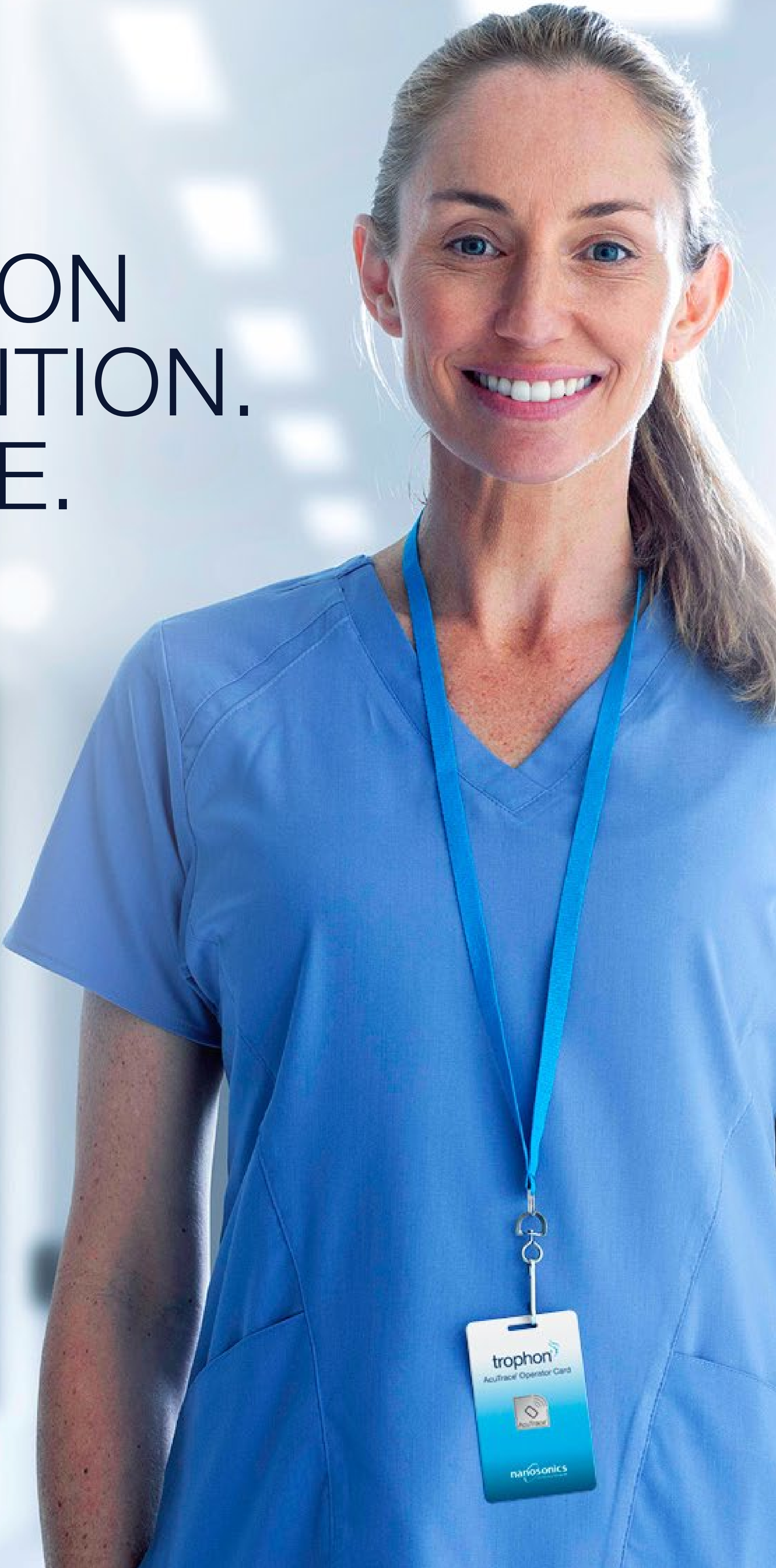
nanosonics

INFECTION PREVENTION. FOR LIFE.

ANNUAL REPORT 2022



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
Infection Prevention. For Life.

OVERVIEW

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

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

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

Approximately **98,000 patients** are protected every day from the risk of ultrasound probe cross-contamination by trophon technology, equating up to **25 million patients** every year.

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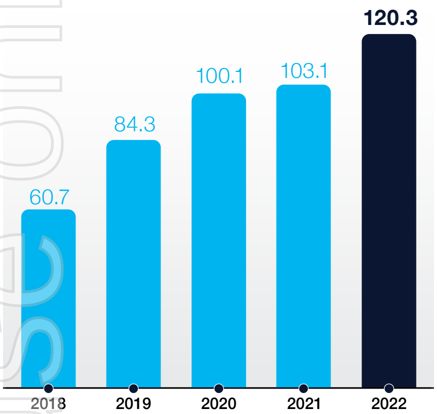
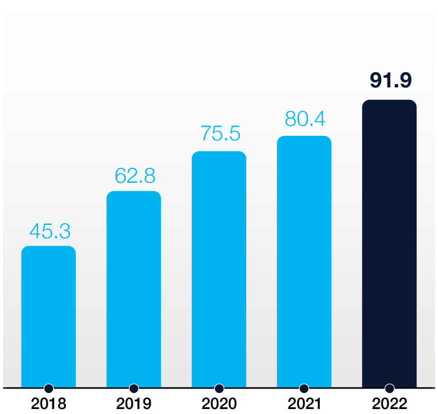
FINANCIAL HIGHLIGHTS

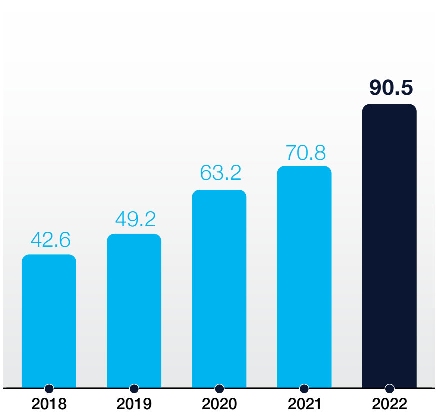
REVENUE ($M)



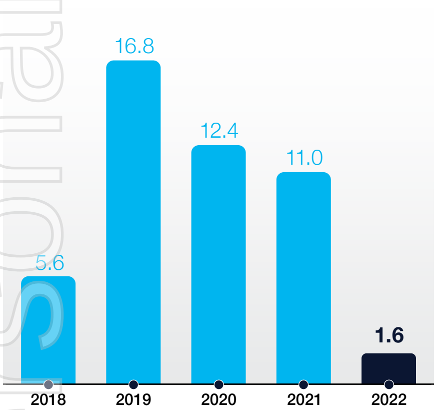
GROSS PROFIT ($M)



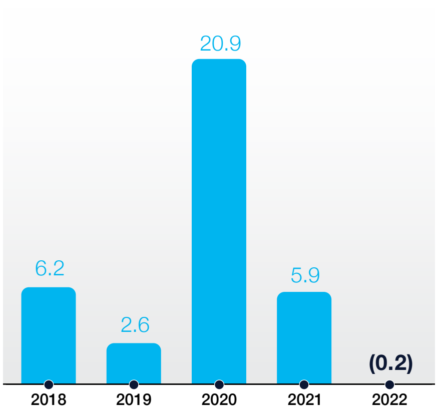
OPERATING EXPENDITURE ($M)



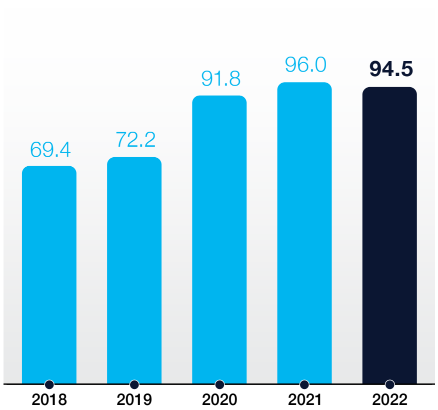
PROFIT BEFORE TAX ($M)



FREE CASH FLOW ($M)



CASH AND CASH EQUIVALENTS ($M)



> “Total revenue for the year grew 17% to $120.3 million resulting from continued growth in new installed base, upgrades and consumables/service.”

MICHAEL KAVANAGH, CEO & PRESIDENT

2013-2022 RESULTS

$'000	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Revenue	120,320	103,079	100,054	84,324	60,698	67,507	42,796	22,214	21,492	14,899
Gross profit	91,905	80,384	75,513	62,816	45,291	50,155	32,166	15,313	13,921	8,471
R&D expenses	(22,358)	(17,194)	(15,558)	(11,375)	(9,882)	(9,486)	(7,297)	(4,902)	(4,103)	(3,167)
EBITDA	7,509	15,188	15,563	17,642	5,861	14,140	950	(4,732)	(1,845)	(5,366)
EBIT	1,782	10,763	11,671	15,502	4,362	12,866	(359)	(5,795)	(2,820)	(6,410)
Operating profit/(loss) before tax	1,578	10,984	12,459	16,830	5,583	13,852	136	(5,465)	(2,636)	(5,735)
Net income tax benefit/(expense)	2,164	(2,406)	(2,322)	(3,228)	168	12,306	(14)	5	31	(33)
Operating profit/(loss) after tax	**3,742**	**8,578**	**10,137**	**13,602**	**5,751**	**26,158**	**122**	**(5,460)**	**(2,605)**	**(5,768)**
Cash and cash equivalents	**94,512**	**96,027**	**91,781**	**72,180**	**69,433**	**62,989**	**48,841**	**45,724**	**21,233**	**24,064**

LETTER TO SHAREHOLDERS

STEVE SARGENT
Chairman

MICHAEL KAVANAGH
CEO & President

After two years of significant disruptions due to the global COVID-19 pandemic, Nanosonics is in a strong position demonstrating growth momentum with a clear growth strategy to expand its participation as a leading contributor in the multi-billion dollar global infection prevention market. FY22 saw significant progress made against key strategic priorities, and the Company's strong balance sheet and resilient business model means that we are well positioned to continue to create value for all our stakeholders now, and over the long term.

In another year of significant change, the partnership with our customers is a key feature that remains constant. We are very pleased to serve their infection prevention needs during a time in which the importance of infection prevention has only been elevated.

We would like to recognise the resilience and the outstanding efforts of our team, who all demonstrate a passion for the Company's mission and again successfully navigated a number of further lockdowns around the world to deliver on our objectives keeping our customers operating and their patients safe.

During the year the Company significantly increased its capabilities and capacity through the move to new corporate headquarters. Supported by the NSW Government Jobs Plus Program, these new facilities include expanded manufacturing and state of the art R&D facilities that enables the Company to further invest in R&D and expand its infection prevention portfolio focusing on significant unmet market needs. Central to many of these needs is the requirement to develop solutions with integrated connectivity and ability to access real time traceability data to ensure compliance with necessary standards to mitigate the risks of cross contamination. Nanosonics has developed a leading capability in this area and such features are a cornerstone not only of our current trophon solution but new technologies under development.

The Company successfully executed many key strategic priorities during the year. Central to these was the successful evolution of our sales model in our largest market, North America. Aligned with the Company's ultimate goal of operating through more direct sales channels, the Company expanded its infrastructure in North America and now operates under a largely direct model while maintaining ongoing ultrasound OEM partnerships through capital reseller agreements. Having a direct interface with our customers brings many benefits to our customers and also to Nanosonics, where the direct access enables us to broaden and deepen our customer relationship with additional product and service sales. We also get excellent feedback from customers which generates new ideas for product enhancements.

During the year, despite COVID-19 disruptions, we continued the important investments in our geographical expansion activities across Europe and Asia Pacific. These investments included an expansion of our local infrastructures and medical affairs activities. With the total installed base continuing to grow and market fundamentals continuing to strengthen in these regions, we expect our investments to be further leveraged in FY23 with improved market access conditions after prolonged periods of COVID-19 related disruption.

Importantly, throughout the year our manufacturing and logistics teams continued to manage a challenging and complex supply chain. Effective management saw continuity of supply maintained across all regions and all customers orders delivered in full and on time.

Our product diversification plans progressed through increased investment in R&D across our ultrasound reprocessing, endoscopy reprocessing and cloud solution platforms as well as investments in chemistry and biosciences. Positive progress continued in the development activities, clinical and regulatory planning and preparation for manufacturing of the new endoscope reprocessing platform, Nanosonics CORIS®.[1]

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

THANK YOU

Nanosonics is a highly respected ASX 200 company and an emerging global leader in automated instrument reprocessing. I am proud to welcome Steve Sargent, who has outstanding qualifications and track-record for this important role of chairing the Company's Board of Directors. I will hold the position of Deputy Chairman, working with Steve and the Board until the 2022 AGM, at which time I will not stand for re-election, but rather, assume the position of Chairman of the new Innovation and Infection Control Advisory Committee.

As a Founder and Chairman of Nanosonics for more than two decades, it has been my privilege to see this company grow in literally every dimension of its activities and continue to make a significant contribution to patient safety, and indeed, a dramatic improvement in environmental health by the elimination of the use of toxic chemicals used in instrument disinfection. Proudly Australian, Nanosonics has succeeded in leveraging innovation and technology to a world market and is a recognised emerging leader in its field.

The investment that the Nanosonics team continues to make in R&D is world-leading, significant and a tribute to the Company's vision, expressed in our "Infection Prevention, For Life" statement. Today, Nanosonics enjoys a new campus at Macquarie Park, comprising of an outstanding R&D centre and an impressive new manufacturing capability, together with a well-established presence in the major international markets. In the USA, we have transitioned to an evolved business model, which brings us closer to our customers and provides a remarkable basis for future growth.

I am confident that Nanosonics is strongly positioned for ongoing success over the near and long-term, in a marketplace that is demanding new ideas and innovation which we are ideally positioned to provide. I look forward to my new role with the Company and working with an outstanding team and Board to contribute to an exciting future for all our stakeholders.

MAURIE STANG Non-executive Director and Deputy Chairman

It was very pleasing to have the FDA recently accept CORIS into the FDA Safer Technologies Program (STeP). Products accepted into this program are reasonably expected to significantly improve the safety of currently available treatments. Through the program the FDA aims to provide additional review resources facilitating more interactive and timely communication through the submission review process.

Total revenue for the year grew 17% to $120.3 million resulting from continued growth in new installed base, upgrades and consumables/service. This was a very pleasing result taking into consideration the foreshadowed one-off revenue impact in H2 associated with the transition to a largely direct sales model in North America. As a result of this revised sales model, GE Healthcare ran down their capital and consumable inventory and transitioned to a non-stocking capital reseller extending their agreement by a further 12 months to 30 June 2023.

Gross profit margin for the year was 76.4% delivering a gross profit of $91.9 million. Consistent with our investment for growth strategy, our investments across R&D, the revised North American sales model, geographical expansion and broad capability and capacity expansion saw operating expenses increase to $90.5 million. Pleasingly, profit before tax for the year was $1.6 million, which was ahead of expectations, despite the complex operating environment experienced during the year and the foreshadowed one-off impact in H2 FY22 on revenue in North America associated with the move to a largely direct sales model.

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 25% to 425. 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 33 different nationalities with 42% of employees being female. 41% 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.

We were also pleased to see the Company's expanding ESG agenda outlined in the FY22 Sustainability Report. We see sustainability as a key consideration for our business, and one that is fully aligned with our Values and Mission. We are fortunate that our unique healthcare solutions are in many respects neatly aligned with sustainability principles which means we achieve positive sustainability outcomes for our customers because they use far less hazardous chemicals for cleaning and a lot less water, all the while addressing their important infection control needs and protecting their patients and employees.

We would again like to recognise the outstanding stewardship and commitment of our Board during the year. We particularly recognise the significant contribution of our founder and longstanding Chairman, Maurie Stang, who recently stepped down as Chairman and assumed the role of Deputy Chairman, until his retirement following the 2022 Annual General Meeting. Maurie has made significant contributions not only to Nanosonics but the wider infection prevention field over the last two decades. Over this time Maurie has created a number of very successful businesses in the healthcare sector. He is one of Australia's leading authorities in medical technologies, infection control and the biosciences. We are pleased that Maurie will continue to contribute to the Company through an informal advisory committee that will provide ongoing advice to the Board on emerging scientific, commercial developments and opportunities in infection control.

STEVE SARGENT
Chairman

MICHAEL KAVANAGH
CEO & President

23 August 2022

FINANCIAL AND OPERATIONAL REVIEW

REVISED NORTH AMERICAN SALES MODEL

As foreshadowed in our 8 February 2022 announcement, Nanosonics and GE Healthcare revised the North American sales model to a largely direct Nanosonics sales model. Through this change, GE has transferred all its trophon customers to Nanosonics for the ongoing provision of all consumables. In addition, through an expansion of the Nanosonics direct team, Nanosonics is now responsible for the majority of all capital sales moving forward, with GE still having access to capital equipment as a non-stocking capital reseller. This evolution of the North American sales strategy to a largely direct sales model with OEM capital reseller partners represented another significant milestone in the ongoing growth of the organisation bringing many benefits to Nanosonics and trophon customers.

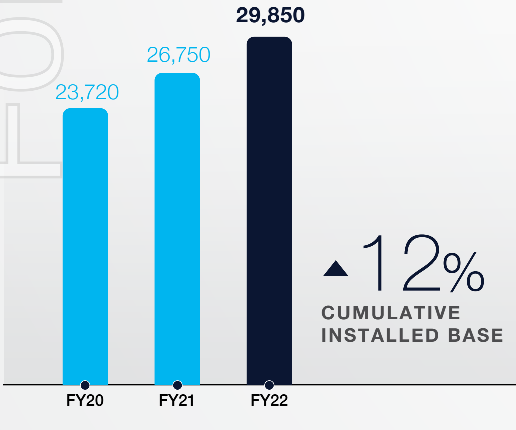
The transition to the largely direct sales model is now complete. The expanded North American team is in place and includes the hiring of a number of members of the former GE high-level disinfection team. Shipping volumes through the Nanosonics logistics facility in Indianapolis are up over 100% in the last three months with no disruption in supply to customers and sufficient capacity in place to support expected future growth. The team has also executed over 30 new enterprise agreements with strategic accounts / Integrated Delivery Networks with many more due to be completed in the coming months. Nanosonics has also established the necessary partnerships to enable selling to US Federal Government accounts where GE previously represented 80% of the sales to those accounts.

Our North American team is now well positioned to manage the overall growth strategy associated with new installed base, upgrade adoption and consumables usage. The business performance in Q4 FY22 saw many of these benefits start to come to fruition. In that quarter the Nanosonics team were responsible for 91% of the new installed base together with 86% of upgrade sales. The resulting deeper customer relationships with the majority of North American hospitals and our corresponding infrastructure expansion also supports planned product expansion beyond trophon.

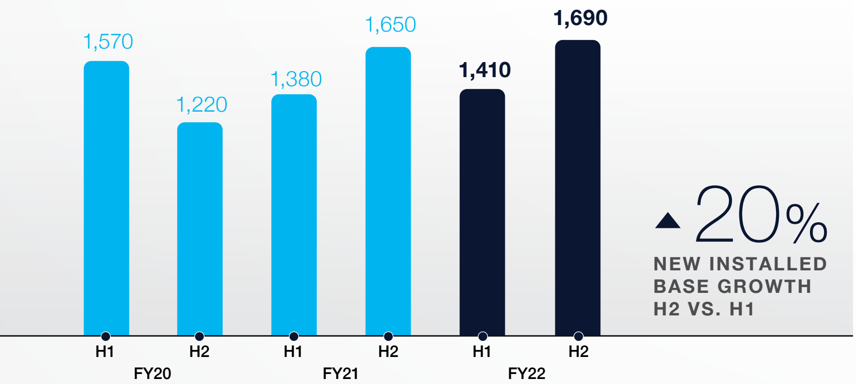
INSTALLED BASE GROWTH

The global installed base increased 12% to 29,850 units, an increase of 3,100 units for the year. The installed base increased 1,690 units in H2, up 20% compared with H1.

GLOBAL INSTALLED BASE (UNITS)



INSTALLED BASE GROWTH (BY HALF) (UNITS)

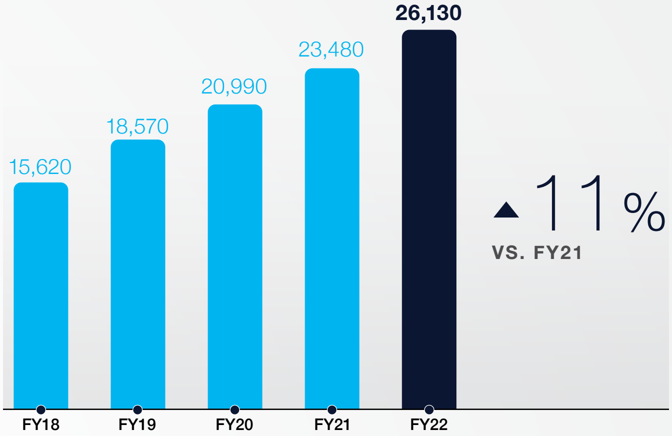


NORTH AMERICA

In North America, the installed base increased 2,650 units for the year to 26,130 representing an 11% increase. Hospital access continued to improve throughout the year and the installed base increased by 1,450 units in H2, up 21% compared with H1. The North American installed base now represents approximately 44% of the estimated total addressable market of 60,000 units where trophon is in use in over 5,000 institutions, further consolidating its position as standard of care. The overall ultrasound market continues to grow with new innovations in the market such as wireless hand-held probes being released. The Nanosonics R&D team has developed an accessory to enable wireless probes to be decontaminated in trophon with the first of such accessories due to launch in Q2 FY23.

During FY22, the Company also progressed the launch of AuditPro in North America with a focus on a number of key reference sites. In parallel, the Company advanced preparations for ISO27001 accreditation, the internationally accepted standard for the management of information security, which will further streamline customer security assessment requests as part of AuditPro implementation.

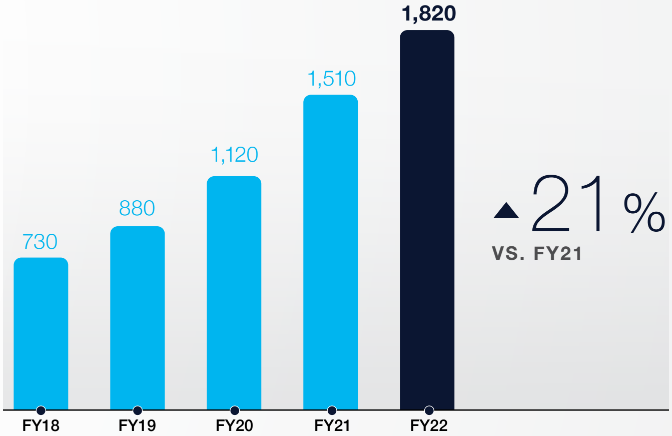
TOTAL INSTALLED BASE (UNITS)



EUROPE AND MIDDLE EAST

In the Europe and Middle East region, the installed base increased 310 units for the year, with the total installed base increasing by 21% to 1,820 units. Notwithstanding the impact of COVID-19 related market restrictions during the year, and other factors such as the sanctions on Russia, the number of new installed base units in H2 was 170 units, up 21% compared with H1. The Company continued its investment in the EMEA region in FY22 in particular in the UK and Germany. With market restrictions and hospital access now markedly improved it is expected that FY23 will see the first full year since 2020 where the investments in this region can be fully leveraged.

TOTAL INSTALLED BASE (UNITS)

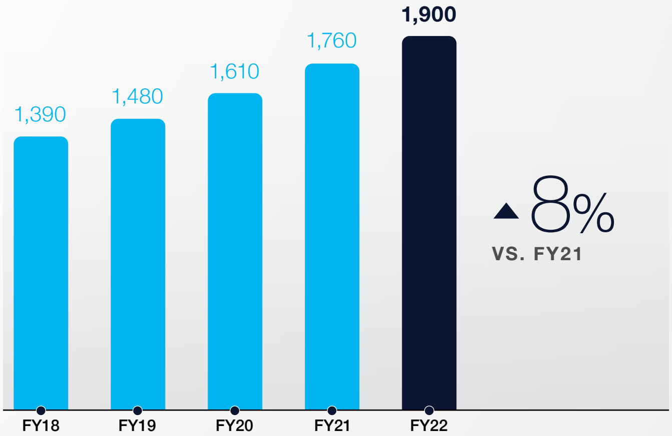


ASIA PACIFIC

In Asia Pacific, the installed base increased 140 units for the year with the total installed base increasing 8% to 1,900 units. The number of units installed in H2 was equivalent to H1 reflecting the COVID-19 restrictions that prevailed during the year.

In Japan, the Company expanded its local team and medical affairs activities as we worked with local authorities on the establishment of local guidelines. In China, the registration of our Wholly Owned Foreign Enterprise was completed. Further, after significant delays due to COVID-19 related lockdowns, required local testing of the trophon device and consumables by the relevant State authorities has now commenced as part of our product registration plans.

