,049,041)
Employee shares on issue at 30 June	805,662	432,811

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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:

	2021			2020		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Trade and other receivables	28,362	—	28,362	16,912	—	16,912
Cost to obtain customer contracts	165	132	297	227	158	385
Total assets related to contracts with customers	28,527	132	28,659	17,139	158	17,297

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 12 months of the reporting period are classified as current.

Liabilities related to contracts with customers are as follows:

	2021			2020		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Contract liabilities	3,551	5,448	8,999	4,753	2,759	7,512
Total liabilities related to contracts with customers	3,551	5,448	8,999	4,753	2,759	7,512

The revenue recognised that was included in the contract liability balance at the beginning of the period was \$4,753,000 (2020: \$4,012,000).

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, 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:

	2021 \$'000	2020 \$'000
Cash at bank and on hand	18,904	11,333
Deposit on call	4,123	6,948
Short-term deposits	73,000	73,500
Total cash and cash equivalents	96,027	91,781

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6.1 CASH AND CASH EQUIVALENTS continued

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

	2021 \$'000	2020 \$'000
Operating profit before income tax	10,984	12,459
Adjustment for:		
Depreciation, amortisation and impairment	4,425	3,892
Share-based payments expense	2,573	1,868
Lease costs	61	213
Borrowing costs	1	73
Gain on disposal of fixed assets	10	—
Income tax paid	(605)	(206)
Unrealised gain on foreign exchange movements	343	141
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	(10,903)	4,883
(Increase)/decrease in inventories	(1,510)	448
(Increase)/decrease in financial instruments	(1,251)	32
(Increase)/decrease in other current assets	(839)	(869)
(Increase)/decrease in other non-current assets	(17)	(13)
(Decrease)/increase in trade and other payables	(492)	857
Increase/(decrease) in deferred revenue	2,266	1,047
Increase/(decrease) in employee benefit liabilities	2,576	2
(Decrease)/increase in provisions	(306)	(2,015)
Net cash provided by operating activities	7,316	22,812

iii) Credit standby arrangements unused

	2021 \$'000	2020 \$'000
Facility limits:		
Borrowing facilities	620	620
Guarantee facility	553	475
Facility remaining available:		
Borrowing facilities	620	544
Guarantee facility	37	14

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

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 90 days (2020: 30 to 60 days) credit terms and therefore are all classified as current.

The consolidated entity 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.

Further information relating to trade and other receivables is provided in Note 8. This includes the Group's exposure to credit risk by geographical region and type of counterparty as well as information on the credit quality of trade receivables (note 8(b)).

	2021 \$'000	2020 \$'000
Trade receivables net of allowance for impairment loss	27,331	15,972
GST/VAT receivable	726	520
Interest and other receivables	305	420
Total trade and other receivables	28,362	16,912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the profit and loss statement.
- For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged and the derivative is remeasured to fair value. Gains and losses from both are taken to the profit and loss statement.
- If the forward exchange contract no longer meets the criteria for hedge accounting, expires, is terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs or when cash flows arising from the transactions are received.
- For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the statement of profit or loss in the same period the hedged transactions affect the profit or loss on the same line item as the hedged transactions.

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

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

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

Derivative financial assets as follows:

	2021			2020		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Derivative financial instruments	1,920	134	2,054	652	462	1,114

Derivative financial liabilities as follows:

	2021			2020		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Derivative financial instruments	247	17	264	70	44	114

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6.4 TRADE AND OTHER PAYABLES continued

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

	2021			2020		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Trade payables	2,051	—	2,051	3,385	—	3,385
Other payables	5,143	—	5,143	4,289	—	4,289
Total trade and other payables	7,194	—	7,194	7,674	—	7,674

6.5 LEASE LIABILITIES

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.

Except for short-term leases, the Group leases various offices, warehouses, equipment and motor vehicles. Rental contracts are typically made for fixed periods between three to 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%.