TOTAL INSTALLED BASE (UNITS)



FINANCIAL AND OPERATIONAL REVIEW CONTINUED

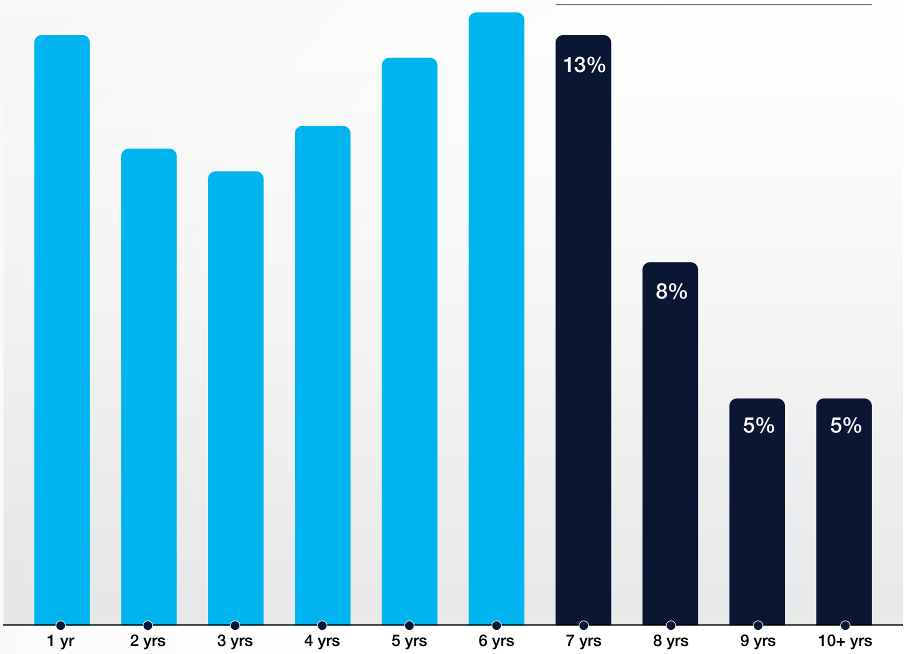
TROPHON UPGRADE OPPORTUNITY

There is a significant opportunity for upgrades from the first-generation trophon EPR to trophon2, where approximately 9,000 trophon EPR units are now at least seven years of age.

In North America, where the majority of the upgrade opportunity exists, 880 upgrade units were sold during the year up 283% compared with FY21. Good growth momentum was also achieved in H2 over H1, with 500 upgrade units in H2 up 32% compared with H1. Importantly, 63% of the upgrade units sold in North America in H2 were sold in Q4 during the transition to the largely direct sales model with Nanosonics responsible for 86% of those sales. This result demonstrates the opportunity for Nanosonics to further drive the upgrade strategy with its direct access to all trophon customers.

In Australia / New Zealand, 100 upgrades were sold with 80% of those in H2.

GLOBAL INSTALLED BASE AGE DISTRIBUTION AT JUNE 2022[1]



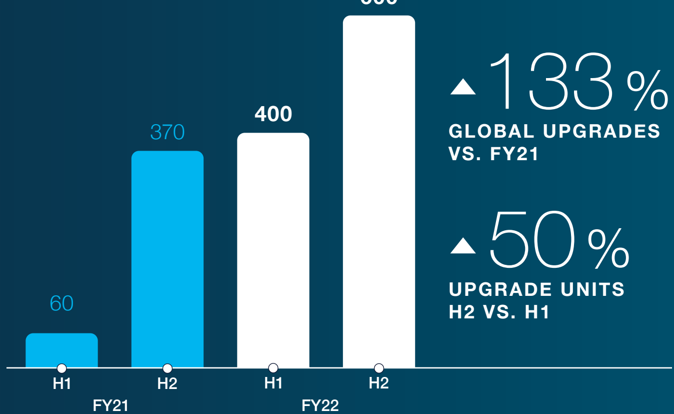
1. Percentages represent the upgrade opportunity as a proportion of the cumulative Installed Base.

UPGRADES

DEVELOPING STRONG MOMENTUM IN CAPTURING UPGRADE VALUE.

Globally, 1,000 trophon EPR devices were upgraded in FY22, up 133% compared with FY21. Upgrade momentum continued into H2 with upgrades of 600 units, up 50% compared with H1.

GLOBAL UPGRADES (UNITS)



▲133% GLOBAL UPGRADES VS. FY21

▲50% UPGRADE UNITS H2 VS. H1

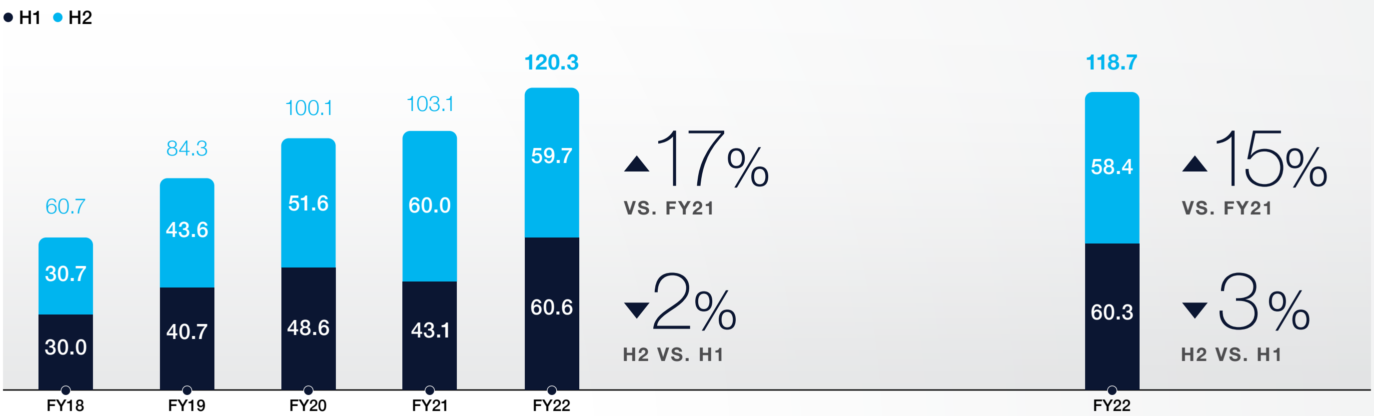
Graphs are not to scale and therefore not comparable

TOTAL REVENUE

Total revenue for the year was $120.3 million, up 17% (15% in constant currency[1]) on prior corresponding period. Revenue in H2 FY22 was $59.7 million, down 2% compared with H1 FY22 of $60.6 million.

The growth in revenue associated with both capital and consumables in H2 was impacted by the transition to the largely direct sales model in North America. As part of that transition, GE ran down their capital and consumable inventory with no replenishment as they transitioned to a non-stocking capital reseller by 30 June 2022.

REVENUE ($ MILLION) **CONSTANT CURRENCY[1]**



1. Constant currency (CC) 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. The average exchange rate used for the Company's major foreign currency (USD) for the 12 months to 30 June 2022 was 0.7231 (2021: 0.7492).

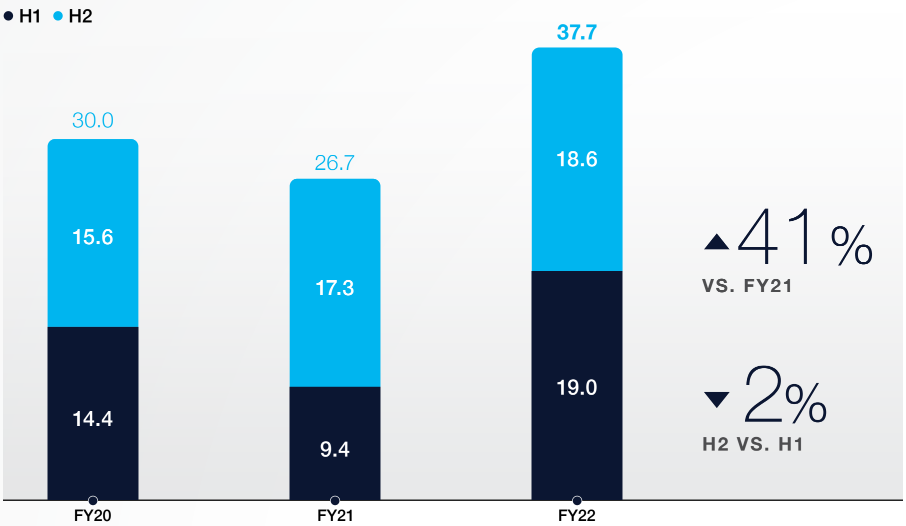
FINANCIAL AND OPERATIONAL REVIEW CONTINUED

CAPITAL REVENUE

Total capital revenue for the year was $37.7 million, up 41% on prior corresponding period. This increase reflects the recovery from the significant reduction in capital revenue experienced in H1 FY21 in North America associated with the reduction in the number of units sold to GE Healthcare in that period as a result of the negative impact of COVID-19 on new installed base growth.

While new installed base and upgrade capital units increased in H2, capital revenue of $18.6 million in H2 was down 2% compared with H1. This was primarily due to the impact of the revised North American sales model and GE Healthcare destocking as they transitioned to a non-stocking capital reseller.

GLOBAL ($ MILLION)

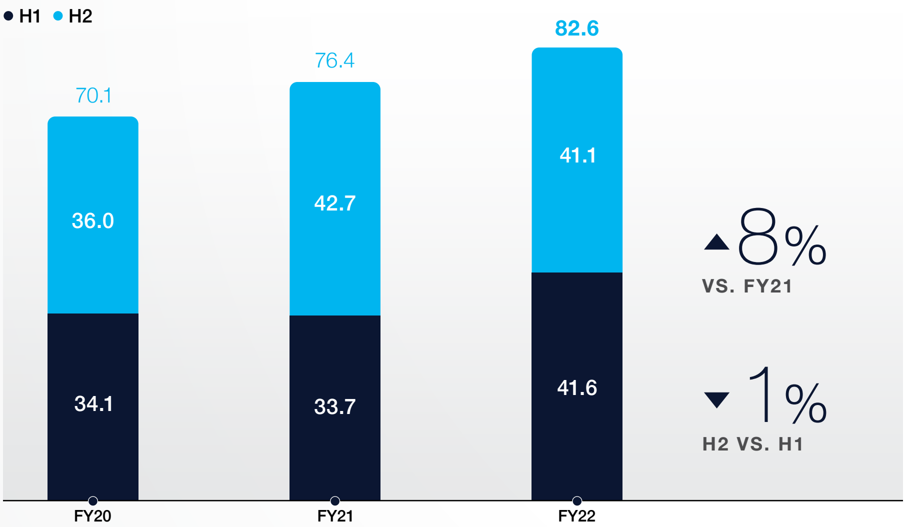


CONSUMABLES AND SERVICE REVENUE

As COVID-19 restrictions eased during the year, market access conditions improved resulting in ultrasound procedure volumes returning to near pre-COVID levels. Consumables and service revenue represented 69% of total revenue highlighting the attractive annuity revenue nature of the business.

Total consumables and service revenue for the year was $82.6 million, up 8% on prior corresponding period. Revenue of $41.1 million in H2 FY22 was down 1% compared with H1 FY22 again reflecting the impact of the revised North American sales model with GE Healthcare consuming their inventory. There was no impact in the continuity of supply of consumables to customers during the transition.

GLOBAL ($ MILLION)



REGIONAL FINANCIAL PERFORMANCE

NORTH AMERICA

Total revenue for the year in North America was $106.9 million, up 20% on prior corresponding period.

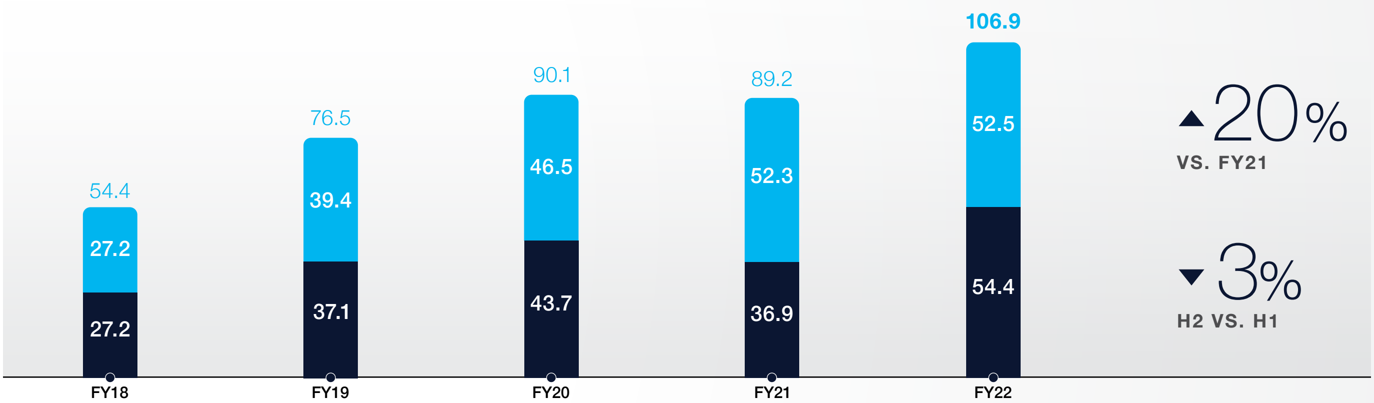
Capital revenue was $33.6 million, up 58% on prior corresponding period.

While installed base and upgrade units sold in H2 FY22 increased, capital revenue in H2 of $16.3 million was down 6% compared with H1, primarily due to the impact of the revised North American sales model and GE Healthcare destocking.

Consumables and service revenue was $73.3 million, up 8% on prior corresponding period. In H2 FY22 consumables and service revenue was $36.3 million, down 2% compared with H1 FY22 again reflecting the impact of GE Healthcare's destocking.

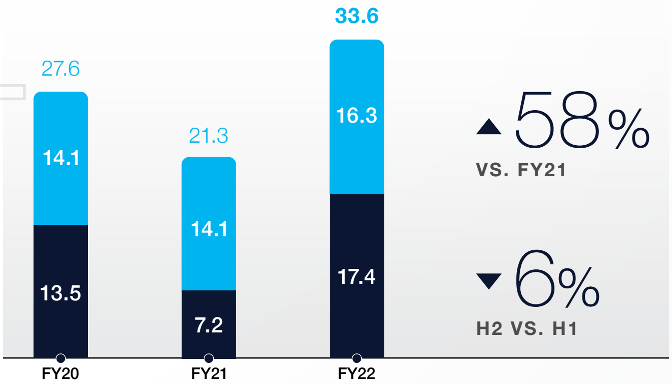
TOTAL REVENUE ($ MILLION)

● H1 ● H2



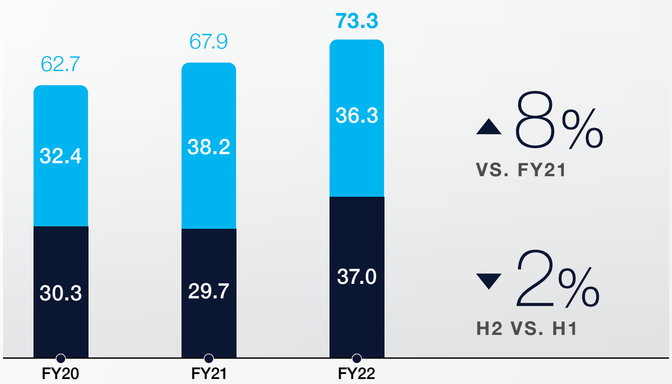
CAPITAL REVENUE ($ MILLION)

● H1 ● H2



CONSUMABLES/SERVICE REVENUE ($ MILLION)

● H1 ● H2



FINANCIAL AND OPERATIONAL REVIEW CONTINUED

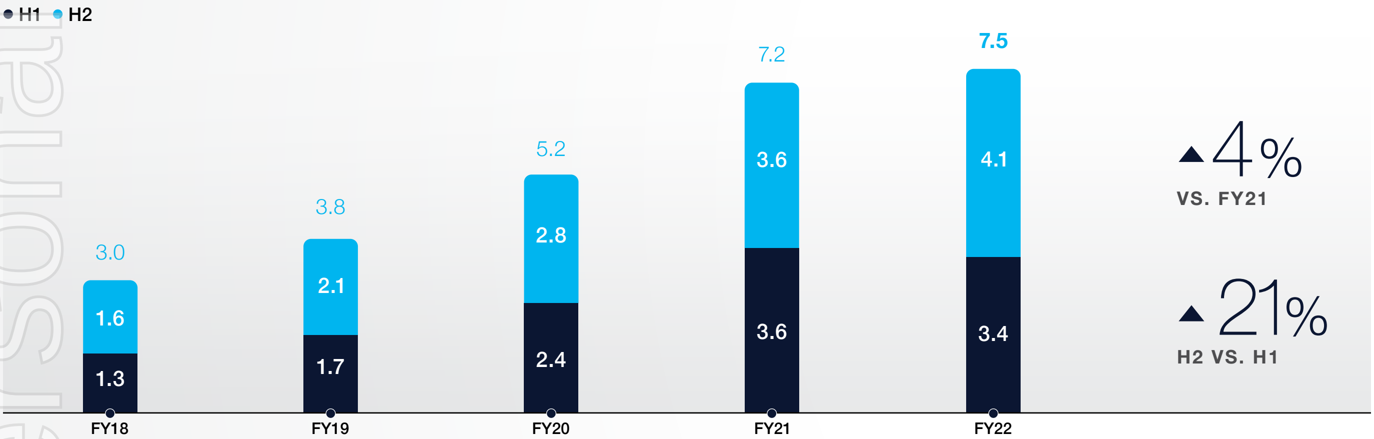
EUROPE AND MIDDLE EAST

Total revenue for the year in the Europe and Middle East region was $7.5 million, up 4% on prior corresponding period. H2 FY22 revenue was $4.1 million, up 21% compared with H1 FY22.

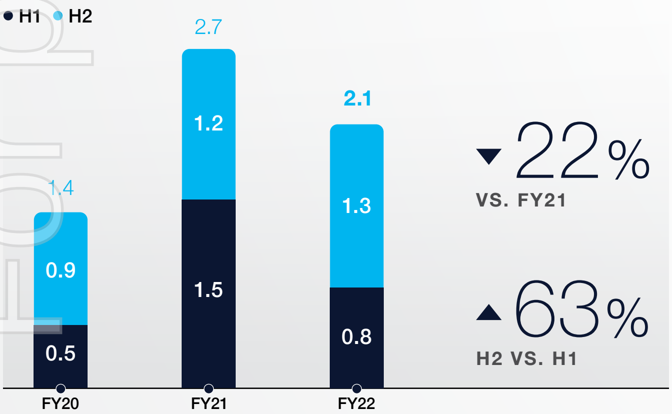
Capital revenue was $2.1 million, down 22% on prior corresponding period. The reduction in revenue reflects the delayed easing of COVID-19 related market restrictions coupled with other factors including impact of sanctions on Russia. It is important to note that the majority of units placed in the UK (the largest market in the region) are under the managed equipment service model where no capital revenue is recognised.

Consumables and service revenue was $5.4 million, up 20% compared with prior corresponding period. Consumables and service revenue in H2 FY22 was $2.8 million, up 8% compared with H1 FY22 as ultrasound procedure volumes returned to near pre-COVID levels.

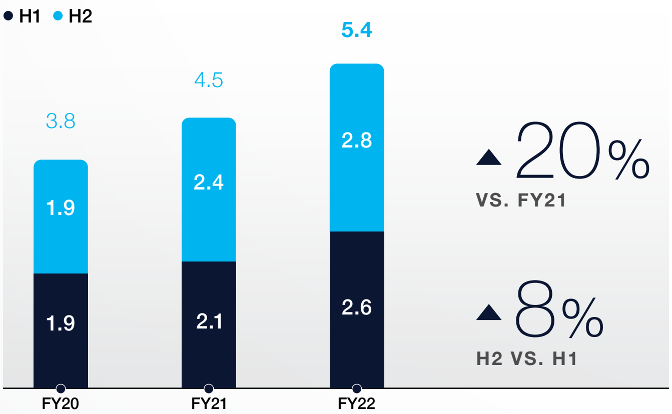
TOTAL REVENUE ($ MILLION)



CAPITAL REVENUE ($ MILLION)



CONSUMABLES/SERVICE REVENUE ($ MILLION)



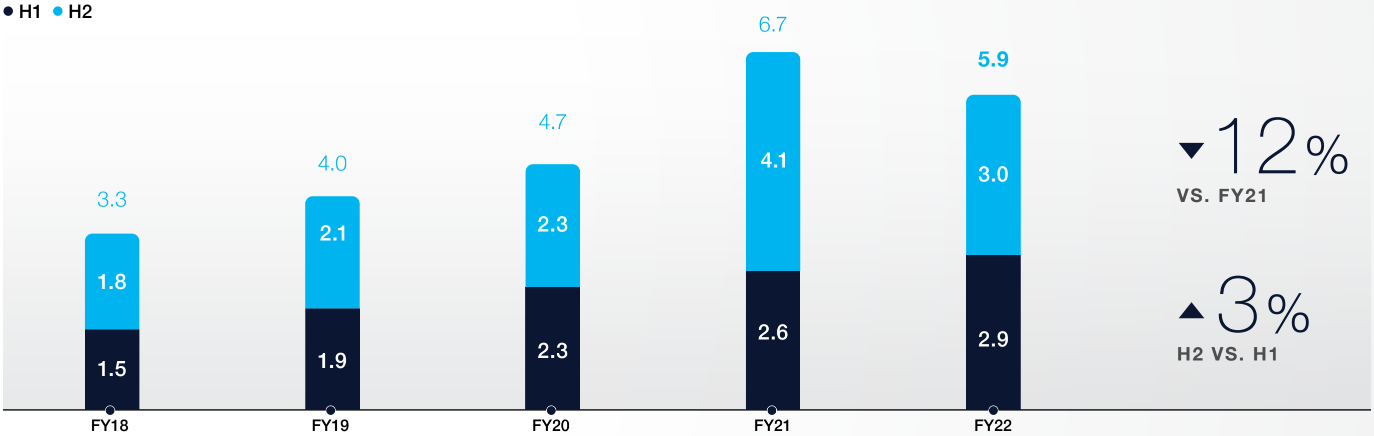
ASIA PACIFIC

Total revenue for the year was $5.9 million, down 12% compared with the prior corresponding period. H2 FY22 revenue was $3.0 million, up 3% compared with H1 FY22. Importantly, FY21 included a one-off upgrade deal of 200 units with I-MED Radiology Network, the largest customer in Australia.

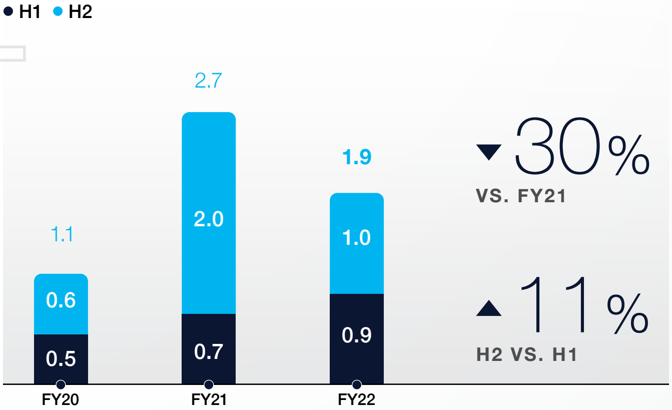
Capital revenue was $1.9m, down 30% compared with the prior corresponding period, mainly as a result of the upgrade deal with I-MED in FY21. H2 FY22 revenue was up 11% compared with H1 FY22.

Consumables and service revenue of $4.0 million was the same as the prior corresponding period. While revenue growth in FY22 was impacted by the timing of shipments to distributors, sales of consumables (NanoNebulant) to end customers increased in FY22 compared with FY21.

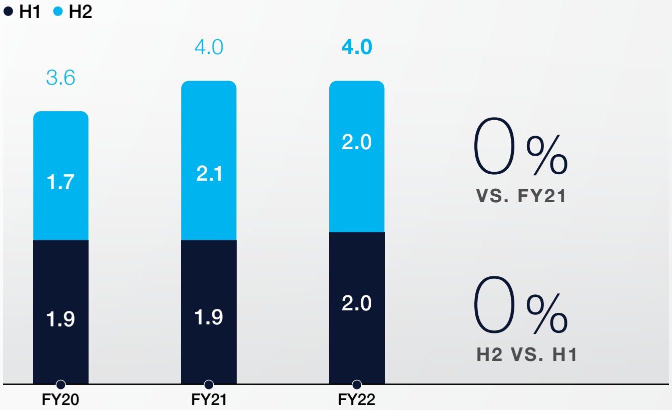
TOTAL REVENUE ($ MILLION)



CAPITAL REVENUE ($ MILLION)



CONSUMABLES/SERVICE REVENUE ($ MILLION)



FINANCIAL AND OPERATIONAL REVIEW CONTINUED

OTHER FINANCIAL RESULTS

GROSS PROFIT

Gross profit margin for the year was 76.4% compared with 78% in prior corresponding period. This reduction was primarily attributable to increased freight costs driven by global shortages in transport capacity. An increase in freight costs in Q4 FY22 were also attributable to the transition to the largely direct sales model in North America (amounting to approximately $0.3 million). The gross profit margin was ahead of the February 2022 guidance mainly due to favourable pricing outcomes in North America.