	2021			2020		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Lease liabilities	1,479	1,012	2,491	1,158	1,374	2,532
Total lease liabilities	1,479	1,012	2,491	1,158	1,374	2,532

Lease liabilities	2021 \$'000	2020 \$'000
Balance as at 1 July	2,532	2,413
Additions	1,180	1,247
Interest expense	97	94
Payments	(1,318)	(1,222)
Balance as at 30 June	2,491	2,532

The following are the amounts recognised in profit or loss:

	2021 \$'000	2020 \$'000
Depreciation expense of right-of-use assets	1,282	1,042
Interest expense on lease liabilities	97	94
Expense relating to short-term leases (incl. in selling and general)	196	129
Expense relating to short-term leases (incl. in administration)	99	77
Expense relating to short-term leases (incl. in R&D)	15	2
Total amount recognised in profit or loss	1,689	1,344

The Group had total cash outflows for leases of \$1,628,000 in 2021 (\$1,430,000 in 2020). The Group also had non-cash additions to lease liabilities of \$1,180,000 in 2021 (\$1,247,000 in 2020). The future cash outflows relating to leases that have not yet commenced are disclosed in Note 8. All leases have fixed payment terms and there are no variable components.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 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 occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

	2021 \$'000	2020 \$'000
Borrowings – secured		
Current	–	77
Non-current	–	–
	–	77

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

	2021		2020	
	Minimum payments \$'000	Present value of payments \$'000	Minimum payments \$'000	Present value of payments \$'000
Within one year	–	–	78	77
After one year but not more than five years	–	–	–	–
Total minimum payments	–	–	78	77
Less future finance charges	–	–	(1)	–
Present value of minimum payments	–	–	77	77

	2021 \$'000	2020 \$'000
Liability at the beginning of the year	77	521
Interest charged	1	16
Repayment of borrowings	(77)	(444)
Interest paid	(1)	(16)
Liability at the end of the year	–	77

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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.

	2021 \$'000	2020 \$'000
Raw materials and stores	5,324	5,828
Work in progress	339	7
Finished goods	6,202	6,003
	11,865	11,838

Inventories recognised as an expense (cost of sales) during the year ended 30 June 2021 amounted to \$17,998,000 (2020: \$17,608,000).

Management has performed an assessment of inventories held for the year ended 30 June 2021, including the impact of the introduction of the second generation of Trophon in the current year and recognised write-downs during the year of \$438,000 (2020: \$207,000). The expense has been included in selling and general expenses in the profit and loss statement.

In June 2021, IFRIC published an agenda decision in relation to the accounting treatment when determining net realisable value (NRV) of inventories, in particular what costs are necessary to sell inventories under IAS 2 Inventories. The Group is currently assessing the impact the agenda decision will have on its current accounting policy and whether an adjustment to inventory may be necessary. Accordingly, a reliable estimate of the impact of the IFRIC agenda decision on the Group cannot be made at the date of this report, however based on preliminary analysis performed, the Group is not expecting a material impact from the adoption of the IFRIC agenda decision. The Group expects to complete the implementation of the above IFRIC agenda decision as part of its 31 December 2021 reporting.

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. 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 CONTINUED

7.2 PROPERTY, PLANT AND EQUIPMENT 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 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 or fair value	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
Year ended 30 June 2021				
Opening net book amount	944	6,081	326	7,351
Additions	—	2,393	271	2,664
Retirement and others	(10)	—	—	(10)
Transfers	—	185	(185)	—
Depreciation charge	(704)	(2,094)	—	(2,798)
Foreign currency translation effect (net)	1	(7)	—	(6)
Closing net book amount at 30 June 2021	231	6,558	412	7,201
At 30 June 2021				
Cost or fair value	3,165	16,360	412	19,937
Impairment	—	(13)	—	(13)
Accumulated depreciation	(2,934)	(9,789)	—	(12,723)
Net book amount at 30 June 2021	231	6,558	412	7,201

Plant and equipment includes trophon units that are utilised under rental or, service contracts, or managed equipment service arrangements, as well as units that are used for internal purposes. The gross and net book value of trophon units included in plant and equipment is \$5,686,000 (2020: \$4,301,000) and \$3,053,000 (2020: \$2,211,000), respectively.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7.3 RIGHT-OF-USE ASSETS continued

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.

iv) Practical expedients

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term 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.

Total right-of-use assets at net book value

	2021 \$'000	2020 \$'000
Opening net book amount as at 1 July	2,265	2,011
Additions	1,150	1,296
Depreciation charge	(1,282)	(1,042)
Closing net book amount at 30 June	2,133	2,265
Cost or fair value	3,415	3,307
Accumulated depreciation	(1,282)	(1,042)
Net book amount at 30 June	2,133	2,265

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 its 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 five years and ERP system and computer software three years.

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

v. Impairment

Intangible assets are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. No indicators of impairment of intangible assets were identified during the period (2020: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7.4 INTANGIBLE ASSETS continued

Total intangible assets at net book value

	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 or fair value	201	2,594	2,795
Accumulated depreciation	(201)	(2,103)	(2,304)
Net book amount at 30 June 2020	—	491	491
Year ended 30 June 2021			
Opening net book amount	—	491	491
Additions	—	142	142
Retirement and others	—	—	—
Amortisation	—	(346)	(346)
Foreign currency translation effect (net)	—	(9)	(9)
Closing net book amount at 30 June 2021	—	278	278
At 30 June 2021			
Cost or fair value	—	2,708	2,708
Accumulated depreciation	—	(2,430)	(2,430)
Net book amount at 30 June 2021	—	278	278

7.5 PROVISIONS

i. General

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

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

ii. Provision for warranty

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

iii. Provision for make good

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

The 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7.5 PROVISIONS continued

a. Provisions as at the reporting date

	2021			2020		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Provision for warranty	426	—	426	732	—	732
Make good provision	—	130	130	—	135	135
Total provisions	426	130	556	732	135	867

b. Movements in provisions

	Provision for warranty \$'000	Make good provision \$'000	Total \$'000
Carrying amount at the beginning of the year	732	135	867
Additional provisions recognised	182	—	182
Amounts used/reversed during the period	(488)	(5)	(493)
Carrying amount at end of the year	426	130	556

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.

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 and 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 on the reporting period mainly comprised:

	2021				2020			
	USD \$'000	GBP £'000	Euro €'000	CAD \$'000	USD \$'000	GBP £'000	Euro €'000	CAD \$'000
Cash and cash equivalents	4,284	884	588	1,791	3,434	297	446	1,142
Trade and other receivables	19,464	340	725	365	3,781	303	14	495
Trade and other payables	(1,338)	(237)	(474)	(113)	(385)	(271)	(152)	(167)
	22,410	987	839	2,043	6,830	329	308	1,470
Foreign currency forward contracts and options to buy/sell USD	38,600	—	—	—	30,500	—	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

8 FINANCIAL RISK MANAGEMENT continued

Sensitivity

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

	Impact on post-tax profit		Impact on other components of equity	
	2021 '000	2020 '000	2021 '000	2020 '000
Change in USD rate				
Increase 5%	3,047	2,184	(329)	(443)
Decrease 5%	(3,118)	(2,355)	298	401
Change in GBP rate				
Increase 5%	503	390	(622)	(527)
Decrease 5%	(455)	(353)	563	477
Change in EUR rate				
Increase 5%	179	49	(186)	(43)
Decrease 5%	(162)	(44)	168	39
Change in CAD rate				
Increase 5%	178	158	(139)	(144)
Decrease 5%	(161)	(143)	126	130

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

ii. Interest rate risk

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

2021	Notes	Fixed interest rate maturing in:					Total \$'000
		Floating interest rate \$'000	One year or less \$'000	Over one to five years \$'000	More than five years \$'000	Non-interest bearing \$'000	
Financial assets							
	6.1	23,027	73,000	—	—	—	96,027
	6.2	—	—	—	—	28,362	28,362
	6.3	—	—	—	—	2,054	2,054
		23,027	73,000	—	—	30,416	126,443
		0.06%	0.41%	—	—	—	—
Financial liabilities							
	6.4	—	—	—	—	7,194	7,194
	6.5	—	1,479	1,012	—	—	2,491
	6.6	—	—	—	—	—	—
	6.3	—	—	—	—	263	263
		—	1,479	1,012	—	7,457	9,948
		—	4.12%	4.12%	—	—	—
		23,027	71,521	(1,012)	—	22,959	116,495