INVESTING FOR GROWTH – OPERATING EXPENSES

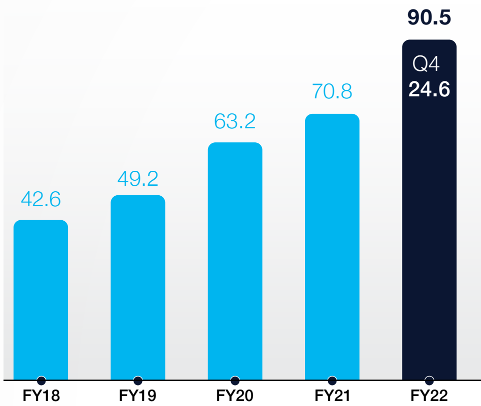
In line with the Company's deliberate strategy to continue to invest for growth in the multi-billion-dollar global infection prevention market, operating expenses for the year increased 28% to $90.5 million.

Attractive returns from these investments are expected over time as demonstrated by the Company's performance in North America, its largest and most developed business, where operating margins have been in the range of 55% – 60%.[1]

Of the total operating expenses in FY22 approximately:

- 43% was associated with market development activities. The increase in these costs included the additional investment in Q4 of approximately $0.8 million to expand the Company's North American operations;
- 25% of total operating expenses in FY22 was associated with the Company's product innovation programs across the new Nanosonics CORIS technology as well as ongoing programs in ultrasound reprocessing and cloud solutions; and
- 32% of total operating expenses in FY22 relate to the Company's infrastructure including, manufacturing and other headquarter support costs.

OPERATING EXPENDITURE (GLOBAL, $ MILLION)

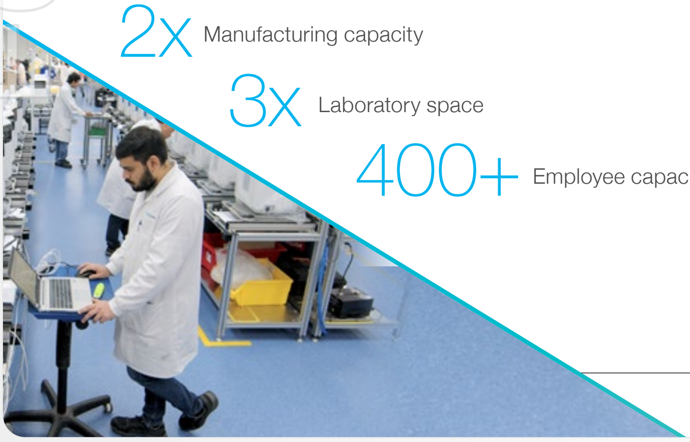


▲28% VS. FY21

▲12% H2 VS. H1

Operating expenses increased to $47.8 million in H2, up 12% compared with H1 and in Q4 FY22 operating expenses were $24.6 million or 27% of the total year.

In FY22, the Company incurred additional costs of approximately $1.5 million as a result of its relocation to its new global headquarter facility, increasing the organisation's capabilities and capacity for future growth.



Our new Macquarie Park facilities will support future company growth.

2x Manufacturing capacity

3x Laboratory space

400+ Employee capacity

GLOBAL HEADQUARTERS
7-11 TALAVERA ROAD

35-41 WATERLOO ROAD
R&D CENTRE + LABS
MANUFACTURING
WAREHOUSE

1. Before any HQ costs are allocated to the region.

OTHER INCOME AND PROFIT BEFORE TAX

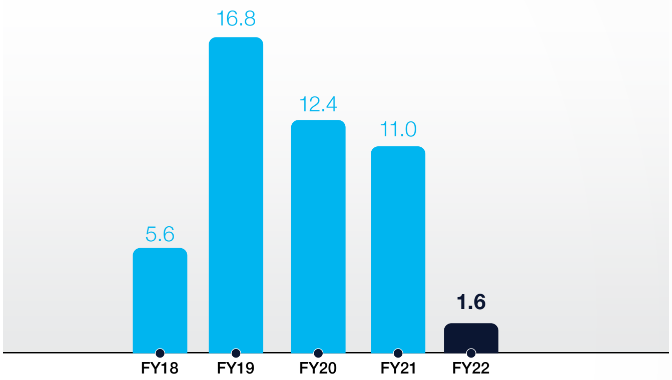
Other income for the year was $0.5 million, up $0.3 million compared with prior corresponding period. The increase in other income was mainly attributable to the NSW State Government funding received from the Jobs Plus Program.

Profit before tax for the year was $1.6 million reflecting the increased investment in the Company's strategic growth agenda as well as the foreshadowed impact in H2 on revenue in North America associated with the move to a largely direct sales model.

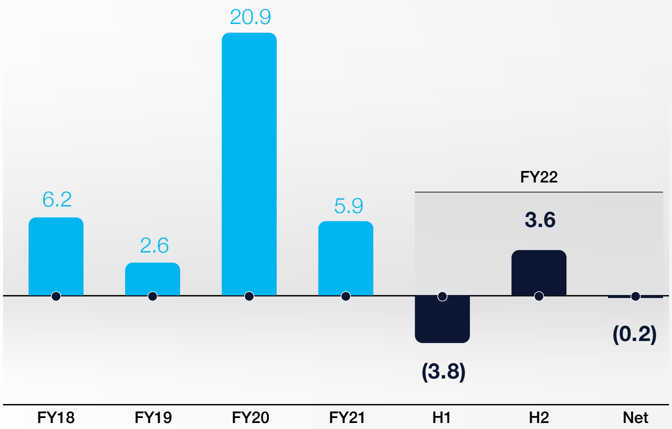
WORKING CAPITAL

Free cash flow for the year was a net outflow of $0.2 million driven mainly by capital expenditure associated with the new corporate headquarters and the increase in the Company's inventory holding. Free cash flow in H2 FY22 was a net inflow of $3.6 million, offsetting the net outflow in H1 of $3.8 million. The Company expects to receive at least $1.6 million cash in FY23 relating to infrastructure rebate claims in respect of FY22 under the NSW Government Jobs Plus Program.

PROFIT BEFORE TAX (GLOBAL, $ MILLION)



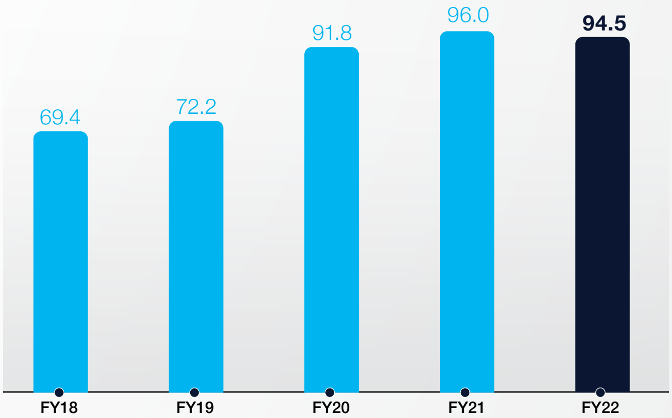
FREE CASH FLOW (GLOBAL, $ MILLION)



Cash and cash equivalents were $94.5 million at 30 June, providing a strong foundation for continued investment in growth. The Company has no debt and continues to regularly review its capital management strategy.

During the year the Company increased its inventory holding by 91% to $22.6 million. This increase was driven by the need to carry more safety inventory in response to increased supply chain risks caused by the COVID-19 pandemic and the Company's transition to a largely direct sales model in North America. Of the total increase, 55% was associated with finished goods and the balance related to raw materials. As a result of the Company's COVID-19 pandemic inventory policy, there were no supply disruptions to customers. The Company expects it will maintain inventory at a similar level throughout FY23 reflecting the ongoing complexities with the global supply chain and the move to a largely direct model in North America. It is anticipated that once the supply chain risks reduce the Company's inventory holding requirements will also reduce.

CASH AND CASH EQUIVALENTS (GLOBAL, $ MILLION)



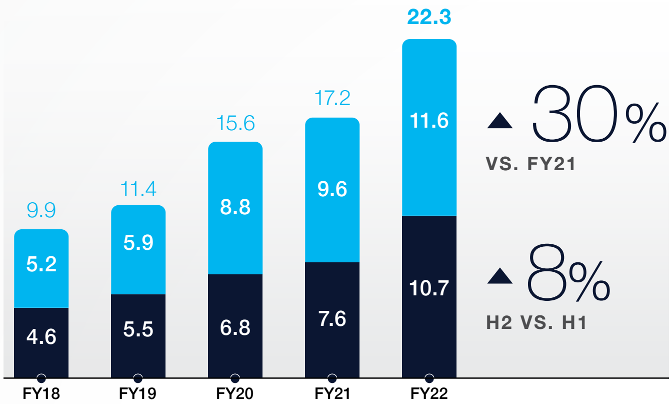
FINANCIAL AND OPERATIONAL REVIEW CONTINUED

R&D / NEW PRODUCTS

In FY22 the Company invested $22.3 million in R&D.

Research and development is a corner stone of the future growth of the Company. In FY22 the Company invested $22.3 million in R&D up 30% compared with FY21. Through these investments, which are all expensed, the Company has expanded its capacity and capabilities programs across ultrasound reprocessing, endoscope reprocessing, data through cloud solutions as well as chemistry and bioscience. The Company also increased its capacity to add new innovation programs to its R&D program through the establishment of expanded R&D facilities as part of its corporate headquarters move. These important investments position the Company well to further expand its participation as a leading infection prevention company in the significant global infection prevention market.

INVESTMENT IN R&D (GLOBAL, $ MILLION)



NANOSONICS CORIS – TRANSFORMING THE CLEANING OF FLEXIBLE ENDOSCOPES

In the United States, CORIS represents a disruptive innovation. As such, there is no existing predicate device like it on the market. As a completely novel technology platform, CORIS will be subject to the FDA de novo clearance pathway thus setting a new benchmark and creating an entirely new category for endoscope cleaning. Recently, the Nanosonics CORIS technology was accepted into the FDA Safer Technologies Program (STeP).

Products accepted into this program are reasonably expected to significantly improve the safety of currently available treatments. The goal of STeP is to provide patients and healthcare providers with timely access to these medical devices by expediting their development, assessment and review while preserving the statutory standards for approval. Through the program, the FDA provides sponsors of devices with additional review resources, facilitating more interactive and timely communication through the submission review process.

The new CORIS platform aims to deliver a solution to one of the biggest unmet needs in instrument reprocessing – reprocessing failures of flexible endoscopes due to current limitations of manual cleaning resulting in an increased risk of cross-contamination.

Recently, the Nanosonics CORIS technology was accepted into the FDA Safer Technologies Program (STeP). Products accepted into this program are reasonably expected to significantly improve the safety of currently available treatments.

The potential to address the challenges of contaminated endoscopes represents a significant opportunity for Nanosonics in a growing market with over 60 million flexible endoscopy procedures per annum being conducted across major Western markets including the United States, Canada, Australia and key European markets every year. Similar to trophon (which comprises a range of business models), CORIS will include capital equipment together with an annuity revenue stream associated with consumables used for every cleaning cycle.

Studies have shown that the cost of the full manual cleaning stage for a single flexible endoscope today can be between US$11 – $37.[1] CORIS aims to automate a significant proportion of the current manual cleaning including the complex channel cleaning and deliver significantly superior cleaning outcomes compared to what can be achieved today.

CORIS is being designed as a global solution ultimately to be used across all channeled flexible endoscope types.

The CORIS technology continues to advance with the Company targeting progressive market introductions aligned with regulatory approvals, with the first introduction targeted for calendar 2023 and likely to be in Australia and/or Europe.

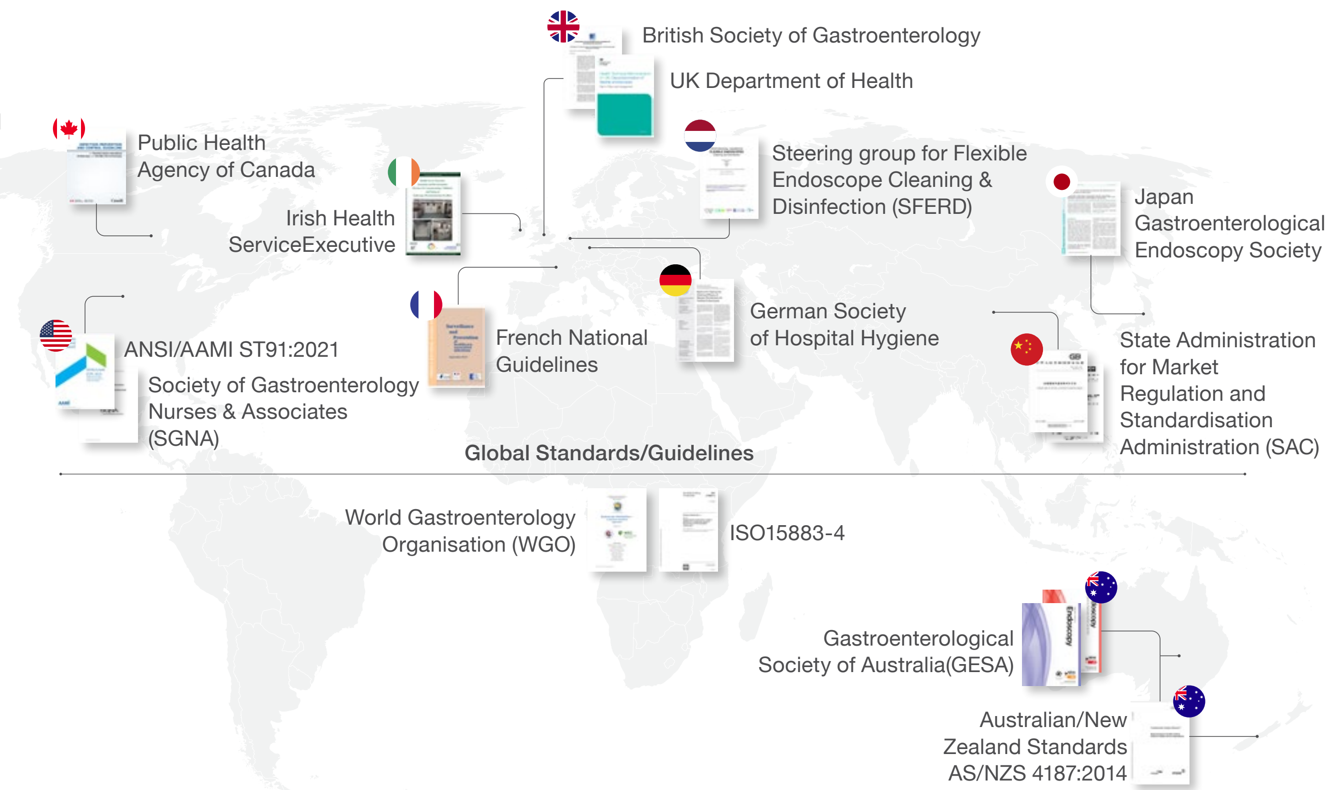
Further details on CORIS can be found in the Company's 2022 Full Year Results Investor Presentation.

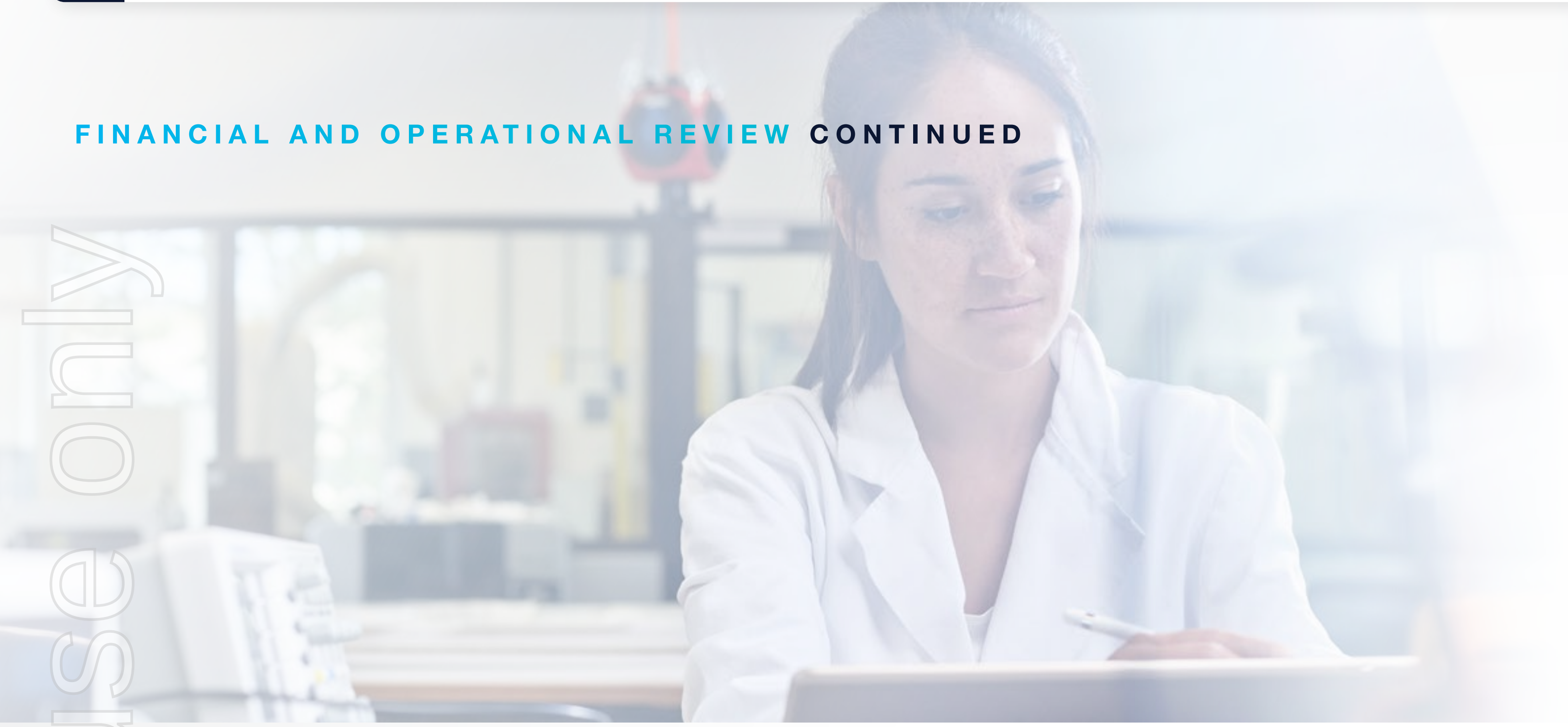
1. Ofstead, C.L., Quick, M.R., Eiland, J.E. and Adams, S.J., 2017. A glimpse at the true cost of reprocessing endoscopes. *International Association of Healthcare Central Service Material Management.*

LARGE VARIETY OF ENDOSCOPES...

COLONOSCOPY GASTROSCOPY DUODENOSCOPY ENTEROSCOPY ENDOSCOPIC ULTRASOUND BRONCHOSCOPY UROLOGY E.N.T. GYNAECOLOGY

...WITH STRONG FUNDAMENTALS AND STANDARDS FOR REPROCESSING





FINANCIAL AND OPERATIONAL REVIEW CONTINUED

INTELLECTUAL PROPERTY

Nanosonics recognises the importance of its Intellectual Property (IP) portfolio in maintaining its sustainable competitive advantage. During FY22 Nanosonics filed six patent applications, one provisional application establishing a new patent family, and one design registration establishing another new patent family.

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 including CORIS.

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.

CASH RESERVES

Despite our record investments in an expanded team, accelerated R&D and resources for future growth, the Company has maintained a significant cash reserve. This cash reserve provides a significant degree of stability and allows the Company to continue to pursue its growth agenda in uncertain times. Our Board and management are actively engaged in reviewing our priorities, identifying opportunities for investment and ensuring that Nanosonics remains 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 cash reserves.

BUSINESS OUTLOOK – FY23

Nanosonics is well positioned to continue to invest in its longer-term strategic growth agenda and expand its participation as a leading infection prevention company in the multi-billion-dollar global infection prevention market.

While the threat of further COVID-19 related disruptions exist through growing rates of infection or the emergence of new variants, our expectation is that current improved market conditions will prevail throughout FY23.

FY23 will also be the first full year of the largely direct sales model in North America and is anticipated to be the first full year since 2020 in which the Company will be able to fully leverage its investments in geographical expansion, especially in the Europe and Middle East region.

TARGETS FOR FY23 INCLUDE:

- Total revenue growth of 20-25%.
- Gross margin of between 75-76%, reflecting:
  - an increase in the proportion of capital revenue resulting from growth in the sales of both new installed base units (which drives growth in high margin consumable revenue over time) and upgrade units;
  - ongoing increased freight costs; and
  - increased component costs.
- Operating expenses to grow between 15-18%. It is expected that the overall proportion of operating expenses associated with infrastructure will decrease. Accordingly, the significant majority of the increase in operating expenses in FY23 is expected to be weighted towards:
  - market development activities; and
  - ongoing product innovation across ultrasound reprocessing, endoscope reprocessing, data through cloud solutions as well as chemistry and bioscience.

All guidance is subject to ongoing uncertainty in relation to variability in market access conditions should COVID-19 pandemic related measures change in relevant markets and broader economic and geopolitical uncertainty.

Recognising the increasing global focus on infection prevention and the opportunities this presents for Nanosonics, the Company will also continue to work on identifying M&A opportunities to expand its product portfolio.

BEYOND FY23

In addition to the targeted growth in FY23, beyond FY23 Nanosonics is targeting:

- Continued expansion of the trophon franchise across all regions including growth in installed base, consumables usage, service business and trophon upgrades.
- Japan to become an important contributor to the global trophon installed base as well as further expansion across the Asia Pacific region including China.
- Growth in our participation in the infection prevention data and analytics field through the AuditPro platform.
- Ongoing expansion of the product portfolio introducing the new CORIS endoscope reprocessing platform across multiple markets and broader indications. In addition, opportunities for strategic acquisitions will continue to be identified and assessed.
- Ongoing investment in R&D, infrastructure, people and capability to continue driving the Company's global growth strategy with the aim of establishing Nanosonics as a global leader in infection prevention.

OUR COMMITMENT TO ESG

Financial Year 2022 represented another year where Nanosonics, by continuing to deliver on its objectives, created sustainable growth. This is only possible when we embrace the principles of sustainability throughout our business.

As an emerging leader in the infection control market, we are privileged to be able to provide value to our stakeholders through providing innovative, sustainable solutions to some of the most complex unmet needs in healthcare.

One of the key areas of value we provide is to our customers through the products we create and make available. In many cases, our solutions replace old ways of working that are harmful to the environment and for that reason, the success of our business is incidental to creating sustainable business outcomes for all our stakeholders. That is why readers will see an increased emphasis on the sustainability outcomes that are observable at each stage of our core product's lifecycle. In addition, there is further emphasis on how Nanosonics' business advances the United Nations Sustainable Development Goals.

In that context, I am pleased to introduce this year's Sustainability Report. This is the third year in which we have published an extensive, standalone report from the Annual Report detailing the Company's sustainability performance. We take pride in our commitment to sustainability 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 retained the usual format for this year's report. The report is divided into four key sections: governance, environment, people & culture, and communities. In addition, we have provided some additional context for how our healthcare solutions deliver sustainability outcomes for our stakeholders. I am particularly pleased to see continued development of the Company's reporting against international reporting standards and more detailed year-on-year data disclosure and target-setting.

In addition to the emphasis on healthcare solutions described above, I am also particularly pleased to see a further emphasis on our greatest asset, our people, in this year's report. The Nanosonics global team have shown a remarkable commitment to our Values of Collaboration and Agility in navigating the return-to-work arrangements, and contributing to community causes, whilst still making enormous strides in achieving our mission: Infection Prevention. For Life.

MICHAEL KAVANAGH
CEO & President

"We see sustainability as a key consideration for our business, and one that is fully aligned with our Values and Mission. We are fortunate that our unique healthcare solutions are in many respects neatly aligned with sustainability principles which means we achieve positive sustainability outcomes whilst addressing our customer's important infection control needs."