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

8 FINANCIAL RISK MANAGEMENT continued

2020	Notes	Fixed interest rate maturing in:				Non-interest bearing \$'000	Total \$'000
		Floating interest rate \$'000	One year or less \$'000	Over one to five years \$'000	More than five years \$'000		
Financial assets							
	6.1	18,281	73,500	—	—	—	91,781
	6.2	—	—	—	—	16,912	16,912
	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							
	6.4	—	—	—	—	7,674	7,674
	6.5	—	1,158	1,374	—	—	2,532
	6.6	—	77	—	—	—	77
	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

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 2021, 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 \$164,000 (2020: \$183,000). 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 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:

	2021 \$'000	2020 \$'000
North America	24,136	14,284
Europe	1,162	644
Asia Pacific	2,439	1,044
	27,737	15,972

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

	2021 \$'000	2020 \$'000
Distributors	18,437	8,254
End-user customers	9,300	7,718
	27,737	15,972

As at 30 June 2021, GE Healthcare (worldwide) and Regional Healthcare Group Pty Ltd, combined, accounted for over 67% of the trade receivables (2020: 52%).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

8 FINANCIAL RISK MANAGEMENT continued

i) Risk management

Credit risk is managed on a group basis. The Group may only invest surplus funds in deposits and floating rate notes offered by any major bank approved by the Board 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 policy of trade receivables that are neither past due nor impaired as follows:

	2021 \$'000	2020 \$'000
GE Healthcare and associated affiliates	14,444	7,066
Covered by credit insurance	6,395	4,076
Other customers:		
Four or more years trading history with the Group	1,981	633
Less than Four years of trading history with the Group	169	5
	22,989	11,780

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:

- Default or delinquency in payments;
- Significant financial difficulties of the debtor; or
- Probability that the debtor will enter bankruptcy or financial reorganisation.

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 2021, trade receivables with a nominal value of \$106,000 (2020: \$210,000) 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:

	2021 \$'000	2020 \$'000
Balance at 1 July	210	29
Provision for impairment recognised during the year	38	183
Receivables written off during the year as uncollectible	(7)	—
Unused amount reversed	(135)	(2)
Balance at 30 June	106	210

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

8 FINANCIAL RISK MANAGEMENT continued

Past due not impaired

As at 30 June 2021, trade receivables of \$4,748,000 (2020: \$4,192,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of trade receivables is as follows:

	2021 \$'000	2020 \$'000
Neither past due nor impaired	22,989	11,780
Past due but not impaired		
< 30 days	2,670	2,519
30-60 days	898	668
> 60 days	1,180	1,005
	27,737	15,972

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 \$73,000,000 (2020: \$73,500,000) that are expected to readily generate cash inflows, as well as cash at bank of \$23,000,000 (2020: \$18,300,000) that is readily available for managing liquidity risk.

Maturities of financial liabilities

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

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

2021	Less than three months	Three to 12 months	One to five years	Over five years	Total
Trade and other payables	7,194	—	—	—	7,194
Borrowings	—	—	—	—	—
Lease liabilities	289	1,190	891	121	2,491
Derivative financial instruments	104	143	16	—	263
Total financial liabilities	7,587	1,333	907	121	9,948

2020

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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, net of tax, from the proceeds.

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

Movements in ordinary share capital:

	Number of shares	\$'000
Balance 30 June 2019	299,967,279	112,713
Issue of shares under employee share plans – proceeds received	636,291	464
Balance 30 June 2020	300,603,570	113,177
Issue of shares under employee share plans – proceeds received	861,449	362
Balance 30 June 2021	301,465,019	113,539

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.

10 OTHER NOTES

10.1 COMMITMENTS

Capital commitments

As at 30 June 2021, the Group had commitments to purchase plant and equipment of \$290,000 (2020: \$464,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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

	2021 \$	2020 \$
Director fees	822,545	775,405
Short-term employee benefits	2,528,418	2,293,843
Long-term benefits	206,683	246,659
Post-employment benefits	175,925	180,302
Share-based payments	1,176,553	1,011,802
Total Directors and Key Management Personnel compensation	4,910,124	4,508,011

Detailed remuneration disclosures are provided in the remuneration report on pages 38 to 57.

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	2021 \$	2020 \$
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		
			5,089,524	2,661,573
			9,137	3,384
			—	1,576

The above transactions exclude Director fees which are disclosed in Non-executive Directors remuneration in section 7.2 of the Remuneration report on page 53.

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:

	2021 \$	2020 \$
Current trade receivables (supply of goods and services)	1,821,163	562,396

There were no other amounts due from or to other Related Parties. There were no provisions for impaired receivables in relation to any outstanding balances from Related Parties (2020: 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 2021 (2020: Nil).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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	
				2021	2020
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 Ltd	Strategic investments	Australia	Ordinary	100%	100%
Nanosonics Employee Equity Trust	Management of Nanosonics employee share plan	Australia	—	100%	100%

10.4 PARENT ENTITY INFORMATION

As at and throughout the financial year ended 30 June 2021, 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

	2021 \$'000	2020 \$'000
Statement of financial position		
Current assets	159,773	145,954
Total assets	171,163	162,378
Current liabilities	13,880	15,948
Total liabilities	14,970	18,025
Shareholders' equity		
Share capital	113,538	113,176
Share-based payments reserve	21,117	19,143
Hedging reserve (net of tax)	369	691
Retained earnings	21,169	11,343
Total equity	156,193	144,353
Profit for the year	9,827	7,549
Total comprehensive income	9,208	8,306

ii. Guarantees entered into by the parent entity

For the year ended 30 June 2021 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 did not have any contingent liabilities as at 30 June 2021 (2020:Nil).

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

As at 30 June 2021, the parent entity had commitments to purchase plant and equipment of \$249,000 (2020: \$462,000). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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:

	2021 \$	2020 \$
Fees to Ernst & Young (Australia)		
Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	371,528	323,622
Fees for non-audit services		
Tax compliance	106,500	110,900
Other services	37,719	39,185
Total fees to Ernst & Young (Australia)	515,747	473,707
Fees to other overseas member firms of Ernst & Young		
Fees for auditing the statutory financial report of the U.K. subsidiaries	52,972	40,817
Fees for non-audit services		
Tax compliance	7,147	7,807
Total fees to overseas member firms of Ernst & Young	60,119	48,624
Total auditors remuneration	575,866	522,331

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 2021, the Company issued 37,201 shares at \$4.51 per share for a total of \$167,777 under the Global Employee Share Plan (GESP). No other matters or circumstances that have arisen since 30 June 2021 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 2021

1. In the Directors opinion:
 - a) The financial statements and notes set out on pages 60 to 95 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 2021 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, 24 August 2021

INDEPENDENT AUDITOR'S REPORT

to the members of Nanosonics Limited



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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 2021, 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 2021 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 CONTINUED



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Revenue Recognition

Why significant	How our audit addressed the key audit matter
<p>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 as the service is provided.</p> <p>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.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▶ Assessed the appropriateness of the Group's revenue recognition accounting policies for compliance with Australian Accounting standards. ▶ Assessed the operating effectiveness of relevant controls in place relating to the recognition of revenue from the sale of goods and services. ▶ Selected a sample of sales of goods and service revenue transactions and obtained evidence of the sale including cash receipt and tested whether the sale was recognised in the correct period. ▶ Used data analytical procedures to corroborate expected correlations between revenue, contract liability, accounts receivable and cash. ▶ Selected a sample of service revenue contract liabilities and obtained evidence of the sale and recalculated the contract liability recorded. ▶ Assessed the adequacy of the disclosures relating to revenue in the financial report.

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 2021 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.

INDEPENDENT AUDITOR'S REPORT **CONTINUED**



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.
- ▶ 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.

INDEPENDENT AUDITOR'S REPORT CONTINUED



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- ▶ 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 40 to 57 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Nanosonics Limited for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT CONTINUED

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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.

A handwritten signature in black ink that reads "Ernst & Young".

Ernst & Young

A handwritten signature in black ink that reads "Gamini Martinus".

Gamini Martinus
Partner
Sydney
24 August 2021

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 18 August 2021.