MICHAEL KAVANAGH
CEO & President

FOR MORE INFORMATION

See Nanosonics' 2022 Sustainability Report available at www.nanosonics.com/investor-centre/reportsand-presentations/

ESG AT A GLANCE

GOVERNANCE

PROGRESS MADE IN RESPECT OF
SUSTAINABLE SUPPLY CHAIN INITIATIVE

ARTICULATED
NANOSONICS' CONTRIBUTION
TO THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

STRENGTHENED
IT, PRIVACY AND CYBER SECURITY PROTECTIONS
AS WE MOVE TOWARD ISO27001 ACCREDITATION

ENVIRONMENT

68% OF TOTAL WASTE
IN AUSTRALIA DIVERTED TO RECYCLING

COMMITMENT
TO WORKING TOWARDS AUSTRALIAN PACKAGING COVENANT ORGANISATION 2025 TARGET

14 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 42%
OF THE GLOBAL WORKFORCE, 41% OF SENIOR MANAGEMENT AND 39% OF STEM-RELATED POSITIONS

ACHIEVED 100%
OF DIVERSITY OBJECTIVES AND SUBSTANTIALLY ALL OF OUR INCLUSION OBJECTIVES

COMMUNITIES

$38,500
RAISED THROUGH VARIOUS CHARITABLE INITIATIVES

16 STUDENTS
PARTICIPATED IN INTERNSHIP PROGRAMS ACROSS SEVERAL DEPARTMENTS

WIDENED THE RANGE
OF COMMUNITY ACTIVITIES WITH MORE TO FOLLOW THROUGH THE ESTABLISHMENT OF THE COMMUNITY ENGAGEMENT COMMITTEE

trophon®2

PROTECTION BY DESIGN

RISK RECOGNITION GROWS WORLDWIDE

This year has seen several reminders around the need for standardised ultrasound infection prevention guidelines to reduce the risk of cross-contamination and protect patient safety. There is a growing acceptance of the infection risks associated with ultrasound probes, and of the need for validated, automated high-level disinfection (HLD) of semi-critical medical devices and critical devices that cannot be sterilised.

A validated method of disinfection for semi-critical ultrasound probes is essential for patient safety. In Germany, the Supreme State Authorities responsible for medical devices (AGMP) and the Federal Institute for Drugs and Medical Devices (BfArM) have joined the Robert Koch Institute (RKI) in reinforcing the legal requirement for validated reprocessing of semi-critical devices[1]. The RKI had previously clarified that they do not consider the final wipe disinfection of semi-critical medical devices to be validatable, and it is now clear that validated reprocessing is the only option for semi-critical devices, including endocavity ultrasound probes, to meet legal requirements.

A North American survey by the U.S. Joint Commission (TJC) reported that 46% of healthcare facilities were non-compliant with their standard on intermediate, high-level disinfection and sterilisation of medical devices[2]. Following the survey, the TJC reaffirmed that healthcare organisations must follow the minimum level of ultrasound probe reprocessing based on intended use (as per the Spaulding classification adopted by the FDA) and manufacturer instructions for use.

In Australia, a recent survey of emergency departments (ED) identified only 31% of respondents had access to ultrasound probe HLD[3]. The ED is a complex healthcare delivery environment, and standardised, reproducible, and easy-to-use HLD options are key to support staff and patient safety.

Two separate outbreaks in Europe and North America last year are additional reminders about the need for standardised ultrasound infection prevention practices. The North American multistate gel-associated outbreak of Burkholderia cepacia, which included 48 bloodstream infections, resulted in a safety alert issued by the U.S. Centers for Disease Control and Prevention (CDC)[4]. The UK Health Security Agency (UKHSA) also identified that a long-standing outbreak of B. cepacia was linked to a non-sterile ultrasound gel product used in hospitals in the UK and Ireland[5]. While the safety alerts were concerned primarily with affected gels, both agencies took the opportunity to reinforce guidance around ultrasound infection prevention. The CDC called for facilities to review ultrasound probe reprocessing practices, and UKHSA identified those procedures for which higher levels of infection prevention were expected.

There are over 150 procedures[6] 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.

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 represents the gold standard.

trophon delivers effective HLD by generating a ‘sonically-activated’ hydrogen peroxide (H_2O_2) mist which is unimpeded by any shadows, crevices and grooves on the ultrasound probe.

The 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 and Monkeypox viruses, these fall into the category of enveloped viruses, where trophon has been proven to be highly effective.

INDUSTRY-LEADING TROPHON PROBE COMPATIBILITY PROGRAM

Nanosonics is continuing the collaboration with all major and several specialised ultrasound probe manufacturers to ensure that their probes are tested, approved, and endorsed for use with trophon devices.

In the past year, the compatibility list grew to over 1,200 ultrasound probes across 26 Original Equipment Manufacturers (OEM).

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

1. AGMP, BfArM, RKI. Validation of the final disinfection of semi-critical medical devices using wipe disinfection. Available at https://www.rki.de/DE/Content/Infekt/Krankenhaushygiene/Aufb_MedProd/Validierung-Desinf-semikrit-MedProd.html. Accessed July 2022.
2. Joint Commission Online Newsletter – August 11, 2021. Available at https://www.jointcommission.org/-/media/tjc/newsletters/joint-commission-online-aug-11-2021.pdf. Accessed July 2022.
3. Manivel V et al. Australas J Ultrasound Med. 2021 Sep 12;24(4):187-207.
4. Centers for Disease Control and Prevention. Multistate Outbreak of Burkholderia cepacia Infections Associated with Contaminated Ultrasound Gel. Available at https://www.cdc.gov/hai/outbreaks/b-cepacia-ultrasound-gel/index.html. Accessed July 2022.
5. UK Health Security Agency National Patient Safety Alert NatPSA/2021/010/UKHSA.
6. Nanosonics analysis, SDMS guidelines, market reports.

"We love the trophon device's ability to do work while we move on to other tasks."

KERRI SCOTT, LEAD SONOGRAPHER, PHYSICIANS EAST.

These numbers position Nanosonics as the industry leader in scientifically proven probe compatibility.

The rigorous trophon Probe Compatibility Program ensures that each probe is exposed to thousands of trophon cycles, then functionally tested and approved by OEMs before listing in the trophon compatibility database.

CONSISTENT PROTECTION FOR EVERY PATIENT

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.

Designed with the user and their workflow needs in mind, trophon2 devices guide the user through the required steps of preparing, disinfecting, storing and tracing probes throughout the reprocessing workflow. The automated workflow, which includes digitised traceability replacing cumbersome handwritten logbooks, frees up several minutes of hands-off time for the user – time which can be spent with the patient.

The trophon portfolio offers a series of consumable and accessory products to provide a total ultrasound probe reprocessing solution. These include cleaning and drying wipes to prepare the probe before the HLD process, specialised probe bags to provide effective probe storage between patient use, and connectivity solutions and services to facilitate automated disinfection record management.

SUSTAINABLE AND SAFE-TO-USE HLD

The trophon technology achieves effective HLD without damaging the sensitive probe or exposing patients, staff and the environment to dangerous chemicals – the 'sonically-activated' hydrogen peroxide (H_2O_2) mist is broken down by the trophon device to environmentally friendly oxygen and water after each HLD cycle.

As a self-contained system, the trophon device can be safely placed in the examination room next to the ultrasound console, further maximising patient throughput and clinical workflow efficiencies.

AuditPro™ nanosonics

NANOSONICS AUDITPRO™ STANDARDISING ULTRASOUND INFECTION PREVENTION PRACTICES

AUTOMATED DIGITAL TRACEABILITY LINKING INFECTION CONTROL DATA TO PATIENT; DELIVERING A NEW STANDARD IN ULTRASOUND INFECTION CONTROL MANAGEMENT

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].

Traditional mechanisms to capture the necessary information are often manual and time-consuming. As a result, there is pressure to move to automation to improve the accuracy of the information collected, improve clinical workflows, and enable the quick and confident retrieval of records during compliance audits.

DIGITAL AUTOMATION DRIVING STANDARDISATION

Nanosonics AuditPro equips facilities to efficiently monitor ultrasound infection prevention practices, driving increased compliance to Standard Operating Procedures (SOP) to better protect patients, staff and organisations for every ultrasound procedure.

The digital system provides end-to-end automated data traceability and efficient infection control compliance management for ultrasound probe infection prevention. With built-in education as part of the clinical workflow, each procedure is qualified against the Spaulding classification to standardise the infection prevention decision across multiple operators, departments and facility sites every time. Powered by trophon AcuTrace® technology, facilities can, for the first time, have complete data visibility across patients, probes, clinical procedures and reprocessing records.

PRODUCT DETAIL

The AuditPro automated digital system intelligently links reprocessing workflow data from trophon2 with probe and patient procedure identifiers in real-time to produce:

- A searchable digital logbook,
- Data-led infection control insights to guide decision making, and
- Real-time alert notifications allowing for fast risk management.

AUDITPRO DELIVERING CLINICAL EFFICIENCY AND RISK REDUCTION

AuditPro launched in June 2021 and is currently installed within facilities in the US and Ireland, with further rollouts planned for other markets over FY23. Feedback from early adopting sites of this novel technology has indicated strong clinical user acceptance and demonstrated consistent clinical compliance to facility ultrasound infection control SOPs, resulting in increased clinical efficiency and risk reduction through standardisation and automation.

EFFICIENCY GAINS

A recent efficiency study conducted by an installed facility demonstrated a sixfold reduction in ultrasound infection control audit trace time[9], providing significant efficiency gains, following the implementation of the AuditPro system.

RISK REDUCTION

In another facility, AuditPro was successfully assessed in an external compliance audit to meet accreditation requirements. This audit demonstrated elevation to 100% compliance following the installation of AuditPro, demonstrating the success of automated standardisation in reducing risk[10].

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.
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. Introduction of Electronic Traceability for Semi-Invasive Ultrasound Probes in Radiology Department, Beaumont Hospital. K.Owens 2021.
10. Hutchinson Regional Medical Center, KS.

"Following the implementation of AuditPro, a study conducted by our Decontamination Manager confirmed a sixfold reduction in audit trace time freeing up our Senior Radiologists to see more patients."

KATE OWENS

Beaumont Hospital, Ireland

THE BOARD

STEVEN SARGENT
BBus, FAICD, FTSE

Non-executive Director and Chairman

Mr Sargent joined the Nanosonics Board in July 2016 and was appointed Chairman in July 2022, having previously been Deputy Chairman and Lead Independent Director. 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 (ASX:ORG), Ramsay Healthcare Limited (ASX:RHK) and a Director of the Great Barrier Reef Foundation and Chairman of the Origin Foundation. Previously, Mr Sargent was a director of OFX Limited (ASX:OFX), was a Director of Veda Group, a Director of Bond University and a Director of the Business Council of Australia.

MAURIE STANG

Non-executive Director and Deputy Chairman

Mr Stang is a Non-executive Director and Deputy Chairman of Nanosonics, and has been a member of the Board since November 2000. He was Chairman from March 2007 until July 2022. 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 (ASX:VBS) and has been a Non-executive Chairman of Aeris Environmental Ltd (ASX:AEI) since 2002.

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 29 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 practiced 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 (ASX:CSL), Nufarm Limited (ASX:NUF) and the Walter and Eliza Hall Institute of Medical Research.

LISA MCINTYRE
BSc (Hons), PhD

Non-executive Director

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

DAVID FISHER
BRurSc (Hons), MAppFin, PhD, FFin, GAICD

Non-executive Director

Dr Fisher has been a member of the Board since July 2001. He is a founding partner of Brandon Capital Partners, a leading Australian venture capital provider. Dr Fisher 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 (ASX:FGG), 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 29 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.

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 24 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.

STEVEN FARRUGIA
BE, PhD

Chief Technology Officer

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

DAVID MORRIS
Bus, 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.

ROD LOPEZ
MBA, BEng (Hons), GAICD

Chief Operating Officer

Rod joined Nanosonics in April 2019. He is an international operations executive with over 20 years of experience, having held critical roles in companies such as Cochlear and GM Holden. During his 13-year tenure at Cochlear, Rod held roles such as Global Head of Manufacturing and Chair of the Operational Excellence Strategy Group. At GM Holden, Rod held senior management roles across operations and global customer support. Rod is also an award-winning academic with continuing Adjunct Faculty appointments for over 15 years with MGSM, AGSM and the University of Sydney Business School.

MATTHEW CARBINES
LLB, BCom

General Counsel

Matt joined Nanosonics in August 2017 and was appointed to the Executive Team in October 2021. Matt is responsible for all legal matters across the Nanosonics Group and supports the Company Secretary on corporate governance matters. Prior to joining Nanosonics, Matt held a variety of senior legal roles in Australia and abroad with a focus on technology and healthcare. Immediately prior to joining Nanosonics, Matt served as General Counsel for an international software business based in London. Matt is a member of the Australian Institute of Company Directors, and the Governance Institute of Australia.

MATTHEW LIPSCOMBE
MBA, BSc, BE

Chief Marketing Officer

Matthew joined Nanosonics in April 2022. He has over 20 years of experience in strategic marketing and product management in medical device, high technology and consulting fields across the full product development cycle. Prior to Nanosonics, Matthew held a range of strategic executive roles including Global Director of Portfolio Strategy & Planning at Cochlear, R&D management at ResMed and Founder-CEO of an enterprise SaaS startup.

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 Eclipx Group. She has also led international human resource functions as HR Director for Samsung and Head of Human Resources, Asia Pacific at Orange Business Services.

KEN SHAW
BSc Finance

Regional President for North America

Ken joined Nanosonics in September 2017 as Regional President for the United States, Canada and Latin America. He has more than 25 years' experience in the healthcare, medical devices and consumer products industries, with a specific focus on infection prevention products. Most recently Ken was the President for Amoena GmbH and prior to that he held senior management roles at Essity, Medicom, Energizer and Pfizer.

RONAN WRIGHT
BSc, Bus Management, BEng

Regional President for Europe and Middle East

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.

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 2022 and the Auditor's Report thereon.

PRINCIPAL ACTIVITIES

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

- Manufacturing and distribution of the trophon® ultrasound probe disinfector and its associated consumables and accessories.
- 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

A review of operations and information on the financial results of the Group and its business strategies and prospects is set out in the Financial and Operational Review on pages 8 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 2022 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	COVID-19 continues to represent a risk to the business in a number of ways. Due to the uncertainties that COVID-19 (and future strains thereof) represent, COVID-19 should be considered a risk in itself and is referred to in a number of the risk areas in this material business risk summary. In particular, there remains a risk that COVID-19 and/or government measures to contain it could further impact the Group's employees, supply chain, and customers.	The business has put in place a number of mitigations for the various risks posed by COVID-19. These include Work Health and Safety (WHS) protocols and people policies to support our people, increased inventory and other mitigations to improve the resilience of our supply chain, and alternative selling models to better engage with our customers.
Change in North American channel strategy	During the year, the Company announced a revision to its North American sales model. This revision sees Nanosonics' direct operations now being responsible for an increased proportion of capital sales in the North American market, as well as the ongoing provision of consumables to all customers. This represents a potential risk to Nanosonics' growth rate.	Whilst this topic can be characterised as a risk, the Company considers that the risks have been adequately mitigated as evidenced by the Company's FY22 H2 results. Further, there are a range of benefits to Nanosonics that flow from the revision. The Group expanded its own direct operations in North America and now has significant direct sales capability in place which can be scaled further. A number of members of the previous GE high-level disinfection team have joined Nanosonics during the year. The Group has also appointed other distributors and resellers in the USA (many of whom are ultrasound OEMs) and has extended its relationship with its key distributor customer. Further, a large proportion of the Company's sales comprise consumables, which continue independent of the changes to its relationship with its key distribution customer.

DIRECTORS' REPORT

Risk	Description and potential consequences	Strategies used by Nanosonics to mitigate the risk
Research & development and commercialisation	Nanosonics currently has a platform technology, trophon, and recognises the need to expand its product portfolio by creating new products. Development and subsequent commercialisation of any new product requires a significant amount of investment (time, money and resource commitment). Further, all research and new product development programs involve inherent risks and uncertainties which can impact commercialisation timelines. New products are also likely to require a range of regulatory approvals.	To manage these risks, the Company has a clearly defined framework to support the processes covering product ideation, development and subsequent commercialisation and has made the development of additional technologies a key strategic priority supported with an appropriate level of investment. In late FY21, the Company launched a new digital traceability product, Nanosonics AuditPro™. In addition, the Company has informed the market that it is developing a new platform technology associated with the cleaning of endoscopes, to be known as Nanosonics CORIS, where significant R&D investments have continued to be made, with regulatory and commercialisation plans progressing. Nanosonics also engages with a range of experts in relevant fields, as well as customers, to determine the focus of its R&D efforts.
Competition	The potential for increased competition exposes Nanosonics to the risk of losing existing and new market share. Nanosonics is also exposed to the risk of medical and technological advancement by competitors where alternative products or methods are developed and commercialised that will impact the rate of adoption of trophon, cause trophon to lose market share, or render trophon obsolete.	To address this risk, the Company has invested in R&D for the second generation of trophon, 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. Further, the Company actively upgrades its first generation trophon EPR fleet to trophon2 units at the appropriate time which helps to retain its existing installed base of trophon units in key markets. The Company also invests in its relationships with ultrasound OEMs, including its probe compatibility program, as well as considering product development opportunities.
Intellectual property	The Company relies heavily on its ability to maintain and protect its intellectual property (IP), including registered and unregistered IP. Nanosonics recognises the potential risk of litigation for alleged infringement by Nanosonics, the need to prosecute third party infringers of Nanosonics' IP, the expiry of Nanosonics' registered IP, and the risk of being unable to register the underlying subject matter or processes in any new products.	Nanosonics seeks appropriate patent, design and 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. The trophon, for example, is covered by 14 patent families. Most have a significant period remaining in their term, including patents relating to the consumables which do not expire until 2031. Additional patents have been filed in respect of trophon2, AuditPro and the new CORIS platform. 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. Nanosonics ensures that its projects, products and related activities include an appropriate assessment of any third-party IP profile against its own IP profile.
Supply chain	The Group is highly aware of managing risks in the supply chain, particularly its dependence on critical suppliers for the supply of key materials which carries the risk of delay and disruption. Certain materials are available from sole suppliers and regulatory requirements could make substitution costly and time-consuming. There is also a risk of ongoing COVID-19 related disruption to Nanosonics' global supply chain.	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. The Company has managed the disruptions that have impacted its global supply chain for its main products arising from COVID-19 and this risk continues to be actively managed.

DIRECTORS' REPORT

Risk	Description and potential consequences	Strategies used by Nanosonics to mitigate the risk
Regulation	The Group operates in a highly regulated industry. Medical devices are subject to strict regulations of various regulatory bodies where the products are sold. Regulatory bodies perform regular audits of Nanosonics' manufacturing sites, as well as its third-party suppliers, and failure to satisfy regulatory requirements presents significant risks, including potentially compromising the Company's ability to sell products, and/or result in an adverse event such as a product recall.	The Group has a highly developed worldwide Quality Management System to manage this risk and invests in suitably qualified personnel to oversee the implementation of that system. Nanosonics monitors the changing regulatory landscape in the countries in which it operates and ensures that its operations adjust to any changes which apply to it. The business is also subject to annual regulatory audits from key regulators.
Financial	The Group is exposed to foreign currency risk and credit risk in light of the international nature of its operations.	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.
Product liability	The Company recognises the risk that its products (or their use) may cause damage to a third party given the nature of the product and the industry the Company operates in.	The Group 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.
Personnel	Nanosonics recognises that providing a safe and rewarding working environment is critical to its sustainability. Further, the Company operates in a competitive market in relation to attracting, recruiting and retaining key talent, including scientific, medical device regulations, and engineering talent. 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. During the year, the Company has transitioned the majority of its personnel globally from work from home arrangements to a hybrid approach. There remains a risk that the COVID-19 pandemic and/or government measures to contain it could further impact the Group's employees.	The Company has programs in place for WHS, and the attraction, recruitment and retention of talent. The Company has a new global headquarters in Macquarie Park which is expected to support its growing Australia-based team to work more effectively. The Company's WHS 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. The Company is also enhancing its programs for attracting, recruiting and retaining talent in the current environment. 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.
Cyber security	Nanosonics recognises the risks associated with cyber security and the potential impact on the Company's operations. A cyber security incident could lead to a breach of privacy, loss of and/or corruption of commercially sensitive data, and/or a disruption of critical business processes. This may adversely impact customers and the Company's business activities and cause significant reputational damage. The Company also recognises the need to ensure operations can continue in the event of a disaster impacting its critical IT systems.	Nanosonics is taking steps to enhance its cyber-security strategy and disaster recovery plans with a view to safeguarding the business against these risks, including progressing towards ISO27001 accreditation.

DIRECTORS' REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, other than the matters described above and in the Financial and Operational Review on pages 8 to 21 of this Annual 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 2022. No dividends were proposed, declared, or paid during the financial year (2021: 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 17 August 2022, the Company issued 37,692 shares at $4.00 per share for a total of $150,768 under the Global Employee Share Plan (GESP).

No other matters or circumstances have arisen since 30 June 2022 that have significantly affected, or may significantly affect:

a. The Group's operations in future financial years.

b. The results of those operations in future financial years.

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Comments on expected results of the operations of the Group and business outlook are included in the Financial and Operational Review on pages 8 to 21 of this Annual Report.

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 Steven Sargent, Maurie Stang, 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 Company Secretary.

Mr Stang stepped down as Chairman on 1 July 2022 and assumed the role of Deputy Chairman. He will retire from the Board at the AGM on 18 November 2022. Mr Sargent was elected by the Board as Independent Chairman and assumed this position on 1 July 2022.

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 this Annual Report.

As at the date of this report, Nanosonics Limited has the following committees of the Board: Audit and Risk, Nomination, Remuneration, People and Culture (RPC), and R&D and Innovation. The Board establishes ad hoc committees focused on specific topics and during the year, the Board convened a Related Party Committee. Details of members of the committees of the Board are included below and on page 40 of the Remuneration Report.

DIRECTORS' REPORT

MEETINGS OF DIRECTORS

The number of Directors' meetings, including meetings of the committees, held during the year ended 30 June 2022, and numbers of meetings attended by each of the Directors were as follows:

	Full meetings of Directors[1]		Meetings of committees									
			Audit and Risk		Nomination		RPC		R&D and Innovation[2]		Related Party[3]	
	Held[4]	Attended	Held[4]	Attended	Held[4]	Attended	Held[4]	Attended	Held[4]	Attended	Held[4]	Attended
Maurie Stang	17	17	5	5[5]	2	2	6	6	3	3	—	—
Steven Sargent	17	17	5	4[5]	2	2	6	6	3	3	3	3
Geoff Wilson	17	16	5	5	2	2	6	6	3	3[5]	3	3
David Fisher	17	17	5	3	2	2	6	6[5]	3	3	3	3
Marie McDonald	17	17	5	5	2	2	6	6	3	3[5]	3	3
Lisa McIntyre	17	17	5	5	2	2	6	6[5]	3	3	3	3
Michael Kavanagh	17	17	5	5[5]	2	2[5]	6	6[5]	3	3	3	3[5]

1. A number of additional Board meetings were held during the year. These essentially represented the continuation of a single meeting held over a number of days.
2. 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.
3. The Board establishes ad hoc committees focused on specific topics and during the year the Board convened a Related Party Committee.
4. Indicates the number of meetings held which the Director is eligible to attend.
5. Attended in part or full in ex-officio capacity.

SHARE-BASED PAYMENTS

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

SHARES ISSUED

During the year ended 30 June 2022, the Company issued a total of 370,110 (2021: 861,449) new ordinary shares in Nanosonics Limited of which 67,616 shares were issued under the Global Employee Share Plan at an average price of $4.42 per share and 302,494 were issued pursuant to the exercise of rights and options under the share-based compensation plans. No amount was unpaid on any of the shares issued.

As at 30 June 2022, there were 301,835,129 (2021: 301,465,019) ordinary shares in Nanosonics Limited on issue. At the date of this report, there were 301,872,821 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, 818,639 (2021: 771,787) unquoted rights with nil exercise price and 843,496 unquoted share appreciation rights (2021: 920,633 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. Section 7.3 of the Remuneration Report provides the details of grants received by Key Management Personnel.

SHARES UNDER OPTION

At the date of this report, there were 5,782,527 unissued ordinary shares of Nanosonics Limited under option under the Nanosonics Omnibus Equity Plan. As at 30 June 2022, there were 5,792,730 (2021: 4,825,225) 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 2022	5,792,730
Rights and options lapsed	(10,203)
Total shares under option to the date of this report	**5,782,527**

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

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 63 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 Financial and Operational Review (on pages 8 to 21), the Information on the Board and the Executive Team (on pages 28 to 31) and the Remuneration Report (on pages 38 to 61), is made on 23 August 2022 and signed in accordance with a resolution of directors, pursuant to section 298(2) of the Corporations Act.

GEOFF WILSON
Director, Sydney

23 August 2022

REMUNERATION REPORT

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

Dear Shareholders,

On behalf of the Remuneration, People and Culture Committee and the Board, I am pleased to present the Remuneration Report for the year ended 30 June 2022 (FY22).

NANOSONICS IN FY22

Nanosonics' demonstrated continued commitment to its growth strategy during the year, advancing a number of important strategic priorities. The Company reported a 17% increase in total revenue to $120.3 million resulting from the ongoing growth in new installed base, increased trophon2 upgrade sales and ongoing growth in consumables and service. This was a pleasing result considering the short-term impact of the revised sales model in North America with GE Healthcare on second half revenue in North America. The successful transition to the revised sales model involved substantial work for our team and is expected to bring a number of benefits to Nanosonics going forward.

The global installed base grew by 12%, or 3,100 units, despite COVID conditions impacting Europe and Asia Pacific in H1 FY22. As the external market conditions improved, the new installed base increased by 20% in H2 in comparison to H1. It was also encouraging to see the number of trophon2 upgrades increase significantly over the last year, with 1,000 unit upgrades in the year.

With product expansion a cornerstone of the Company's strategic growth agenda, during the year the Company continued to invest in R&D, increasing 30% to $22.4 million. This investment is directed across multiple areas including ultrasound reprocessing, endoscopy reprocessing and cloud solutions platform.

In the second half of the year the Company relocated to new global headquarters and established a state-of-the-art new manufacturing and R&D facility. The investment in this move further supports the growth agenda of the organisation, creating an excellent work environment to support all our employees in achieving their best. This relocation pleasingly coincided with more employees returning to the workplace while flexible work arrangements remain in place. We are pleased that the total number of employees increased by 25% to 425 employees. We continued our focus on diversity, with the number of female Nanosonics' employees being comparable to last year at 42% globally. Importantly, the level of senior management positions in the organisation held by females increased to 41% from 38% in FY21.

Nanosonics' culture remained strong during FY22, illustrated by the outcomes of the Nanosonics Global Employee Engagement Survey, where 93% of employees participated in the survey and 94% of the employees continued to remain highly engaged with the overall purpose of Nanosonics. Importantly, 93% of our employees understood how their work contributes to the goals of the Company.

FY22 REMUNERATION AND OUTCOMES

As foreshadowed in the 2021 Remuneration Report, we implemented the second phase of an increase in the target Short Term Incentive (STI) opportunity for Other Executive Key Management Personnel (Other Executive KMP) from 40% in FY21 to 50% in FY22. The Chief Executive Officer & President's (CEO&P) target STI opportunity remained at 60% of Total Fixed Remuneration (TFR). We also implemented the results of a previously postponed review of base remuneration, which resulted in an increase to the base remuneration of 4.5% for the CEO&P and an average of 5.6% for Other Executive KMP.

Details of the performance of the team against their FY22 metrics are provided in section 4 of this Remuneration Report. As a result of the transition to the revised sales model in North America in H2, there was an impact on the outcome for the FY22 STI financial group metrics. The financial metric outcomes were:

- Profit Before Tax (PBT) of $1.6 million, being below threshold performance, resulting in 0% achievement.
- Global Installed Base (IB) of 3,100 new IB, being below threshold performance, resulting in 0% achievement.

The overall outcomes for the year reflected positive outcomes across many of the operational metrics of the business including:

- Good progress on the strategic R&D growth activities, and development of product roadmaps.
- Seamless move to new headquarters in Macquarie Park, including a new manufacturing and R&D centre which has significantly increased the manufacturing capacity and laboratory space.
- Effective management of supply chain and freight management in a complex business environment.
- Good progress on geographic regional growth.
- Enhanced risk management and governance processes.

In addition, the Company successfully transitioned to the revised largely direct North American sales model, which was not planned at the time of the setting of the annual objectives.

Notwithstanding the achievements of the Nanosonics team across the planned and additional operational objectives the Board was cognisant of the shareholder experience and, accordingly, it did not exercise any discretion in relation to the STI financial metrics. It did however exercise discretion to increase the STI outcome for the personal objectives for one member of Executive KMP, the Chief Operating Officer, Mr Rod Lopez, from an outcome of 40% to 50% to recognise his exceptional contribution to the Nanosonics and GE transition, effective management of the supply chain ensuring continuity of customer supply as well as the move to the new corporate headquarters.

In summary for FY22:

- The CEO's STI outcome was 30.77% of maximum (40% of target).
- Other Executive KMP STI outcomes ranged between 22.22% and 40% of maximum (30% to 50% of target).
- The aggregate STI outcome for all KMP was 31.83% of maximum (41.40% of target).
- The 2018 Long Term Incentive (LTI) outcome was 100% of target due to the performance conditions (PBT Gate and Absolute Compounded Annual Growth Rate (CAGR) Total Shareholder Return (TSR) being met. Therefore, 100% of the Performance Rights and Options vested.

There were no downward Values rating modifiers applied to the CEO&P or Other Executive KMP in FY22.

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 that they strike an appropriate balance between driving accountability for sustainable short-term results and generating long-term growth and value creation for shareholders.

REMUNERATION REPORT

Following extensive engagement with investors and proxy advisor organisations these changes were strongly supported by shareholders in the last two years. Full details are set out in section 3.3 and 3.4 of the Remuneration Report.

As 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 LTI award contains two performance metrics: an external, market-based metric – 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 for the 2020 LTI Award, the Company adopted the ASX300 Industrials Index. The Board gave careful consideration to using an industry-based comparator group, however it 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. After considering advice received, the Board determined that, due to Nanosonics position within the ASX based on market capitalisation, the TSR of the ASX300 Industrials Index was the most appropriate comparator group.

The absence of a meaningful Healthcare comparator continued for the 2021 LTI award. At the start of FY22, there were 38 companies with a GICS classification of Health Care Equipment & Supplies Industry. On the bases of market capitalisation, total assets, net assets, revenue and earnings, two companies were significantly larger than Nanosonics across each of these measures, one company was around the same as Nanosonics for most measures and the rest, 35 companies, were less than a third of Nanosonics’ size for each measure. Accordingly, there were not sufficient Health Care Equipment and Supply companies within a relevant size range of financial statistics (33% to 300%), operational and geographic comparability to form a statistically reliable peer group against which to compare Nanosonics’ TSR performance over a three-year period.

As investors had previously indicated a preference for a TSR measure, the Board determined that the Company’s TSR performance for this tranche of the 2021 LTI would again be best measured relative to the ASX 300 Industrials Index. The upcoming 2022 LTI award (to be granted in FY23) will also employ the same comparator group.

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. The Company’s historically high Price Earnings (PE) ratio required a significant stretch performance of management to deliver inbuilt expectations, evident in the then 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 UROE, 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 in the 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 PBT (including R&D expenditure). The Board believes this framework provides the appropriate 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 by the high level of Remuneration Report resolution approval over the last two years. The feedback we received confirmed we had the balance right and the Board considers the calculation of UROE is the measure which is most fit-for-purpose for this tranche of the LTI award.

FY23 REMUNERATION

The Board approved some adjustments to the Executive Remuneration framework for the coming year. For Executive KMP STI, this involved changing the weighting of PBT and installed base metrics from 20%/40% to a more balanced 30%/30%. In addition, the installed base measure was changed from global new installed base to a global trophon units measure (new installed base and upgrades), to reflect the strategic importance of upgrades to the business and customer experience.

In response to the external market conditions of retaining talent and having regard to 2021/22 external market data provided by GRG in FY22, we increased the base remuneration for Executive KMP, 6% for CEO&P and 3.5%–5% (average 4.2%) for Other Executive KMP.

There were no increases recommended for the Non-Executive Directors’ (NED) Board fees for FY23, with the last review and increase having occurred in FY19.

The focus for FY23 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.

As our Executive Remuneration Framework adopted in 2020 will have been in place for three years by FY24, the Committee proposes to conduct a high-level review of the framework in FY23 to ensure that it continues to be effective in motivating and aligning the executive team with the Company’s strategic ambitions and shareholder experience. Any changes will not be implemented until FY24 and will be disclosed in next year’s Remuneration report letter.

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.

Marie McDonald

MARIE MCDONALD
Chairman, Remuneration, People and Culture Committee
23 August 2022

REMUNERATION REPORT

The Remuneration Report for the year ended 30 June 2022 (2022 Financial Year or FY22) 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, and in compliance with AASB124 Related Party Disclosures. Except for section 4.5, this Remuneration Report has been 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. The KMP in FY22 and their relevant roles during the year were as follows:

			Committee membership			
Name	**Role**	**Appointed**	**Nomin-ation**	**Audit and 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[1]	Chief Executive Officer & President (CEO&P) and Managing Director	21 Oct 2013				✓
McGregor Grant	Chief Financial Officer (CFO) and Company Secretary	28 Apr 2011				
Steven Farrugia	Chief Technology Officer (CTO)	5 Sep 2016				
David Morris	Chief Strategy Officer (CSO) and Regional President, APAC	4 Feb 2019				
Rod Lopez	Chief Operating Officer (COO)	4 Mar 2019				

✓= member, C = Chairman

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

From time to time, the Board establishes ad hoc committees focused on specific areas. During FY22, the Board convened a Related Party Committee, chaired by Mr Sargent, Deputy Chairman, and attended by the relevant Directors.

There were no changes to KMP during FY22. However, a number of changes to Board positions were announced on 31 May 2022:

- Mr Stang stepped down as Chairman on 1 July 2022 and assumed the role of Deputy Chairman. He will retire from the Board at the AGM on 18 November 2022.
- Mr Sargent was elected by the Board as Independent Chairman and assumed this position on 1 July 2022.
- Ms McDonald was elected by the Board as Chairman of Remuneration, People & Culture Committee and assumed this position on 1 July 2022.

REMUNERATION REPORT

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.

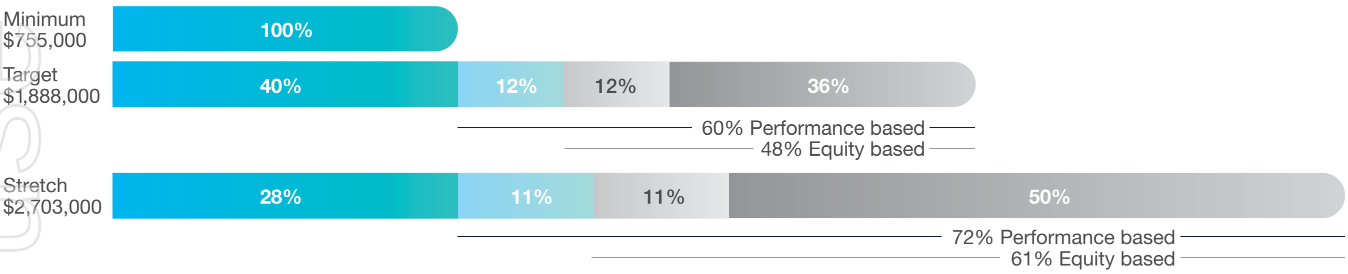
REMUNERATION REPORT

3 REMUNERATION FRAMEWORK

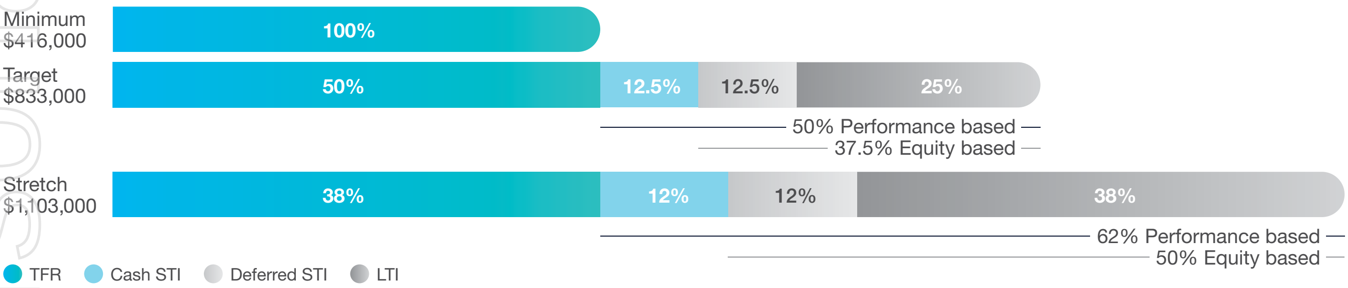
3.1 Target remuneration mix

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 37.5% for Other Executive KMP at Target achievement). The tables below show the CEO&P remuneration mix and the average remuneration mix for the Other Executive KMP and reflects the increased STI opportunity for Other Executive KMP in FY22 to 50% from 40% in FY21.

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 (TTR) 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 of TTR is P62.5.

REMUNERATION REPORT

3 REMUNERATION FRAMEWORK continued

3.3 Short-Term Incentive (STI)

As foreshadowed in the 2021 Remuneration Report, the second phase of an increase in the target STI opportunity for Other Executive KMP was implemented from 40% in FY21 to 50% in FY22. The CEO&P's target STI opportunity remained at 60% of TFR.

The FY22 STI is dependent on meeting Group Financial and Operational metrics for the year, 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

The measure for metrics with stretch outcomes, for example the 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:

Threshold: Represents a minimum level of outcome that would result in a reward.

Target: Represents the desired outcome that is considered challenging and reasonably achievable.

Stretch: Represents the upper limit of outcomes that are inherently challenging.

The targets for the performance levels within each discrete metric are approved by the Board, taking into consideration prior performance, market conditions and Board approved budgets. The CEO&P metrics for FY22 are:

- **Group Financial metrics** (60% weighting) with achievement at Threshold resulting in award of 50% of weighted opportunity, achievement at Target resulting in award of 100% of weighted opportunity, and achievement at Stretch resulting in award of up to 150% of weighted opportunity:
  - **Profit Before Tax** (PBT) (20% weighting): PBT is considered to be an appropriate metric aligned with the Company's continued growth strategy and is a financial indicator that is able to be influenced by the CEO&P.
  - **Global Installed Base** (40% weighting): Global Installed Base is considered an appropriate metric as it aligns with shareholders' long-term interests in driving profit. The higher weighting was applied recognising the strategic importance of continuing to grow the installed base.
- **Operational metrics** (40% weighting): With achievement of the metric resulting in a maximum of 100% of the weighted opportunity. The FY22 Operational metrics are aligned with the FY22 business priorities: Strategic Partnerships, Product Expansion Strategy and three-year Operational Plan.

The weightings for each Executive KMP are as follows:

	Metric weighting allocation			
	Group financial metrics		Individual/ operational metrics	
Executive KMP	Profit before tax	Global installed base	Regional financial	Individual/ operational
Michael Kavanagh	20%	40%		40%
McGregor Grant	20%	40%		40%
Steven Farrugia[1]	20%	30%		50%
David Morris[2]	10%	20%	40%	30%
Rod Lopez	20%	40%		40%

1. Dr. Farrugia, Chief Technology Officer, had a higher weighting attached to the achievement of Operational metrics on product development.
2. Mr. Morris, Chief Strategy Officer and Regional President, APAC, had a higher weighting attached to the achievement of Regional and Operational metrics reflecting the role of Regional President, APAC.

Opportunity

CEO&P: Target opportunity is 60% of TFR, with maximum of up to 78% of TFR for achievement of Stretch outcomes.

Other Executive KMP: Target opportunity is 50% of TFR, with a maximum of up to 65% of TFR for the CFO and COO, up to 62.5% for the CTO or up to 67.5% for the CSO and APAC President for achievement of Stretch outcomes.

REMUNERATION REPORT

3 REMUNERATION FRAMEWORK continued

Calculation	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 *Collaboration, Innovation, Discipline, Agility* and *Will to Win*. The Values rating modifier is applied to the total STI outcome % in recognition of the contribution of behaviour. In determining the total STI award, the TFR is used to calculate the amount paid to the individual during the financial year (1 July 2021 to 30 June 2022). **Total STI award ($)** = **TFR ($)** X **STI opportunity** X **STI outcome** X **Values rating modifier** TFR ($): (calculated on the amount paid during the financial year) STI opportunity: (% of TFR) STI outcome: (includes total results of each discrete metric, including stretch outcomes, where applicable) Values rating modifier: (0% to 100%)
Delivery	The STI is delivered as follows: – 50% of STI paid in cash. – 50% of STI delivered as Service Rights subject to one-year service condition and one-year exercise restriction period, i.e. two-year lockup.
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 FY22 full year results.
Dividends	Rights do not carry any dividend or voting rights prior to exercise.
Termination of employment	To be eligible to receive the cash component, the participants must be employed by the Company and not working a notice period at the time the cash is paid. 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.
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

3 REMUNERATION FRAMEWORK continued

3.4 2021 Long-Term Incentive (LTI)

At the 2021 Annual General Meeting held on 19 November 2021, shareholders approved the 2021 LTI award for the CEO&P.

The LTI structure includes two financial measures: an external, market-based metric (Index-TSR or iTSR) reflecting a Nanosonics specific risk adjusted return relative to a return of the ASX300 Industrials Index, and an internal, earnings-based metric, Underlying Return on Equity (UROE) to support investment in growth. These measures were first introduced in the 2020 LTI structure.

Details of the 2021 LTI award, which applies to all Executive KMP, are set out below:

<table>
<tr><td>Purpose</td><td>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.</td></tr>
<tr><td>Opportunity</td><td>CEO&P: Target opportunity is 90% of TFR, with a maximum of up to 180% of TFR for achievement of Stretch outcomes.
Other Executive KMP: Target opportunity is 50% of TFR, with a maximum of up to 100% of TFR for achievement of Stretch outcomes.</td></tr>
<tr><td>Delivery</td><td>Equity grants to the Executive KMP were awarded as follows:
– The iTSR component (33.33% weighting) was awarded as Share Appreciation Rights (SARs), which are cashless exercise options with a notional exercise price of $6.825 (determined based on the Volume Weighted Average Price (VWAP) of Nanosonics' shares during the 20 business days from the date of the release of the Company's FY21 full year results).
– The UROE component (66.67% weighting) was awarded as Performance Rights with a nil exercise price.</td></tr>
<tr><td>Allocation method</td><td>The number of Share Appreciation Rights or Performance Rights granted is calculated as follows:
Number of Rights = TFR ($) 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).</td></tr>
<tr><td>Measurement period</td><td>The measurement periods for the Share Appreciation Rights and Performance Rights are:
– Share Appreciation Rights: from the announcement of the Company's FY21 financial results to the announcement of the Company's FY24 financial results based on the 20-day VWAP of the Company's shares following those dates.
– Performance Rights: from 1 July 2021 to 30 June 2024.
The performance measurement periods for the LTI plans issued prior to 2021 that have not yet vested are summarised below:
<table>
<tr><th>LTI year</th><th>Measurement period</th></tr>
<tr><td>2020</td><td>– 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.</td></tr>
<tr><td>2019</td><td>– 27 August 2019 to the date of the release of Nanosonics' FY22 financial results.</td></tr>
</table></td></tr>
<tr><td>Exercise restriction period</td><td>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.
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.</td></tr>
</table>

REMUNERATION REPORT

3 REMUNERATION FRAMEWORK continued

Gate and Performance Conditions:

Gate

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 2021 LTI is as follows:

- 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.

Performance Conditions

The Performance Conditions for the 2021 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 Index 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% 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 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	29% (+3%)	100%	200%
Target	26%	50%	100%
Threshold	23% (-3%)	25%	50%
Below	<23%	0%	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:

Exercised Rights Value = Number of Rights Exercised X [Share Price at Exercise – 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:

a. Specified disposal restrictions specified in the Invitation.

b. Disposal is prohibited by the Company's securities trading policy, including trading blackouts.

c. 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.

REMUNERATION REPORT

3 REMUNERATION FRAMEWORK continued

Term	Rights will have a term ending on the 30 September 2028 (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 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.

LTI awards prior to the 2021 LTI

The 2020 LTI award structure is consistent with the 2021 LTI award structure and a summary of the performance measures associated with the 2020 LTI granted awards is set out below:

Index TSR

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

Underlying Return on Equity (UROE)

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%

The 2019 LTI award is subject to an Absolute Compounded Annual Growth Rate of Total Shareholder Return (Absolute CAGR TSR) and includes 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 award, the average PBT of the Company for the last three financial years of the measurement period had to be greater than the PBT of the Company in the financial year ending 30 June 2019. As that condition has not been satisfied, the Gate did not open and the 2019 LTI award will not vest.

Had the Gate opened, the Absolute CAGR TSR for the 2019 LTI award would have been 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 results compared to the VWAP of the shares in the Company in the month from and including the announcement of the Company's FY22 full year results.

REMUNERATION REPORT

3 REMUNERATION FRAMEWORK continued

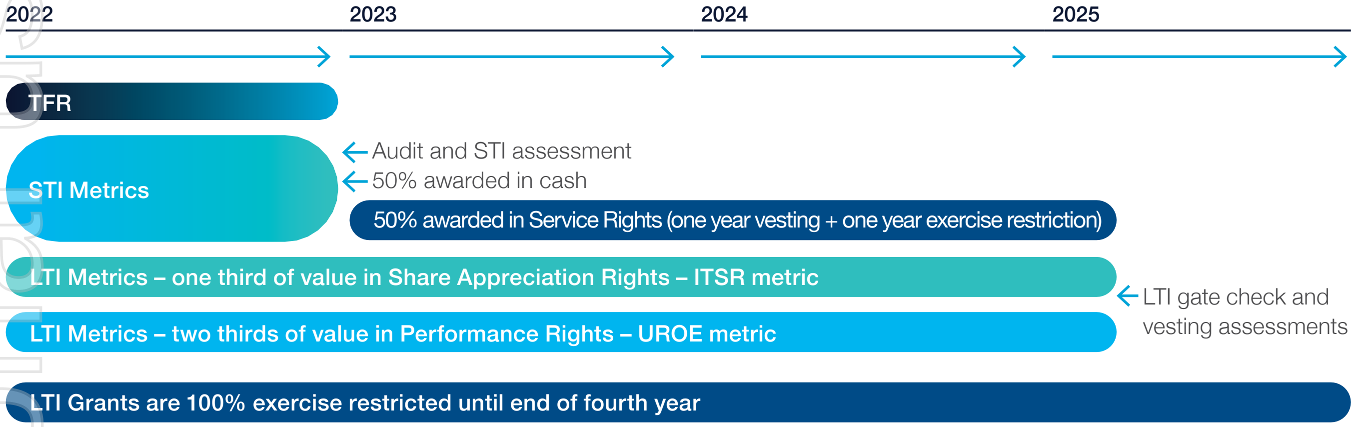
A summary of the performance measures associated with the 2019 LTI granted awards is set out below:

Performance level	Absolute CAGR TSR	% Tranche vesting
Target	Reaches or exceeds 13%	100%
Threshold	Reaches 8% but does not reach 13%	50%-100%
Below threshold	Does not reach 8%	0%

Details of the 2018 LTI award that vested in FY22 are provided in section 4.3.

3.5 Remuneration cycle

The Executive KMP remuneration cycle is illustrated below.



REMUNERATION REPORT

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 FY18 to FY22 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	FY22	FY21	FY20	FY19	FY18
Earnings and cash flows					
Revenue ($'000)	**120,320**	103,079	100,054	84,324	60,698
Profit before tax ($'000)	**1,578**	10,983	12,459	16,830	5,583
Net profit after tax ($'000)	**3,742**	8,578	10,136	13,602	5,261
Pre-tax basic earnings per share (Pre-tax EPS) (cents)	**0.52**	3.65	4.15	5.61	1.87
Basic earnings per share (EPS) (cents)	**1.24**	2.85	3.37	4.54	1.76
Free cash flow ($'000)	**(207)**	5,935	20,876	2,621	6,196
Returns					
Share price as at 30 June ($)	**3.36**	5.87	6.82	5.62	3.16
Relative TSR percentile ranking	**n/a**	n/a	93.1/75.8[3]	90.9/88.4[4]	94th/95th[5]
Three-year rolling CAGR TSR %[6]	**(15.8)**	22.9	39.0	36.9	23.0
STI award outcomes					
Executive KMP outcome (Average % of $ target for the completed year)	**41.40**	94.9	64.8	80.3	63.1
Executive KMP outcome (Average % of $ maximum for the completed year)[7]	**31.83**	71.7	43.2	53.5	63.1
LTI outcomes					
% that vested during the year	**0**[1]	100[2]	100[3]	75[4]	100[5]

1. Relates to the 2019 LTI, refer to section 4.4 for additional information.
2. Relates to the 2018 LTI, refer to section 4.3 for additional information.
3. Relates to the 2017 LTI Nanosonics percentile ranking of Comparator Group 1 and Comparator Group 2, respectively.
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. Three-year CAGR TSR shown for the five years' performance period was calculated using the 30 June closing share price.
7. Stretch STI opportunity was first introduced in FY19, hence prior to FY19, maximum STI outcome is the same as the target STI outcome.

REMUNERATION REPORT

4 COMPANY PERFORMANCE AND REMUNERATION OUTCOMES continued

4.2 FY22 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 FY22 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.

The Group Financial metrics and the outcome of those metrics in FY22 are summarised below:

Metric	Measure	Outcome	Comments on outcomes
Profit Before Tax (PBT)	Achievement of Profit Before Tax	0%	The Company did not meet the threshold PBT level set by the Board when agreeing the FY22 operating plan. This outcome was mainly a result of the transition to the revised largely direct North American sales model.
Global Installed Base	The number of new installed base trophon units installed globally	0%	The Company did not meet the Global Installed Base threshold set by the Board when agreeing the FY22 operating plan. There were a number of factors that impacted this outcome, including prolonged periods of COVID-related disruption, which resulted in reduced market access. The sanctions on sales in Russia also impacted the growth in Global Installed Base units during FY22.

The Board did not exercise any discretion in relation to the Group Financial metrics.

In addition to the Group Financial metrics, each Executive KMP is required to achieve Operational metrics which comprise regional financial metrics or operational metrics that are set by the Board. These metrics are aimed at achieving specific outcomes across a range of areas, including product development and innovation, geographical expansion, supply chain continuity and customer satisfaction, as well as the consideration of the Company risk register.