A. Equity security holders

Twenty largest holders of quoted equity securities

Ordinary shares	Number of quoted shares held	Percentage
HSBC Custody Nominees (Australia) Limited	71,166,923	23.60%
J P Morgan Nominees Australia Pty Limited	38,534,430	12.78%
Citicorp Nominees Pty Limited	25,685,887	8.52%
BNP Paribas Nominees Pty Ltd Six Sis Ltd <Drp A/C>	9,048,695	3.00%
UBS Nominees Pty Ltd	9,015,071	2.99%
BNP Paribas Noms Pty Ltd <Drp>	8,887,946	2.95%
Mr Maurie Stang ¹	8,629,534	2.86%
Mr Bernard Stang ¹	9,358,048	3.10%
Mr Steve Kritzler	7,489,737	2.48%
National Nominees Limited	7,238,753	2.40%
BNP Paribas Nominees Pty Ltd <Agency Lending Drp A/C>	4,984,762	1.65%
Australian Foundation Investment Company Limited	3,545,000	1.18%
HSBC Custody Nominees (Australia) Limited <Nt-Comnwith Super Corp A/C>	2,924,746	0.97%
Asia Union Investments Pty Limited	2,200,000	0.73%
Dr Harry Hirschowitz	2,139,090	0.71%
Avanteos Investments Limited <2349414 Hofbauer A/C>	1,200,000	0.40%
Powerwrap Limited <Scheme – Iml Trades A/C>	1,165,041	0.39%
Mr Michael Kavanagh ¹	1,018,363	0.34%
Truebell Capital Pty Ltd <Truebell Investment Fund>	1,000,000	0.33%
BNP Paribas Nominees Pty Ltd <lb Au Noms Retail client Drp>	912,009	0.30%
Total top 20 holders	216,144,035	71.68%
Total all other holders	85,358,185	28.32%
Total shares on issue	301,502,220	100.00%

1. Exclude indirect holdings and shares held by close family member.

Unquoted equity securities	Number of rights and options over ordinary shares	Number of holders ¹
Rights and options on issue		
Performance rights under NOEP to take up unissued ordinary shares	1,183,097	164
Share appreciations rights under NOEP to take up unissued ordinary shares	920,633	47
Options under NOEP to take up unissued ordinary shares	2,717,866	39
Total performance rights and options on issue	4,821,596	164

1. There are 164 unique holders with some holding two or three types of unquoted securities.

SHAREHOLDER INFORMATION CONTINUED

B. Distribution of equity securities

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

	Quoted ordinary shares			Unquoted rights and options		
	Units	Percentage	Holders	Units	Percentage	Holders
1 – 1,000	4,727,111	1%	10,790	32,067	1%	107
1,001 – 5,000	16,766,739	6%	6,537	27,791	1%	10
5,001 – 10,000	12,048,915	4%	1,605	44,277	1%	6
10,001 – 100,000	29,348,547	10%	1,190	1,132,713	23%	31
100,001 and over	238,610,908	79%	108	3,584,748	74%	10
Total Holders	301,502,220	100%	20,230	4,821,596	100%	164

A total of 56,312 units were held by 1,008 holders of less than a marketable parcel of 89 ordinary shares at \$5.68 per share (being the closing market price on 18 August 2021).

C. Substantial holders

Substantial holders in the Company are shown below

	Number of ordinary shares	Percentage
FMR LLC	28,854,714	9.57%
Mr Maurie Stang ¹	18,946,517	6.28%
Mr Bernard Stang ¹	16,302,493	5.41%

1. Include indirect holdings but exclude shares held by family member.

D. Voting rights

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

a. Ordinary shares

All ordinary shares carry one vote per share without restrictions. Every member present at a meeting in person or by proxy shall have one vote for each share.

b. Performance rights and options

Performance rights and options have no voting rights.

E. Restricted securities and voluntary escrow

As at the date of this report, Nanosonics Limited has no restricted securities on offer.