The outcomes of the Operational metrics that were set for the CEO&P and Other Executive KMP include:

- Achievement of the R&D milestones to support the expansion of the Company's product portfolio.
- Implementation of dedicated R&D and product marketing teams accountable for the trophon and AuditPro program management and development of new product expansion.
- Completion of the Controlled Market Release and launch of AuditPro in the USA.
- Further progress with the penetration into key markets as part of the geographical expansion, with the fundamentals of adoption through medical affairs activities into Japan and the execution of planned market entry plans into China.
- Continued evolution of the risk management framework resulting in further embedding of the risk management process, including the risk management appetite across the Company.
- Effective management of the Company's supply chain complexities and uncertainties due to the pandemic ensuring minimal supply impact to our global customers.
- Successful transition into the Company's new HQ with all regulatory approvals, minimal disruption to supply chain and high employee engagement.

The overall outcome of the Operational metrics for FY22 demonstrated a strong result and were as follows:

- CEO&P: 100% (40% weighted outcome).
- Other Executive KMP 91.96% (average) (42.16% average weighted outcome).

The Board exercised discretion on the Operational metrics for the COO and increased his individual outcome from 40% to 50% in recognition of his significant contribution to the Nanosonics and GE transition in North America, strong performance in the effective management of the supply chain in the complex business environment and the relocation of the Company's headquarters during FY22.

There were no downward Values rating modifiers applied to the Executive KMP in FY22.

REMUNERATION REPORT

4 COMPANY PERFORMANCE AND REMUNERATION OUTCOMES continued

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 %[1]	STI Achievement $	Cash $	Equity portion deferred[2] $	% Forfeited[3] %
Michael Kavanagh[4]	453,041	0%	40%	40%	181,216	90,608	90,608	60%
McGregor Grant	206,994	0%	40%	40%	82,797	41,399	41,398	60%
Steven Farrugia	204,284	0%	50%	50%	102,142	51,071	51,071	50%
David Morris	222,934	0%	30%	30%	66,880	33,440	33,440	70%
Rod Lopez[5]	198,334	0%	50%	50%	99,167	49,584	49,583	50%

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 2023. Once vested, these service rights will be subject to an exercise restriction which will end on 31 August 2024, after which the KMP has three years to exercise the Rights.
3. % forfeited is difference between target STI rate at 100% and the STI achievement rate.
4. Mr Kavanagh's individual performance was assessed by the Board having regard to the Group Financial and Operational metrics and there was no downward modifier applied in relation to behaviours aligned to the Company's Core Values.
5. The Board exercised discretion and awarded 50% STI achievement for Mr Lopez in recognition of his performance in the transition of the distribution model in North America, effective supply chain management and relocation of the Company's headquarters. His individual/operational metric outcome would have been at 40% without this discretion.

4.3 2018 LTI outcome

The performance conditions associated with the 2018 LTI included a PBT Gate and an Absolute CAGR TSR.

The average PBT of the Company in the last three years (FY19 to FY21) was $13,424,000 and exceeded the PBT of the Company for the period ended 30 June 2018 which was $5,583,000. Therefore, the PBT Gate opened.

To achieve 100% vesting, the Absolute CAGR TSR had to reach or exceed 20%. The VWAP calculation from one month and including the date of the release of the FY21 financial statements on 24 August 2021 was $6.77, representing an Absolute CAGR TSR of 25.08%. Accordingly, 100% of the Rights and Options vested.

4.4 2019 LTI outcome

The performance conditions associated with 2019 LTI includes a PBT Gate and Absolute CAGR TSR.

The average PBT of the Company in the last three years (FY20 to FY22) was $8,387,000 and did not meet the PBT of the Company for the period ended 30 June 2019 which was $16,830,000. Therefore, the PBT Gate did not open.

As the PBT Gate did not open, the 2019 LTI Award will result in nil vesting of the Rights and Options.

REMUNERATION REPORT

4 COMPANY PERFORMANCE AND REMUNERATION OUTCOMES continued

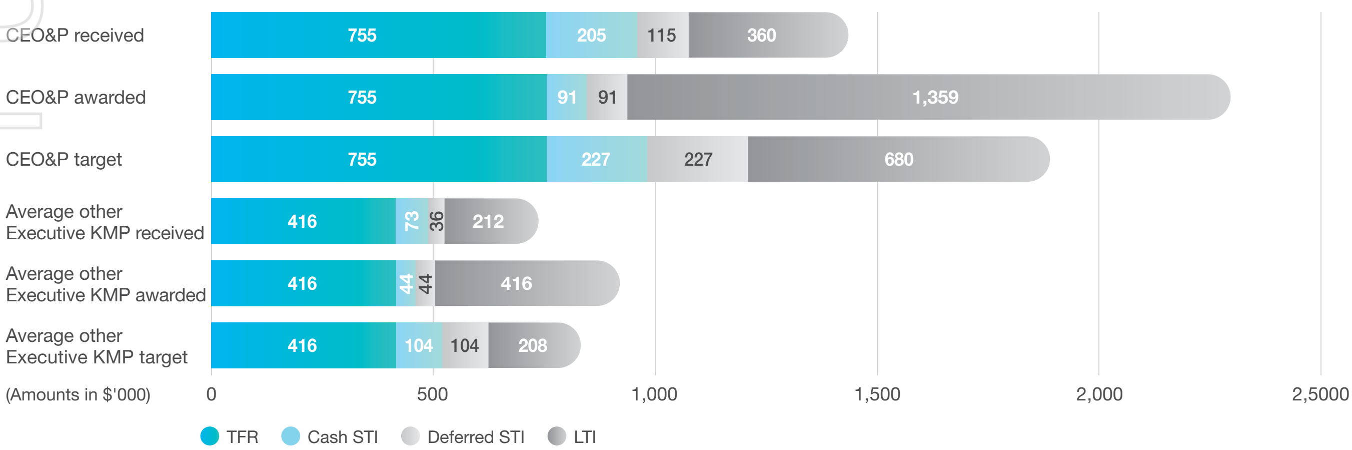
4.5 Executive KMP remuneration received during the period (unaudited)

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

Name	Year	Total Fixed Remuneration [1] $	Cash STI [2] $	Deferred STI vested [3] $	LTI vested [4] $	Actual remuneration received during the year $	LTI forfeited [4] $	Gain/(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	**2022**	**755,068**	**204,817**	**115,500**	**359,681**	**1,435,066**	**—**	**11,021**	**594,984**
	2021	721,694	115,500	185,438	306,211	1,328,843	—	34,815	1,120,799
McGregor Grant	**2022**	**413,987**	**75,131**	**32,941**	**109,341**	**631,400**	**—**	**3,145**	**180,874**
	2021	397,097	32,942	44,146	99,515	573,700	—	(2,757)	312,181
Steven Farrugia	**2022**	**408,568**	**69,581**	**36,225**	**201,840**	**716,214**	**—**	**3,455**	**142,557**
	2021	371,694	36,225	41,437	79,560	528,916	—	(2,583)	249,580
David Morris	**2022**	**445,868**	**78,239**	**37,080**	**301,699**	**862,886**	**—**	**3,540**	**275,461**
	2021	433,694	37,080	21,038	—	491,812	—	(1,308)	—
Rod Lopez	**2022**	**396,668**	**70,919**	**36,225**	**236,301**	**740,113**	**—**	**3,455**	**135,247**
	2021	371,694	36,225	14,698	—	422,617	—	(914)	—
Total	**2022**	**2,420,159**	**498,687**	**257,971**	**1,208,862**	**4,385,679**	**—**	**24,616**	**1,329,123**
	2021	2,295,873	257,972	306,757	485,286	3,345,888	—	27,253	1,682,560

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 FY22 was from the FY20 STI award (FY21 was from the FY19 STI award). Value vested represents the STI allocation value (STI award value) for the relevant award year.
4. LTI vested/forfeited in FY22 includes the 2018 LTI award, the special award for Dr Farrugia, and sign on incentives for Mr Morris and Mr Lopez (FY21 included 2017 LTI). The value of the LTI vested/forfeited 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 rights and options to be awarded multiplied by the number of 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 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 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 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 FY22 in comparison to awarded and target remuneration for FY22.



"Received" remuneration refers to Total Fixed Remuneration received during FY22, Cash STI during FY22 in respect of FY21 performance, deferred FY20 STI and 2018 LTI (including service/sign on special awards to Dr Farrugia, Mr Morris and Mr Lopez) which vested (using the award value) in FY22.

REMUNERATION REPORT

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 in 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 October 2021. The RPC's 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.

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 Executive KMP to whom the remuneration recommendations relate.

There were no 'remuneration recommendations' made during the FY22 reporting period, however, GRG were engaged to provide the following services:

- CEO benchmarking data, CEO market movement and Bloomberg TSR Market data for ASX 300.
- 2021/22 GRG I&S KMP Remuneration Guide for consideration in the FY23 remuneration review for CEO&P and Executive KMP.

The Company paid fees totalling $13,200 including GST for these services.

REMUNERATION REPORT

5 GOVERNANCE 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 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. The Board did not exercise any downward discretion in relation to the above matters. Upward discretion was exercised by the Board in one case in recognition of individual performance in respect of FY22 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 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 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 annual Director fee (including superannuation and excluding Committee fees) 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.

A copy of the Company's Share Ownership Policy is available on Nanosonics' website, www.nanosonics.com under Investor Centre, Corporate Governance.

REMUNERATION REPORT

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 2022 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.

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 chairman 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 10% 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 1 July 2019. There were no changes in FY22.
2. The Chairman does not receive separate Committee fees.
3. No Committee fees are payable in relation to the Nomination Committee.

REMUNERATION REPORT

7 STATUTORY TABLES AND DISCLOSURES

7.1 Executive KMP statutory remuneration for FY22

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

		Short-term	Long-term	Post-employment			Variable remuneration						
		Base salary	Accrued leave benefits	Superannuation	TFR		Cash STI [1]		Deferred STI equity compensation [2]		LTI equity compensation [2]		Total remuneration
Name	Year	$	$	$	$	% of TR	$	% of TR	$	% of TR	$	% of TR	$
Michael Kavanagh	**2022**	**703,366**	**95,087**	**23,568**	**822,021**	**58%**	**90,608**	**6%**	**117,776**	**8%**	**401,232**	**28%**	**1,431,637**
	2021	642,046	73,361	21,694	737,101	52%	204,817	14%	172,649	12%	308,847	22%	1,423,414
McGregor Grant	**2022**	**368,531**	**48,523**	**23,568**	**440,622**	**69%**	**41,399**	**7%**	**39,210**	**6%**	**113,300**	**18%**	**634,531**
	2021	342,195	36,516	21,694	400,405	65%	75,131	12%	64,547	11%	71,015	12%	611,098
Steven Farrugia [3]	**2022**	**363,462**	**36,806**	**23,568**	**423,836**	**65%**	**51,071**	**8%**	**42,791**	**7%**	**130,318**	**20%**	**648,016**
	2021	322,458	33,654	21,694	377,806	62%	69,581	11%	64,384	11%	99,521	16%	611,292
David Morris [4]	**2022**	**410,931**	**45,832**	**23,568**	**480,331**	**66%**	**33,440**	**5%**	**36,659**	**5%**	**175,572**	**24%**	**726,002**
	2021	394,570	34,098	21,694	450,362	60%	78,239	10%	67,403	9%	156,040	21%	752,044
Rod Lopez [5]	**2022**	**360,185**	**39,599**	**23,568**	**423,352**	**64%**	**49,584**	**8%**	**37,824**	**6%**	**140,917**	**22%**	**651,677**
	2021	328,462	29,054	21,694	379,210	61%	70,919	11%	62,824	10%	109,323	18%	622,276
Total	**2022**	**2,206,475**	**265,847**	**117,840**	**2,590,162**	**63%**	**266,102**	**7%**	**274,260**	**7%**	**961,339**	**23%**	**4,091,863**
	2021	2,029,731	206,683	108,470	2,344,884	58%	498,687	12%	431,807	11%	744,746	19%	4,020,124

1. Cash STI is for the performance during the respective financial year. 2022 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 the 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. This award vested during the period.
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 vesting condition and this is included in the LTI amount. This award vested during the period.
5. Mr Lopez joined Nanosonics on 4 March 2019 and 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. This award vested during the period.

No termination payments were made to Executive KMP during this or the previous period. There were no non-monetary short-term benefits and no post-employment benefits other than superannuation given to KMP during this or the previous period.

REMUNERATION REPORT

7 STATUTORY TABLES AND DISCLOSURES continued

7.2 Non-executive Director remuneration for FY22

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

Name	Year	Board fees $	Committee fees $	Super-annuation $	Total $
Maurie Stang	**2022**	**219,886**	**—**	**5,114**	**225,000**
	2021	215,240	—	9,760	225,000
Steven Sargent	**2022**	**122,727**	**27,273**	**15,000**	**165,000**
	2021	123,288	27,397	14,315	165,000
Geoff Wilson	**2022**	**90,909**	**27,273**	**11,818**	**130,000**
	2021	91,324	27,397	11,279	130,000
David Fisher	**2022**	**90,909**	**27,273**	**11,818**	**130,000**
	2021	91,324	27,397	11,279	130,000
Marie McDonald	**2022**	**90,909**	**18,182**	**10,909**	**120,000**
	2021	91,324	18,265	10,411	120,000
Lisa McIntyre	**2022**	**90,909**	**18,182**	**10,909**	**120,000**
	2021	91,324	18,265	10,411	120,000
Total	**2022**	**706,249**	**118,183**	**65,568**	**890,000**
	2021	703,824	118,721	67,455	890,000

REMUNERATION REPORT

7 STATUTORY TABLES AND DISCLOSURES continued

7.3 KMP equity movements and holding policy status

Movements in equity interests held during the financial year by KMP, including their personally-related parties, are set out below, as well as progress towards achieving the holding policy requirement.

		Number held at open 2022	Granted FY22		Forfeited during FY22	Vested during FY22	FY22 exercised (or shares received from exercising) [1]	FY22 Restriction end	FY22 Purchased /other	Number held at close 2022	% of Holding policy met [2]
Name	Instrument	Number	Date granted	Number	Number	Number	Number	Number	Number	Number	Percent
Michael Kavanagh	Unrestricted Shares	1,361,098		–	–	–	–	19,547	–	1,380,645	
	Restricted Shares	19,547		–	–	–	19,112	(19,547)	–	19,112	
	Vested Rights	–		–	–	40,012	(19,112)	–	–	20,900	
	Unvested Rights	196,220	19 Nov 21	162,770	–	(40,012)	–	–	–	318,978	100%
	Vested Options / SARs	498,904		–		286,885	–	–	–	785,789	
	Unvested Options / SARs	674,683	19 Nov 21	190,114	–	(286,885)	–	–	–	577,912	
McGregor Grant	Unrestricted Shares	673,348		–	–	–	23,080	6,774	–	703,202	
	Restricted Shares	6,774		–	–	–	5,451	(6,774)	–	5,451	
	Vested Rights	16,726		–	–	11,805	(28,531)	–	–	–	
	Unvested Rights	59,071	24 Jan 22	40,439	–	(11,805)	–	–	–	98,714	100%
			03 Feb 22	11,009							
	Vested Options / SARs	82,976		–	–	87,211	–	–	–	170,187	
	Unvested Options / SARs	199,039	24 Jan 22	57,909	–	(87,211)	–	–	–	169,737	
Steven Farrugia	Unrestricted Shares	–		–	–			6,359	–	6,359	
	Restricted Shares	6,359		–	–		5,994	(6,359)	–	5,994	
	Vested Rights	13,372		–	–	41,577	(5,994)	–	–	48,955	
	Unvested Rights	92,262	24 Jan 22	39,909	–	(41,577)	–	–	–	100,790	100%
			03 Feb 22	10,196							
	Vested Options / SARs	66,337			–	60,922	–	–	–	127,259	
	Unvested Options / SARs	143,055	24 Jan 22	57,151	–	(60,922)	–	–	–	139,284	
David Morris	Unrestricted Shares	–		–	–		–	3,229	–	3,229	
	Restricted Shares	3,229		–	–		6,136	(3,229)		6,136	
	Vested Rights	–		–	–	72,883	(6,136)			66,747	
	Unvested Rights	124,524	24 Jan 22	43,553	–	(72,883)	–	–	–	106,658	100%
			03 Feb 22	11,464							
	Vested Options / SARs	–			–	81,116	–	–	–	81,116	
	Unvested Options / SARs	203,505	24 Jan 22	62,368	–	(81,116)	–	–	–	184,757	
Rod Lopez	Unrestricted Shares	–		–	–		–	2,256	–	2,256	
	Restricted Shares	2,256		–	–		5,994	(2,256)	–	5,994	
	Vested Rights	–		–		46,630	(5,994)		–	40,636	
	Unvested Rights	90,860	24 Jan 22	38,747	–	(46,630)	–	–	–	93,369	100%
			03 Feb 22	10,392							
	Vested Options / SARs	–		–	–	68,835	–	–	–	68,835	
	Unvested Options / SARs	173,332	24 Jan 22	55,486	–	(68,835)	–	–	–	159,983	

1. Shares received on exercise of rights at nil price.
2. The % of holding policy met is determined in accordance with the Share Ownership Policy. If the shareholding interests' equal or exceed the previous year's base salary, the minimum shareholding requirement is 100% met.

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

REMUNERATION REPORT

7 STATUTORY TABLES AND DISCLOSURES continued

The following outlines changes in non-executive director equity interests during FY22:

Name	Instrument	Held at open Number	FY22 Purchased/ other Number	FY22 Sold Number	Held at close Number	% of holding policy met[1] Percent
Maurie Stang[2]	Shares	19,006,517	25,200	—	19,031,717	100%
Steven Sargent	Shares	123,400	—	—	123,400	100%
Geoff Wilson	Shares	28,487	—	—	28,487	100%
David Fisher	Shares	413,940	—	—	413,940	100%
Marie McDonald[3]	Shares	19,600	11,900	—	31,500	100%
Lisa McIntyre[4]	Shares	16,351	—	—	16,351	99.8%
Totals		**19,608,295**	**37,100**	**—**	**19,645,395**	

1. The % of holding policy met is determined in accordance with the Share Ownership Policy. If shareholding interests' equal or exceed the previous year's annual director fees (including superannuation and excluding Committee fees) the minimum shareholding requirement is 100% met.
2. Includes shares held by a close family member. Mr Stang purchased shares on market for $98,448 at an average price of $3.91 per share.
3. Ms McDonald purchased shares on market for $49,504 at $4.16 per share.
4. Dr McIntyre currently holds 99.8% of the minimum shareholding required but is still within the four-year accumulation period.

The following outlines potential future costs of equity remuneration granted during FY22 for Executive KMP:

Name	Plan	Grant date	Vesting date	Expiry date	Exercise price $	Fair value $	Total value awarded[1] $	Total fair value at grant[2] $	Value expensed in FY 22 $	Maximum value to be expensed in future years $
Michael Kavanagh	2021 LTI Performance Rights[3]	19 Nov 21	30 Sep 24	30 Sep 28	—	5.80	906,082	770,008	82,448	687,560
	2021 LTI Share Appreciation Rights[3]	19 Nov 21	30 Sep 24	30 Sep 28	6.8250	1.64	453,041	311,787	66,769	245,018
	FY21 Service Rights	19 Nov 21	31 Aug 22	30 Sep 26	—	5.80	204,817	174,058	75,957	3,590
McGregor Grant	2021 LTI Performance Rights[3]	24 Jan 22	30 Sep 24	30 Sep 28	—	5.13	275,991	207,452	16,723	190,729
	2021 LTI Share Appreciation Rights[3]	24 Jan 22	30 Sep 24	30 Sep 28	6.83	1.18	137,996	68,333	11,017	57,316
	FY21 Service Rights	03 Feb 22	31 Aug 22	30 Sep 26	—	5.05	75,131	55,595	20,103	824
Steven Farrugia	2021 LTI Performance Rights[3]	24 Jan 22	30 Sep 24	30 Sep 28	—	5.13	272,379	204,733	16,504	188,229
	2021 LTI Share Appreciation Rights[3]	24 Jan 22	30 Sep 24	30 Sep 28	6.8250	1.18	136,189	67,438	10,873	56,565
	FY21 Service Rights	03 Feb 22	31 Aug 22	30 Sep 26	—	5.05	69,581	51,490	19,220	162
David Morris	2021 LTI Performance Rights[3]	24 Jan 22	30 Sep 24	30 Sep 28	—	5.13	297,245	223,427	18,011	205,416
	2021 LTI Share Appreciation Rights[3]	24 Jan 22	30 Sep 24	30 Sep 28	6.8250	1.18	148,623	73,594	11,865	61,729
	FY21 Service Rights	03 Feb 22	31 Aug 22	30 Sep 26	—	5.05	78,238	57,893	21,225	566
Rod Lopez	2021 LTI Performance Rights[3]	24 Jan 22	30 Sep 24	30 Sep 28	—	5.13	264,445	198,772	16,023	182,749
	2021 LTI Share Appreciation Rights[3]	24 Jan 22	30 Sep 24	30 Sep 28	6.8250	1.18	132,223	65,473	10,556	54,917
	FY21 Service Rights	03 Feb 22	31 Aug 22	30 Sep 26	—	5.05	70,919	52,480	19,516	239
Totals							3,522,900	2,582,533	416,810	1,935,609

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 FY21 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 2021 LTI grant of performance rights and SARs are subject to UROE and iTSR conditions, respectively. These grants are also subject to service condition. The 2021 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.

The minimum value to be expensed in future years for each of the above grant made in FY22 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

7 STATUTORY TABLES AND DISCLOSURES continued

7.4 KMP service agreements

7.4.1 Executive KMP

The following outlines current Executive KMP service agreements:

Name	Duration of contract	Period of notice: By Company	Period of notice: By KMP	Termination payments [1]
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

7 STATUTORY TABLES AND DISCLOSURES 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 2022 (2021: 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 FY21 and FY22 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
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	2022 $	2021 $
Sale of products and services to Related Parties	3,959,462	5,089,524
Purchases of goods and services from Related Parties	1,784	9,137

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

	2022 $	2021 $
Current trade receivables (supply of goods and services)	1,137,540	1,821,163

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 (2021: 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.

THE FINANCIAL STATEMENTS

For the year ended 30 June 2022

AUDITOR'S INDEPENDENCE DECLARATION

Building a better working world

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Auditor's independence declaration to the directors of Nanosonics Limited

As lead auditor for the audit of the financial report of Nanosonics Limited for the financial year ended 30 June 2022, 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;

b. No contraventions of any applicable code of professional conduct in relation to the audit; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Ernst & Young

Gamini Martinus

Gamini Martinus
Partner
23 August 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
Continuing operations			
Revenue	2.2	**120,320**	103,079
Cost of sales		**(28,415)**	(22,695)
Gross profit		**91,905**	80,384
Selling and general expenses		**(47,880)**	(37,562)
Administration expenses		**(20,283)**	(16,003)
Research and development expenses		**(22,358)**	(17,194)
Other income	2.3	**457**	156
Other (losses)/gains – net	2.5	**(59)**	982
Results from operating activities		**1,782**	10,763
Finance income – interest		**353**	559
Finance expense		**(557)**	(338)
Net finance (expense)/income		**(204)**	221
Operating income before income tax		**1,578**	10,984
Income tax benefit/(expense)	3.1	**2,164**	(2,406)
Net income after income tax expense attributable to owners of the parent entity		**3,742**	8,578
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on foreign currency translation		**(1,430)**	746
Effective portion of changes in fair value of cash flow hedges		**(2,031)**	(460)
Income tax on items of other comprehensive income/(loss)		**609**	138
Total other comprehensive (loss)/income		**(2,852)**	424
Total comprehensive income for the year attributable to owners of the parent entity		**890**	9,002

Earnings per share information:		Cents	Cents
Basic earnings per share	2.6(a)	**1.24**	2.85
Diluted earnings per share	2.6(b)	**1.22**	2.81

The notes on pages 68 to 101 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Notes	2022 $'000	2021 $'000
Assets			
Current assets			
Cash and cash equivalents	6.1	**94,512**	96,027
Trade and other receivables	6.2	**28,391**	28,362
Inventories	7.1	**22,615**	11,865
Derivative financial instruments	6.3	**—**	1,920
Cost to obtain customer contracts	5.1	**241**	165
Income tax receivable		**64**	—
Prepayments and other current assets		**5,430**	3,973
Total current assets		**151,253**	142,312
Non-current assets			
Property, plant and equipment	7.2	**11,722**	7,201
Right-of-use assets	7.3	**10,858**	2,133
Intangible assets	7.4	**217**	278
Net deferred tax assets	3.2	**13,336**	10,048
Derivative financial instruments	6.3	**1**	134
Cost to obtain customer contracts	5.1	**212**	132
Other non-current assets		**72**	66
Total non-current assets		**36,418**	19,992
Total assets		**187,671**	162,304
Liabilities			
Current liabilities			
Trade and other payables	6.4	**9,582**	7,194
Lease liabilities	6.5	**2,554**	1,479
Income taxes payable		**758**	721
Contract liabilities	5.1	**6,896**	3,551
Employee benefits liabilities	4.2	**6,495**	5,921
Provisions	7.5	**584**	426
Derivative financial instruments	6.3	**2,288**	247
Total current liabilities		**29,157**	19,539
Non-current liabilities			
Lease liabilities	6.5	**9,158**	1,012
Contract liabilities	5.1	**9,665**	5,448
Employee benefits liabilities	4.2	**457**	590
Provisions	7.5	**—**	130
Derivative financial instruments	6.3	**543**	17
Total non-current liabilities		**19,823**	7,197
Total liabilities		**48,980**	26,736
Net assets		**138,691**	135,568
Equity			
Contributed equity	9.1(a)	**113,855**	113,539
Reserves		**19,977**	20,912
Retained earnings		**4,859**	1,117
Total equity		**138,691**	135,568

The notes on pages 68 to 101 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2022

		Reserves					
	Contributed equity $'000	Share-based payments $'000	Foreign currency translation $'000	Hedging $'000	Total reserves $'000	Retained earnings (accumulated losses) $'000	Total equity $'000
At 30 June 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
At 1 July 2021	**113,539**	**21,253**	**(712)**	**371**	**20,912**	**1,117**	**135,568**
Profit for the period						**3,742**	**3,742**
Other comprehensive income/(loss)	**—**	**—**	**(1,430)**	**(2,031)**	**(3,461)**	**—**	**(3,461)**
Income tax on item of other comprehensive income	**—**	**—**	**—**	**609**	**609**	**—**	**609**
Total comprehensive income	**—**	**—**	**(1,430)**	**(1,422)**	**(2,852)**	**3,742**	**890**
Transaction with owners in their capacity as owners							
Issue of shares under employee share plans	**316**	**—**	**—**	**—**	**—**	**—**	**316**
Share-based payments	**—**	**2,819**	**—**	**—**	**2,819**	**—**	**2,819**
Income tax on share-based payments	**—**	**(902)**	**—**	**—**	**(902)**	**—**	**(902)**
At 30 June 2022	**113,855**	**23,170**	**(2,142)**	**(1,051)**	**19,977**	**4,859**	**138,691**

The notes on pages 68 to 101 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST/VAT)		127,421	93,682
Payments to suppliers and employees (inclusive of GST/VAT)		(119,755)	(86,455)
Interest received		307	694
Income taxes paid		(1,278)	(605)
Net cash provided by operating activities	6.1(ii)	6,695	7,316
Cash flows from investing activities			
Purchase of property, plant and equipment		(6,787)	(1,229)
Purchase of intangible assets		(179)	(142)
Proceeds from disposal of property, plant and equipment		64	(10)
Net cash used in investing activities		(6,902)	(1,381)
Cash flows from financing activities			
Repayment of lease liabilities		(2,035)	(1,221)
Interest paid on lease liabilities		(254)	(97)
Proceeds from issue of shares under employee share plans		316	362
Repayment of borrowings		–	(77)
Interest paid on borrowings		–	(1)
Net cash used in financing activities		(1,973)	(1,034)
Net increase in cash and cash equivalents		(2,180)	4,901
Cash and cash equivalents at the beginning of the financial year		96,027	91,781
Effect of exchange rate changes on cash and cash equivalents		665	(655)
Cash and cash equivalents at the end of the financial year	6.1(i)	94,512	96,027

The notes on pages 68 to 101 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 2022 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 Financial and Operational Review on pages 8 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 23 August 2022.

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.

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.
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL ACCOUNTING POLICIES continued

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 6.5 Lease Liabilities

Note 7.1 Inventories

Note 7.5 Provisions

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.

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 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. Revenue is recognised at a point in time when the Group has delivered goods to its customers, and it is probable that consideration will be collected in exchange. Revenue is measured on the consideration expected to be received, net of trade rebates and discounts paid. If the contract includes variable consideration, the variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Some contracts for the sale of goods provide customers with volume rebates which give rise to variable consideration.

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

The Group then applies the requirements on constraining estimates of variable consideration and recognises an offset against trade and other receivables for the expected future rebates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PERFORMANCE FOR THE YEAR continued

Rental revenue

Rental revenue is recognised over time 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.

Major customers

The group has a number of customers to which it provides products and services. The most significant customer accounts for approximately 41% of external revenue (2021: 60%). The next most significant customer accounts for approximately 3.3% of external revenue (2021: 6.6%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PERFORMANCE FOR THE YEAR continued

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 2022				
Capital revenue before hedging	**33,540**	**2,081**	**1,932**	**37,553**
Foreign exchange gain on hedged sales	**105**	**—**	**—**	**105**
Total capital revenue	**33,645**	**2,081**	**1,932**	**37,658**
Consumables and spare parts	**62,629**	**4,828**	**2,309**	**69,766**
Service	**10,164**	**609**	**1,636**	**12,409**
Foreign exchange gain on hedged sales	**487**	**—**	**—**	**487**
Total consumables and service revenue	**73,280**	**5,437**	**3,945**	**82,662**
Total revenue	**106,925**	**7,518**	**5,877**	**120,320**
At a point in time	**102,762**	**7,339**	**5,341**	**115,442**
Over time	**4,163**	**179**	**536**	**4,878**
For the year ended 30 June 2021				
Capital revenue before hedging	20,969	2,673	2,660	26,302
Foreign exchange loss 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 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:

	2022 $'000	2021 $'000
North America	**2,931**	2,382
Europe and Middle East	**1,050**	1,666
Asia Pacific	**19,099**	5,762
Total	**23,080**	9,810

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PERFORMANCE FOR THE YEAR continued

2.3 Other income

The Company entered into a grant deed with Investment New South Wales under the NSW Government Jobs Plus Program (the Program), effective July 2021. Under the Program, the Company is committing to create over 100 new jobs in NSW between 2 July 2021 and 30 June 2024. Subject to creating the agreed number of new jobs, Nanosonics will receive milestone payments to support creating new jobs, which include payroll tax and training rebate as well as the costs of fitting out new manufacturing research and development laboratory and office facilities.

Grant revenue received under the Program will be recognised systematically as the Company recognises related costs as expenses in line with AASB120 Accounting for Government Grant.

Other income for the period of $457,000 (2021:$156,000) includes $238,000 (2021: Nil) in relation to the Program. As at 30 June 2022, the Company also recognised accrued grant income of $3,258,000 (included in Trade and other receivables) and a corresponding contract liability of $3,020,000 (included in Contract liability) based on expenditure incurred to date associated with the new manufacturing and research and development laboratory facilities. As the infrastructure rebate relates to a depreciable asset, this will be recognised as income over the periods and in proportions in which depreciation on those assets is charged.

2.4 Individually significant items

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

	2022 $'000	2021 $'000
Included in cost of sales		
Depreciation, amortisation and impairment	564	192
Included in selling and general expenses		
Depreciation, amortisation and impairment	3,807	2,581
Inventory provision	239	327
Included in administration expenses		
Depreciation, amortisation and impairment	481	609
Included in research and development expenses		
Depreciation, amortisation and impairment	875	1,043
Inventory provision	39	111

2.5 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.

	2022 $'000	2021 $'000
Realised (loss)/gain on derivative financial instruments	(1,579)	1,540
Unrealised (loss)/gain on derivative financial instruments	(1,329)	1,262
Net foreign exchange gain/(loss)	2,879	(1,810)
Net (loss)/gain on foreign currency	(29)	992
Loss on disposal of fixed assets	(30)	(10)
Total other (losses)/gains – net	(59)	982

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 PERFORMANCE FOR THE YEAR continued

2.6 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.

	2022 Cents	2021 Cents
a) Basic earnings per share		
Basic earnings attributable to the ordinary equity holders of the Company	**1.24**	2.85
b) Diluted earnings per share		
Diluted earnings attributable to the ordinary equity holders of the Company	**1.22**	2.81

	$'000	$'000
c) Net earnings used in calculating earnings per share		
Net earnings after income tax expense attributable to shareholders	**3,742**	8,578

	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	**301,233,262**	300,980,744
Adjustments for calculation of diluted earnings per share:		
Rights and options	**4,370,719**	4,177,124
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**305,603,981**	305,157,868

2.7 Dividends

No dividends were proposed, declared or paid during the financial year and to the date of this report (2021: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 INCOME TAXES

3.1 Income tax expense

The income tax expense or benefit for the period is the tax payable on or benefit attributable to the current period's taxable income based on the 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:

	2022 $'000	2021 $'000
Consolidated statement of profit or loss		
Current tax		
Current tax expense for the period	**(10,605)**	(9,444)
Adjustment relating to prior periods	**(154)**	(123)
Deferred tax		
Recognition and utilisation of deferred tax assets (net), including origination and reversal of temporary differences	**12,923**	7,161
Income tax expense reported in the statement of profit or loss	**2,164**	(2,406)
Tax relating to item in other comprehensive loss		
Deferred tax benefit recognised directly in other comprehensive loss relating to derivative financial instruments	**609**	138
Tax benefit relating to items in equity		
Current tax benefit on share-based payments	**31**	586
Deferred tax expense on share-based payments	**(933)**	(1,185)
Tax expense charged to equity	**(902)**	(599)

Following an assessment of the operations of the Group for the year ended 30 June 2022, 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 2022 amounted to $13,336,000 (2021: $10,048,000) as detailed in Note 3.2.

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

	2022 $'000	2021 $'000
Operating profit before tax from continuing operations	**1,578**	10,984
The prima facie income tax expense applicable to the operating profit is calculated at the Australian tax rate of 30% (2021: 30%)	**(473)**	(3,295)
Increase in income tax expense due to:		
– Non-deductible expenses	**(996)**	(956)
– Research and development	**(6,707)**	(5,158)
– Net derecognition of deferred tax assets in foreign jurisdictions	**(263)**	(488)
Decrease in income tax expense due to:		
– Other deductible expenses	**231**	513
– Recognition of R&D tax credits in Australia	**10,231**	6,620
– Effect of FX and tax rates in foreign jurisdictions	**(13)**	235
– Adjustment relating to prior period	**154**	123
Income tax benefit/(expense)	**2,164**	(2,406)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 INCOME TAXES continued

3.2 Deferred taxes

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

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

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

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 2022, the net deferred tax asset recognised in the statement of financial position comprises:

	2022 $'000	2021 $'000
Deferred tax assets		
Future intercompany deductible expenses	4,538	2,019
Lease liabilities	3,277	403
Contract liabilities	3,022	2,030
Non-refundable R&D tax credits	2,524	1,926
Employee benefits liabilities	1,621	1,689
Derivative financial instruments	849	—
Share-based payments	724	2,019
Patent costs	722	661
Capital allowances in foreign subsidiary tax jurisdiction	518	455
Inventory provision	508	501
Accrued expenses	457	304
Tax losses in foreign subsidiary tax jurisdictions	316	236
Provisions for warranties and make good	175	196
Unrealised foreign exchange losses	14	—
Others	154	177
Total deferred tax assets	19,419	12,616
Deferred tax liabilities		
Right-of-use asset	(3,024)	(296)
Property, plant and equipment	(2,849)	(1,120)
Accrued interest and other income	(72)	(38)
Derivative financial instruments	—	(538)
Unrealised foreign exchange gains	—	(468)
Others	(138)	(108)
Total deferred tax liabilities	(6,083)	(2,568)
Net deferred tax assets	13,336	10,048

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 INCOME TAXES continued

As at 30 June 2022, the Group has unrecognised deferred tax assets in relation to its subsidiaries as follows:

	2022 $'000	2021 $'000
Estimated unrecognised tax losses carried forward:		
Unrecognised tax losses brought forward at the beginning of the period	6,701	6,627
Adjustment in respect of unrecognised tax losses carried forward relating to prior periods	678	101
Tax losses for the period related to non-Australia entities	1,806	1,024
Carried forward tax losses utilised	(683)	(1,030)
Recognition of deferred tax assets on foreign tax losses	(429)	(21)
Estimated unrecognised tax losses carried forward at the end of the period	8,073	6,701
Potential tax benefit at 24.76% effective tax rate (2021: 22.91%)	1,999	1,535

The probability of recovery of unrecognised tax losses in relation to the subsidiaries is reviewed periodically.

4 EMPLOYEE BENEFITS

4.1 Staff costs

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

	2022 $'000	2021 $'000
Salaries and wages	43,741	34,301
Superannuation, pension and social security contribution	5,161	4,034
Bonuses and commissions	4,882	5,549
Leave benefits	3,962	3,380
Share-based payments	2,819	2,573
Payroll tax	1,689	1,471
Insurance premiums	1,623	1,508
Workers compensation costs	903	268
Termination benefits	474	666
Other employee benefits and staffing costs	3,141	2,194
	68,395	55,944
The above staffing costs have been broken down into:		
Cost of sales	6,162	5,533
Selling and general expenses	34,573	28,942
Administration expenses	12,655	10,083
Research and development expenses	15,005	11,386
	68,395	55,944

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 EMPLOYEE BENEFITS continued

4.2 Employee benefits liabilities

i) Wages, salaries and annual leave

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

ii) Long service leave

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

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

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

iii) Bonuses

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

iv) Termination benefits

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

Short-term and long-term classification of benefits

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

Employee benefits liabilities as at the reporting date:

	2022			2021		
	Current $'000	**Non-current $'000**	**Total $'000**	**Current $'000**	**Non-current $'000**	**Total $'000**
Provision of annual leave	**3,186**	**—**	**3,186**	2,201	—	2,201
Provision for long service leave	**573**	**457**	**1,030**	312	590	902
Provision for bonuses	**2,736**	**—**	**2,736**	3,408	—	3,408
Total employee benefit liabilities	**6,495**	**457**	**6,952**	5,921	590	6,511

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 EMPLOYEE BENEFITS continued

4.3 Share-based payments

Share-based compensation benefits are equity-settled transactions provided to employees via 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 24 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.

Global Employee Share Plan

The Global Employee Share Plan (GESP) was adopted on 24 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 GESP, eligible employees (full-time or part-time employees of a subsidiary of Nanosonics) may be offered the opportunity to acquire Shares.

Under the GESP, regular contributions are made from a GESP Participant's after-tax salary, which are then held in trust. At present, each GESP Participant's gross contributions are limited to the lesser of 15% of the Participant's annual gross remuneration or A$25,000 each year. At the end of each six month Offer Period, the contributions are used to subscribe for new shares for the GESP Participant. The subscription 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 Offer Period.

During the year, a total of 67,616 shares were acquired by GESP Participants at an average price of $4.42 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 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 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	
	2022		2021		2022		2021		2022	2021
	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	**4,825,225**	**3.46**	3,863,238	3.08	**—**	**—**	253,106	—	**4,825,225**	4,116,344
Granted during the year	**1,662,135**	**3.46**	1,692,420	3.29	**—**	**—**	—	—	**1,662,135**	1,692,420
Exercised during the year	**(416,248)**	**1.55**	(553,919)	—	**—**	**—**	(253,106)	—	**(416,248)**	(807,025)
Forfeited during the year	**(278,382)**	**4.66**	(176,514)	4.05	**—**	**—**	—	—	**(278,382)**	(176,514)
Unexpired as at 30 June	**5,792,730**	**3.54**	4,825,225	3.46	**—**	**—**	—	—	**5,792,730**	4,825,225
Exercisable at 30 June	**1,919,740**	**—**	856,684	—	**—**	**—**	—	—	**1,919,740**	856,684

There were 416,248 rights and options exercised in 2022. The weighted average share price based on the dates of the exercise was $5.93 (2021: $5.74). No rights or options expired during the periods covered by the above table.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 EMPLOYEE BENEFITS continued

Rights and options outstanding at the end of the year under the NOEP have the following expiry dates and exercise prices:

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 the year
2021 STI – CEO	19 Nov 21	—	5.80	31 Aug 26	—	30,010	—	—	30,010	—
2021 STI – Executives	03 Feb 22	—	5.05	31 Aug 26	—	73,019	—	—	73,019	—
2021 STI SR – Others	03 Feb 22	—	5.05	31 Aug 25	—	101,464	—	(147)	101,317	—
2021 STI – RR Others	03 Feb 22	—	5.05	31 Aug 25	—	25,109	—	—	25,109	—
2021 LTI SARs – CEO	19 Nov 21	6.83	1.64	30 Sep 28	—	190,114	—	—	190,114	—
2021 LTI PR – CEO	19 Nov 21	—	5.80	30 Sep 28	—	132,760	—	—	132,760	—
2021 LTI SARs – Executives	24 Jan 22	6.83	1.18	30 Sep 28	—	433,812	—	—	433,812	—
2021 LTI SARs – Others	24 Jan 22	6.83	1.16	30 Sep 27	—	219,570	—	—	219,570	—
2021 LTI PR – Executives	24 Jan 22	—	5.13	30 Sep 28	—	302,938	—	—	302,938	—
2021 LTI PR – Others	24 Jan 22	—	5.13	30 Sep 27	—	153,339	—	—	153,339	—
2020 LTI PR – Others	03 Mar 21	—	6.05	30 Sep 26	157,710	—	—	(21,424)	136,286	—
2020 LTI PR – Executives	03 Mar 21	—	6.05	30 Sep 27	330,571	—	—	(36,479)	294,092	—
2020 LTI SARs – Others	03 Mar 21	6.04	1.79	30 Sep 26	229,880	—	—	(31,227)	198,653	—
2020 LTI SARs – Executives	03 Mar 21	6.04	1.73	30 Sep 27	481,869	—	—	(53,175)	428,694	—
2020 STI HL Tranche 1[1]	04 Jan 21	—	8.25	31 Aug 21	69,990	—	(69,990)	—	—	—
2020 STI Tranche 1 – Others	04 Jan 21	—	8.25	31 Aug 21	51,106	—	(32,027)	(2,485)	16,594	16,594
2020 STI Tranche 1 – CEO	24 Nov 20	—	6.68	31 Aug 21	19,112	—	(19,112)	—	—	—
2020 LTI PR – CEO	24 Nov 20	—	6.68	30 Sep 27	143,298	—	—	—	143,298	—
2020 LTI SARs – CEO	24 Nov 20	6.04	2.22	30 Aug 27	208,884	—	—	—	208,884	—
2019 LTI Tranche 1 – Others	09 Apr 20	—	2.81	30 Sep 25	85,929	—	—	(8,603)	77,326	—
2019 LTI Tranche 1 – CEO	09 Apr 20	—	4.06	30 Sep 25	12,910	—	—	—	12,910	—
2019 LTI Tranche 2 – Others	09 Apr 20	6.51	1.51	30 Sep 25	639,883	—	—	(119,190)	520,693	—
2019 LTI Tranche 2 – CEO	09 Apr 20	6.51	2.36	30 Sep 25	178,914	—	—	—	178,914	—
2019 STI Tranche 1	18 Feb 20	—	6.89	31 Aug 23	7,475	—	(4,149)	(841)	2,485	2,485
2019 Special Award	05 Nov 19	—	6.87	09 Sep 25	7,288	—	—	—	7,288	—
2019 Special Award	05 Nov 19	—	6.87	02 Sep 25	3,964	—	—	—	3,964	—
2019 Special Award	28 May 19	—	4.41	04 Mar 25	59,368	—	—	—	59,368	59,368
2019 Special Award	28 May 19	—	4.41	04 Feb 25	60,837	—	—	—	60,837	60,837
2018 LTIS Tranche 1 – CEO	09 Nov 18	3.44	0.80	30 Sep 24	286,885	—	—	—	286,885	286,885
2018 LTIS Tranche 1 – Others	04 Feb 19	3.44	0.86	30 Sep 24	838,018	—	(187,762)	(3,390)	646,866	646,866
2018 LTIS Tranche 2 – CEO	09 Nov 18	—	1.24	30 Sep 24	20,900	—	—	—	20,900	20,900
2018 LTIS Tranche 2 – Others	04 Feb 19	—	1.41	30 Sep 24	81,225	—	(51,187)	(247)	29,791	29,791
2018 Deferred STI – Others	22 Nov 18	—	2.97	31 Aug 22	7,102	—	(4,002)	(1,174)	1,926	1,926
2017 LTIS Tranche 1 – Others	09 Feb 18	—	1.95	31 Aug 23	31,833	—	(21,872)	—	9,961	9,961
2017 LTIS Tranche 2 – Others	09 Feb 18	—	1.75	31 Aug 23	31,834	—	(21,873)	—	9,961	9,961
2017 LTIS Trance 1 – CEO	03 Nov 17	2.38	1.00	31 Aug 23	170,212	—	—	—	170,212	170,212
2017 LTIS Tranche 2 – CEO	03 Nov 17	2.38	1.02	31 Aug 23	170,212	—	—	—	170,212	170,212
2017 LTIS Tranche 1 – Others	09 Feb 18	2.38	0.84	31 Aug 23	137,632	—	—	—	137,632	137,632
2017 LTIS Tranche 2 – Others	09 Feb 18	2.38	0.79	31 Aug 23	137,630	—	—	—	137,630	137,630
2016 LTIS Tranche 1	05 Jan 17	2.85	1.00	31 Aug 22	52,827	—	—	—	52,827	52,827
2016 LTIS Tranche 2	05 Jan 17	2.85	0.98	31 Aug 22	52,826	—	—	—	52,826	52,826
2016 LTIS Tranche 3	05 Jan 17	2.85	1.05	31 Aug 22	52,827	—	—	—	52,827	52,827
2016 LTIS Tranche 1	05 Jan 17	—	2.59	31 Aug 22	1,425	—	(1,425)	—	—	—
2016 LTIS Tranche 2	05 Jan 17	—	2.33	31 Aug 22	1,424	—	(1,424)	—	—	—
2016 LTIS Tranche 3	05 Jan 17	—	3.07	31 Aug 22	1,425	—	(1,425)	—	—	—
Total					**4,825,225**	**1,662,135**	**(416,248)**	**(278,382)**	**5,792,730**	**1,919,740**

1. STI subject to holding lock (HL). This grant automatically exercises into shares on vesting date and these shares are subject to a year holding lock.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 EMPLOYEE BENEFITS continued

iv) Fair values

Fair values of rights and options granted

The assessed fair value on the date 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 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 right or option.