F. 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	ICU	Intensive Care Unit
AcuTrace®	RFID technology that digitally captures the clinical workflow	IFRS	International Financial Reporting Standards
AGM	Annual General Meeting	IP	Intellectual Property
APES	Accounting Professional and Ethical Standard	ISO 13485	Quality Management System for Medical Devices – Requirements for Regulatory Purposes
ASEAN	Association of Southeast Asian Nations	ISUOG	International Society for Ultrasound Obstetrics and Gynaecology
ASIC	Australian Securities and Investments Commission	ITAA	Income Tax Assessment Act
ASX	Australian Securities Exchange Limited	JSUM	Japan Society of Ultrasound Medicine
AUD	Australian dollar	KMP	Key Management Personnel
AuditPro™	Digital workflow compliance management system for tracking various instruments used in medical procedures	LTI	Long-Term Incentives
ANZ	Australia and New Zealand	LTIS	Long-Term Incentive Scheme
APIC	Association for Professionals in Infection Control	MSD	Mobile scanning device
CAD	Canadian dollar	NAN	Nanosonics Limited (ASX Code)
CAGR	Compounded Annual Growth Rate	NHS	National Health System (UK)
CDC	Center for Disease Control	NOEP	Nanosonics Omnibus Equity Plan
CEO	Chief Executive Officer	NMPA	National Medical Products Administration
CEO&P	Chief Executive Officer and President	OEM	Original Equipment Manufacturer
CFO	Chief Financial Officer	PBT	Profit before tax
Company or Nanosonics	Nanosonics Limited ABN 11 095 076 896	PCP	Prior corresponding period
Constant currency	Removes the impact of foreign exchange rate movements to facilitate comparability of operational performance. This is done by converting the current period sales of entities that use currencies other than Australian dollars at the rates that were applicable in the prior period	Q1, 2, 3, or 4	Three-monthly periods beginning 1 July, 1 October, 1 January and 1 April respectively
COVID-19	Coronavirus disease of 2019	R&D	Research and Development
CRIFM	Clinical Research Institute of Fetal Medicine	Reporting period	Year to 30 June 2021
Date of this report	24 August 2021	RFID	Radio-frequency Identification
EBIT	Earnings Before Interest and Tax	RKI	The Robert Koch Institute
EBTDA	Earnings Before Tax Depreciation and Amortisation	ROE	Return on equity
EMEA	Europe Middle East and Africa	RPC	Remuneration & People Committee
ENT	Ear, Nose and Throat	SARs	Share Appreciation Rights
EPS	Earnings Per Share	SARS CoV-2	Severe acute respiratory syndrome coronavirus 2
ERP	Enterprise Resource Planning	SG&A	Selling, General and Administration
ESG	Environmental, Social and Governance	STI	Short-Term Incentives
ESOP	Employee Share Option Plan	TCFD	Task Force for Climate Related Financial Disclosures
EUR	European Currency	TFR	Total Fixed Remuneration
FDA	Food and Drug Administration	trophon®	The brand representing Nanosonics' range of infection control solutions designed specifically for healthcare settings
FY	Financial year, eg. FY2021 is the financial year ended 30 June 2021	trophon® EPR	The brand of Nanosonics' first generation device specifically designed to disinfect intracavity and surface ultrasound probes
GBP	Great Britain Pound	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
GESP	Global Employee Share Plan	TSR	Total Shareholder Return
GRG	Godfrey Remuneration Group	UG	Ultrasound guided
Group	Nanosonics Limited and its wholly owned subsidiary companies	UK	United Kingdom
GST	Goods and Services Tax	US	United States of America
H ₂ O ₂	Hydrogen Peroxide	USD	United States dollar
HIV	Human Immunodeficiency Virus	VAT	Value Added Tax
HLD	High Level Disinfection – involves the complete elimination of all microorganisms in or on an instrument, except for small numbers of bacterial spores	VWAP	Volume Weighted Average Price
IASB	International Accounting Standards Board	WAEP	Weighted Average Exercise Price
IB	Installed base	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
David Fisher
Steven Sargent
Marie McDonald
Geoff Wilson
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

Buchan Consulting

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

McGregor Grant – Company Secretary

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

Auditor

Ernst & Young

200 George 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 & Burkhardt AG
Deutsche Bank AG

United States:

HSBC Bank USA NA
PNC Financial Services Group, Inc.

Japan:

MUFG Bank Ltd.

Stock Exchange Listing

Nanosonics Limited shares are listed on the
Australian Securities Exchange

ASX code: NAN

Industry Group: Healthcare Equipment & Services

2021 Annual General Meeting

The 2021 AGM of Nanosonics will be
held at 11am on 19 November 2021.
Details to be announced separately.



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NSW 2066 Australia
T +61 2 8063 1600
E info@nanosonics.com
www.nanosonics.com

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