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

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:											
2021 STI – CEO	Service	—	19 Nov 21	31 Aug 23	31 Aug 26	5.80	Black-Scholes	46.29%	0.00%	0.55%	5.80
2021 STI – Executives	Service	—	03 Feb 22	31 Aug 23	31 Aug 26	5.05	Black-Scholes	42.64%	0.00%	0.80%	5.05
2021 STI SR – Others	Service	—	03 Feb 22	31 Aug 22	31 Aug 25	5.05	Black-Scholes	48.85%	0.00%	0.80%	5.05
2021 STI – RR Others	—	—	03 Feb 22	31 Aug 22	31 Aug 25	5.05	Black-Scholes	48.85%	0.00%	0.80%	5.05
2021 LTI SARs – CEO	iTSR	6.83	19 Nov 21	30 Sep 24	30 Sep 28	1.64	Monte Carlo	42.98%	0.00%	1.55%	1.64
2021 LTI SARs – Executives	iTSR	6.83	24 Jan 22	30 Sep 24	30 Sep 28	1.18	Monte Carlo	42.85%	0.00%	1.71%	1.18
2021 LTI SARs – Others	iTSR	6.83	24 Jan 22	30 Sep 24	30 Sep 27	1.16	Monte Carlo	42.54%	0.00%	1.65%	1.16
2021 LTI PR – CEO	Underlying ROE	—	19 Nov 21	30 Sep 24	30 Sep 25	5.80	Black-Scholes	44.42%	0.00%	1.14%	5.80
2021 LTI PR – Executives	Underlying ROE	—	24 Jan 22	30 Aug 24	30 Sep 25	5.13	Black-Scholes	45.02%	0.00%	1.37%	5.13
2021 LTI PR – Others	Underlying ROE	—	24 Jan 22	30 Aug 24	30 Sep 24	5.13	Black-Scholes	47.59%	0.00%	1.10%	5.13
Granted in prior periods and outstanding at report date:											
2020 STI – HL Tranche 1	Service	—	04 Jan 21	31 Aug 21	31 Aug 21	8.25	Black-Scholes	39.45%	0.00%	0.08%	8.25
2020 STI Tranche 1 – Others	Service	—	04 Jan 21	31 Aug 21	31 Aug 24	8.25	Black-Scholes	39.45%	0.00%	0.08%	8.25
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
2020 LTI PR – Others	Underlying ROE	—	03 Mar 21	30 Sep 23	30 Sep 26	6.05	Black-Scholes	46.77%	0.00%	0.12%	6.05
2020 LTI PR – Executives	Underlying ROE	—	03 Mar 21	30 Sep 23	30 Sep 27	6.05	Black-Scholes	44.48%	0.00%	0.12%	6.05
2020 LTI PR – CEO	Underlying ROE	—	24 Nov 20	30 Sep 23	30 Sep 27	6.68	Black-Scholes	43.22%	0.00%	0.11%	6.68
2020 LTI SARs – Others	iTSR	6.04	03 Mar 21	30 Sep 23	30 Sep 26	6.05	Monte Carlo	43.13%	0.00%	0.70%	6.05

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 EMPLOYEE BENEFITS continued

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 ($)
2020 LTI SARs – Executives	iTSR	6.04	03 Mar 21	30 Sep 23	30 Sep 27	6.05	Monte Carlo	43.60%	0.00%	0.70%	6.05
2020 LTI SARs – 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
2019 LTI – Tranche 1 – Others	Absolute CAGR[1] TSR performance and service[2]	—	09 Apr 20	30 Sep 22	30 Sep 25	6.17	Black-Scholes	45.29%	0.00%	0.25%	2.81
2019 LTI Tranche 1 – CEO	Absolute CAGR TSR performance and service[2]	—	09 Apr 20	30 Sep 22	30 Sep 25	7.23	Absolute Total Shareholder Return	41.81%	0.00%	0.76%	4.06
2019 LTI Tranche 2 – Others	Absolute CAGR TSR performance and service[2]	6.51	09 Apr 20	30 Sep 22	30 Sep 25	6.17	Absolute Total Shareholder Return	42.59%	0.00%	0.25%	1.51
2019 LTI Tranche 2 – CEO	Absolute CAGR TSR performance and service[2]	6.51	09 Apr 20	30 Sep 22	30 Sep 25	7.23	Absolute Total Shareholder Return	41.84%	0.00%	0.76%	2.36
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
2019 Special Award	Service	—	05 Nov 19	09 Sep 22	09 Sep 25	6.87	Black-Scholes	41.65%	0.00%	0.78%	6.87
2019 Special Award	Service	—	05 Nov 19	02 Sep 22	02 Sep 25	6.87	Black-Scholes	41.57%	0.00%	0.78%	6.87
2019 Special Award	Service	—	28 May 19	04 Mar 22	04 Mar 25	4.41	Black-Scholes	37.76%	0.00%	1.12%	4.41
2019 Special Award	Service	—	28 May 19	04 Mar 22	04 Mar 25	4.41	Black-Scholes	37.76%	0.00%	1.12%	4.41
2018 LTIS Tranche 1 – CEO	Absolute CAGR TSR performance and service[2]	3.44	09 Nov 18	30 Sep 21	30 Sep 24	3.21	Monte Carlo	41.09%	0.00%	2.19%	0.8
2018 LTIS Tranche 1 – Others	Absolute CAGR TSR performance and service[2]	3.44	04 Feb 19	30 Sep 21	30 Sep 24	3.46	Monte Carlo	40.09%	0.00%	1.74%	0.86
2018 LTIS Tranche 2 – CEO	Absolute CAGR TSR performance and service[2]	—	09 Nov 18	30 Sep 21	30 Sep 24	3.21	Monte Carlo	37.34%	0.00%	2.19%	1.24
2018 LTIS Tranche 2 – Others	Absolute CAGR TSR performance and service[2]	—	04 Feb 19	30 Sep 21	30 Sep 24	3.46	Monte Carlo	37.63%	0.00%	1.74%	1.41
2018 Deferred STI – CEO	Service	—	09 Nov 18	31 Aug 20	31 Aug 23	3.21	Black-Scholes	36.67%	0.00%	2.19%	3.21
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 EMPLOYEE BENEFITS continued

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 ($)
2017 LTIS Tranche 1 – Others	Relative TSR performance and service	—	09 Feb 18	31 Aug 20	31 Aug 23	2.67	Monte Carlo	34.00%	0.00%	2.10%	1.95
2017 LTIS Tranche 2 – Others	Relative TSR performance and service	—	09 Feb 18	31 Aug 20	31 Aug 23	2.67	Monte Carlo	34.00%	0.00%	2.10%	1.75
2017 LTIS Tranche 1 – CEO	Relative TSR performance and service	2.38	03 Nov 17	31 Aug 20	31 Aug 23	2.81	Monte Carlo	35.00%	0.00%	2.10%	1.00
2017 LTIS Tranche 2 – CEO	Relative TSR performance and service	2.38	03 Nov 17	31 Aug 20	31 Aug 23	2.81	Monte Carlo	35.00%	0.00%	2.10%	1.02
2017 LTIS Tranche 1 – Others	Relative TSR performance and service	2.38	09 Feb 18	31 Aug 20	31 Aug 23	2.67	Monte Carlo	35.00%	0.00%	2.30%	0.84
2017 LTIS Tranche 2 – Others	Relative TSR performance and service	2.38	09 Feb 18	31 Aug 20	31 Aug 23	2.67	Monte Carlo	35.00%	0.00%	2.30%	0.79
2016 LTIS Tranche 1	Relative TSR performance and service	2.85	05 Jan 17	31 Aug 19	31 Aug 22	3.07	Monte Carlo	35.80%	0.00%	2.00%	1.00
2016 LTIS Tranche 2	Relative TSR performance and service	2.85	05 Jan 17	31 Aug 19	31 Aug 22	3.07	Monte Carlo	35.80%	0.00%	2.00%	0.98
2016 LTIS Tranche 3	Pre-tax EPS and service	2.85	05 Jan 17	31 Aug 19	31 Aug 22	3.07	Black-Scholes	35.80%	0.00%	2.00%	1.05
2016 LTIS Tranche 1	Relative TSR performance and service	—	05 Jan 17	31 Aug 19	31 Aug 22	3.07	Monte Carlo	35.80%	0.00%	2.00%	2.59
2016 LTIS Tranche 2	Relative TSR performance and service	—	05 Jan 17	31 Aug 19	31 Aug 22	3.07	Monte Carlo	35.80%	0.00%	2.00%	2.33
2016 LTIS Tranche 3	Pre-tax EPS and service	—	05 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.

v) Recognition of expenses

Recognition of expense of rights and options granted

The fair value of 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 $2,819,000 (2021: $2,572,000).

During the financial year there were no shares directly granted under the NOEP (2021: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 EMPLOYEE BENEFITS continued

vi) Summary of shares held by the trustee

Shares issued on the exercise of 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, Certane CT Pty Ltd.

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

	2022 Number of shares	2021 Number of shares
Employee shares on issue at 1 July	**805,662**	432,811
Issued on exercise of rights and options during the year	**416,248**	807,025
Shares purchased by the trustee under the deferred salary sacrifice share scheme	**29,925**	12,930
Withdrawn during the year	**(435,795)**	(447,104)
Employee shares on issue at 30 June	**816,040**	805,662

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:

	2022 $'000			2021 $'000		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Trade and other receivables	**28,391**	**—**	**28,391**	28,362	—	28,362
Cost to obtain customer contracts	**241**	**212**	**453**	165	132	297
Total assets related to contracts with customers	**28,632**	**212**	**28,844**	28,527	132	28,659

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:

	2022 $'000			2021 $'000		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Government grant liability	**648**	**2,372**	**3,020**	—	—	—
Contract liabilities	**6,248**	**7,293**	**13,541**	3,551	5,448	8,999
Total liabilities related to contracts with customers	**6,896**	**9,665**	**16,561**	3,551	5,448	8,999

The revenue recognised that was included in the contract liability balance at the beginning of the period was $3,551,000 (2021: $4,753,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Cash and cash equivalents

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

i) Cash and cash equivalents

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

	2022 $'000	2021 $'000
Cash at bank and on hand	19,676	18,904
Deposit on call	2,086	4,123
Short-term deposits	72,750	73,000
Total cash and cash equivalents	**94,512**	96,027

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

The Group's exposure to interest rate risk is discussed in Note 8(a)(ii). The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

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

	2022 $'000	2021 $'000
Operating profit before income tax	1,578	10,984
Adjustment for:		
Depreciation, amortisation and impairment	5,727	4,425
Share-based payments expense	2,819	2,573
Lease costs	254	61
Borrowing costs	–	1
Gain on disposal of fixed assets	30	10
Income tax paid	(1,278)	(605)
Unrealised gain on foreign exchange movements	(2,478)	343
Changes in assets and liabilities		
Decrease/(increase) in trade and other receivables	4,224	(10,903)
(Increase)/decrease in inventories	(10,745)	(1,510)
Decrease/(increase) in financial instruments	2,591	(1,251)
(Increase)/decrease in other current assets	(1,833)	(839)
(Increase)/decrease in other non-current assets	(6)	(17)
Increase/(decrease) in trade and other payables	2,251	(492)
Increase/(decrease) in deferred revenue	3,174	2,266
Increase/(decrease) in employee benefit liabilities	359	2,576
Increase/(decrease) in provisions	28	(306)
Net cash provided by operating activities	**6,695**	7,316

iii) Credit standby arrangements unused

	2022 $'000	2021 $'000
Facility limits:		
Borrowing facilities	620	620
Guarantee facility	2,663	553
Facility remaining available:		
Borrowing facilities	620	620
Guarantee facility	42	37

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

6.2 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets, otherwise they are presented as non-current assets. Trade receivables are initially recognised at the transaction price of the revenue contract with customers, 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 (2021: 30 to 90 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)).

	2022 $'000	2021 $'000
Trade receivables net of expected credit loss	**24,288**	27,331
Government grant	**3,258**	—
GST/VAT receivable	**563**	726
Interest and other receivables	**282**	305
Total trade and other receivables	**28,391**	28,362

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.
- 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 the Group's foreign exchange forward contracts and options were valued using market comparison technique (Level 2) and are calculated using forward exchange rates prevailing at the balance sheet date. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

The market forward rates used to value foreign exchange forward contracts ranged between 0.6846 and 0.6911.

The ineffectiveness measured for the year in respect of the hedges designated for hedge accounting was deemed immaterial and subsequently no ineffectiveness was posted to profit or loss for the period.

Derivative financial assets and liabilities are as follows:

	2022 $'000			2021 $'000		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Financial assets						
Derivative financial instruments	–	1	1	1,920	134	2,054
Financial Liabilities						
Derivative financial instruments	2,288	543	2,831	247	17	264

6.4 Trade and other payables

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

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

	2022 $'000			2021 $'000		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Trade payables	2,744	–	2,744	2,051	–	2,051
Other payables	6,838	–	6,838	5,143	–	5,143
Total trade and other payables	9,582	–	9,582	7,194	–	7,194

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.

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. This excludes short-term leases.

The weighted average lessee's incremental borrowing rate applied to operating lease liabilities was 2.68% (2021: 4.12%).

During the period, the Company entered into new lease agreements for its new global manufacturing and research and development laboratories located at 35-41 Waterloo Road, Macquarie Park, NSW commencing on 3 January 2022 with the lease ending 31 March 2027. Also, new office facilities located at 7-11 Talavera Road, Macquarie Park, NSW commenced on 1st April 2022 with a lease term ending 31 March 2027. The lease agreement for Talavera Road property includes an option to extend the lease term for a further two years that management does not intend to exercise at this stage.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

	2022 $'000			2021 $'000		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Lease liabilities	2,554	9,158	11,712	1,479	1,012	2,491
Total lease liabilities	2,554	9,158	11,712	1,479	1,012	2,491

	2022 $'000	2021 $'000
Balance as at 1 July	2,491	2,532
Additions	11,256	1,180
Interest expense	254	97
Payments	(2,289)	(1,318)
Balance as at 30 June	11,712	2,491

The following are the amounts recognised in profit or loss:

	2022 $'000	2021 $'000
Depreciation expense of right-of-use assets	2,532	1,282
Interest expense on lease liabilities	254	97
Expense relating to short-term leases includes in:		
– Selling and general	612	196
– Administration	139	99
– Research and development	70	15
Total amount recognised in profit or loss	3,607	1,689

The Group had total cash outflows for leases of $3,059,000 in 2022 ($1,628,000 in 2021). The Group also had non-cash additions to lease liabilities of $11,256,000 in 2022 ($1,180,000 in 2021). 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

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.

	2022 $'000	2021 $'000
Raw materials and stores	**10,174**	5,324
Work in progress	**355**	339
Finished goods	**12,086**	6,202
	22,615	11,865

Inventories recognised as an expense (cost of sales) during the year ended 30 June 2022 amounted to $19,972,000 (2021: $17,998,000).

Management has performed an assessment of inventories held for the year ended 30 June 2022 following the introduction of the second generation of trophon and recognised write-downs during the year of $278,000 (2021: $438,000). 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 of inventories, in particular what costs are necessary to sell inventories under IAS 2 Inventories. The Group has reassessed its valuation of inventory and has taken into account the IFRIC agenda.

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

7 OPERATING ASSETS AND LIABILITIES continued

Total property, plant and equipment at net book value

	Leasehold improvements $'000	Plant and equipment $'000	Capital work in progress $'000	Total $'000
Year ended 30 June 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
Year ended 30 June 2022				
Opening net book amount	231	6,558	412	7,201
Additions	5,160	2,133	262	7,555
Retirement and others	—	(92)	—	(92)
Transfers	63	73	(136)	—
Depreciation charge	(357)	(2,595)	—	(2,952)
Foreign currency translation effect (net)	(2)	12	—	10
Closing net book amount at 30 June 2022	5,095	6,089	538	11,722
At 30 June 2022				
Cost or fair value	8,389	18,427	538	27,354
Impairment	—	—	—	—
Accumulated depreciation	(3,294)	(12,338)	—	(15,632)
Net book amount at 30 June 2022	5,095	6,089	538	11,722

Leasehold Improvement includes additions of $5,122,000 related to the fitout of the new laboratory, manufacturing and office facilities at the headquarters in Macquarie Park. The useful life of these assets is the lease term of five years.

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 $6,428,000 (2021: $5,686,000) and $2,821,000 (2021: $3,053,000), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 OPERATING ASSETS AND LIABILITIES continued

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.

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

	Premises $'000	Other Equipment $'000	Total $'000
Opening net book amount as at 1 July 2020	2,088	177	2,265
Additions	870	280	1,150
Depreciation expense	(1,132)	(150)	(1,282)
Closing net book amount at 30 June 2021	1,826	307	2,133
Opening net book amount as at 1 July 2021	**1,826**	**307**	**2,133**
Additions	**11,169**	**88**	**11,257**
Depreciation expense	**(2,384)**	**(148)**	**(2,532)**
Closing net book amount at 30 June 2022	**10,611**	**247**	**10,858**

7.4 Intangible assets

i) Research and development

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

ii) Patents and trademarks

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

iii) ERP system and computer software

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 OPERATING ASSETS AND LIABILITIES continued

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 (2021: Nil).

Total intangible assets at net book value

	ERP and computer software $'000
Year ended 30 June 2021	
Opening net book amount	491
Additions	142
Retirement and others	—
Amortisation	(346)
Foreign currency translation effect (net)	(9)
Closing net book amount at 30 June 2021	278
At 30 June 2021	
Cost or fair value	2,708
Accumulated depreciation	(2,430)
Net book amount at 30 June 2021	278
Year ended 30 June 2022	
Opening net book amount	**278**
Additions	**179**
Retirement and others	**—**
Amortisation	**(243)**
Foreign currency translation effect (net)	**3**
Closing net book amount at 30 June 2022	**217**
At 30 June 2022	
Cost or fair value	**2,916**
Accumulated depreciation	**(2,699)**
Net book amount at 30 June 2022	**217**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 OPERATING ASSETS AND LIABILITIES continued

7.5 Provisions

i) General

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; 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.

iv) Onerous lease

Onerous lease is recognised for the unavoidable costs of meeting an obligation under a lease contract which exceed the benefit expected to be received. The Group recognised onerous lease for the car park at the previous headquarters at Lane Cove for the period beyond the lease end date of the Lane Cove facility.

a) Provisions as at the reporting date

	2022 $'000			2021 $'000		
	Current $'000	**Non-current $'000**	**Total $'000**	**Current $'000**	**Non-current $'000**	**Total $'000**
Provision for warranty	**402**	**—**	**402**	426	—	426
Make good provision	**130**	**—**	**130**	—	130	130
Onerous lease provision	**52**	**—**	**52**	—	—	—
Total provisions	**584**	**—**	**584**	426	130	556

b) Movements in provisions

	Provision for warranty $'000	Make good provision $'000	Total $'000
Carrying amount at the beginning of the year	426	130	556
Additional provisions recognised	186	52	238
Amounts used/reversed during the period	(210)	-	(210)
Carrying amount at end of the year	402	182	584

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 FINANCIAL RISK MANAGEMENT

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

The Board of Directors has overall responsibility for Group's risk management framework. Responsibility for the development and implementation of controls to address risks is assigned to the Audit 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:

	2022				2021			
	USD $'000	GBP £'000	Euro €'000	CAD $'000	USD $'000	GBP £'000	Euro €'000	CAD $'000
Cash and cash equivalents	5,079	1,166	390	2,975	4,284	884	588	1,791
Trade and other receivables	15,833	519	465	335	19,464	340	725	365
Trade and other payables	(1,783)	(219)	(181)	(164)	(1,338)	(237)	(474)	(113)
	19,129	1,466	674	3,146	22,410	987	839	2,043
Foreign currency forward contracts and options to buy/sell USD	39,200	–	–	–	38,600	–	–	–

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	
	2022 '000	2021 '000	2022 '000	2021 '000
Change in USD rate				
– Increase 5%	3,549	3,047	(754)	(329)
– Decrease 5%	(3,725)	(3,118)	682	298
Change in GBP rate				
– Increase 5%	363	503	(383)	(622)
– Decrease 5%	(329)	(455)	346	563
Change in EUR rate				
– Increase 5%	140	179	(146)	(186)
– Decrease 5%	(127)	(162)	132	168
Change in CAD rate				
– Increase 5%	251	178	(172)	(139)
– Decrease 5%	(227)	(161)	155	126

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 FINANCIAL RISK MANAGEMENT continued

ii) Interest rate risk

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

			Fixed interest rate maturing in:				
2022	Notes	Floating interest rate $'000	One year or less $'000	Over one to five years $'000	More than five years $'000	Non-interest bearing $'000	Total $'000
Financial assets							
– Cash and cash equivalents	6.1	21,762	72,750	—	—	—	94,512
– Trade and other receivables	6.2	—	—	—	—	28,391	28,391
– Derivative financial instruments	6.3	—	—	—	—	1	1
Total financial assets		21,762	72,750	—	—	28,392	122,904
Weighted average interest rate		0.04%	1.39%	—	—	—	—
Financial liabilities							
– Trade and other payables	6.4	—	—	—	—	9,582	9,582
– Lease liabilities	6.5	—	2,554	9,064	94	—	11,712
– Derivative financial instruments	6.3	—	—	—	—	2,831	2,831
Total financial liabilities		—	2,554	9,064	94	12,413	24,125
Weighted average interest rate		—	2.68%	2.68%	2.68%	—	—
Net financial assets/(liabilities)		21,762	70,196	(9,064)	(94)	15,979	98,779

			Fixed interest rate maturing in:				
2021	Notes	Floating interest rate $'000	One year or less $'000	Over one to five years $'000	More than five years $'000	Non-interest bearing $'000	Total $'000
Financial assets							
– Cash and cash equivalents	6.1	23,027	73,000	—	—	—	96,027
– Trade and other receivables	6.2	—	—	—	—	28,362	28,362
– Derivative financial instruments	6.3	—	—	—	—	2,054	2,054
Total financial assets		23,027	73,000	—	—	30,416	126,443
Weighted average interest rate		0.06%	0.41%	—	—		
Financial liabilities							
– Trade and other payables	6.4	—	—	—	—	7,194	7,194
– Lease liabilities	6.5	—	1,479	1,012	—	—	2,491
– Derivative financial instruments	6.3	—	—	—	—	263	263
Total financial liabilities		—	1,479	1,012	—	7,457	9,948
Weighted average interest rate		—	4.12%	4.12%	—	—	
Net financial assets/(liabilities)		23,027	71,521	(1,012)	—	22,959	116,495

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 2022, 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 $167,000 (2021: $164,000). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 FINANCIAL RISK MANAGEMENT continued

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:

	2022 $'000	2021 $'000
North America	**21,165**	24,136
Europe	**1,410**	1,162
Asia Pacific	**1,713**	2,439
	24,288	27,737

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

	2022 $'000	2021 $'000
Distributors	**5,526**	18,437
End-user customers	**18,762**	9,300
	24,288	27,737

As at 30 June 2022, GE Healthcare (worldwide) and Regional Healthcare Group Pty Ltd, combined, accounted for over 26.1% of the trade receivables (2021: 67%).

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

i) Risk management

Credit risk is managed on a group basis. The Group may only invest surplus funds in deposits and floating rate notes offered by any major bank approved by the Board with no more than 50% held at any one bank.

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

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

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

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

ii) Credit quality

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

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

	2022 $'000	2021 $'000
GE Healthcare and associated affiliates	**2,536**	14,444
Covered by credit insurance	**12,765**	6,395
Other customers:		
– Four or more years trading history with the Group	**1,251**	1,981
– Less than four years of trading history with the Group	**252**	169
	16,804	22,989

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 FINANCIAL RISK MANAGEMENT continued

Impaired trade receivables

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether an impairment has been incurred. For these receivables, the estimated impairment losses are recognised in a separate provision for impairment. The Group considers that there is evidence of impairment if any of the following indicators are present:

- Default or delinquency in payments.
- Significant financial difficulties of the debtor.
- 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 2022, trade receivables with a nominal value of $31,000 (2021: $106,000) 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:

	2022 $'000	2021 $'000
Balance at 1 July	**106**	210
Provision for impairment recognised during the year	**22**	38
Receivables written off during the year as uncollectible	**(39)**	(7)
Unused amount reversed	**(58)**	(135)
Balance at 30 June	**31**	106

Past due not impaired

As at 30 June 2022, trade receivables of $7,322,000 (2021: $4,748,000) 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:

	2022 $'000	2021 $'000
Neither past due nor impaired	**16,966**	22,989
Past due but not impaired		
< 30 days	**3,187**	2,670
30-60 days	**2,900**	898
>60 days	**1,235**	1,180
	24,288	27,737

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 FINANCIAL RISK MANAGEMENT continued

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 $72,750,000 (2021: $73,000,000) that are expected to readily generate cash inflows, as well as cash at bank of $21,762,000 (2021: $23,027,000) 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.

2022	Less than three months	Three to 12 months	One to five years	Over five years	Total
Trade and other payables	9,582	—	—	—	9,582
Lease liabilities	783	2,049	9,542	101	12,475
Derivative financial instruments	492	1,796	543	—	2,831
Total financial liabilities	**10,857**	**3,845**	**10,085**	**101**	**24,888**

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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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
Issue of shares under employee share plans – proceeds received	**370,110**	**316**
Balance 30 June 2022	**301,835,129**	**113,855**

b) Reserves

i) Share-based payments reserve

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

ii) Foreign currency translation reserve

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

iii) Hedging reserve

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

9.2 Capital management

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 OTHER NOTES

10.1 Commitments

Capital commitments

As at 30 June 2022, the Group had commitments to purchase plant and equipment of $1,867,000 (2021: $290,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

10.2 Related party transactions

a) Transactions with related parties

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

i) Directors and Key Management Personnel compensation

	2022 $	2021 $
Director fees	**824,432**	822,545
Short-term employee benefits	**2,472,577**	2,528,418
Long-term benefits	**265,847**	206,683
Post-employment benefits	**183,408**	175,925
Share-based payments	**1,235,599**	1,176,553
Total Directors and Key Management Personnel compensation	**4,981,863**	4,910,124

Detailed remuneration disclosures are provided in the remuneration report on pages 38 to 61.

ii) Transactions with other related parties

Certain Directors and Key Management Personnel, or their personally-related entities (Related Parties), hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

Details of the type of transactions that were entered into with Related Parties are as follows:

Related Party	Related entity	Transactions
Maurie Stang	Gryphon Capital Pty Ltd	Director fees
Maurie Stang	Regional Healthcare Group Pty Ltd	Products purchased, services received and products sold

	2022 $	2021 $
Sale of products and services to Related Parties	**3,959,462**	5,089,524
Purchases of goods and services from Related Parties	**1,784**	9,137
Reimbursement of costs incurred on behalf on Nanosonics	**—**	—

The above transactions exclude Director fees which are disclosed in Non-executive Directors' remuneration in section 7.2 of the Remuneration report on page 57.

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:

	2022 $	2021 $
Current trade receivables (supply of goods and services)	**1,137,540**	1,821,163

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 (2021: 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 2022 (2021: 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

10 OTHER NOTES 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 Holdings 2022	Equity Holdings 2021
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 China [1]	Sales and distribution of Nanosonics' products and services in China	China	Ordinary	100%	—
Nanosonics Investments Pty Ltd	Strategic investments	Australia	Ordinary	100%	100%
Nanosonics Employee Equity Trust	Management of Nanosonics employee share plan	Australia	—	100%	100%

1. Nanosonics China is a wholly-owned foreign enterprise formed in FY22.

10.4 Parent entity information

As at and throughout the financial year ended 30 June 2022, 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

	2022 $'000	2021 $'000
Statement of financial position		
Current assets	**174,577**	159,773
Total assets	**199,866**	171,163
Current liabilities	**21,208**	13,880
Total liabilities	**34,020**	14,970
Shareholders' equity		
Share capital	**113,855**	113,538
Share-based payments reserve	**23,170**	21,117
Hedging reserve (net of tax)	**(1,053)**	369
Retained earnings	**29,874**	21,169
Total equity	**165,846**	156,193
Profit for the year	**8,706**	9,827
Total comprehensive income	**7,126**	9,208

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 OTHER NOTES continued

ii) Guarantees entered into by the parent entity

For the year ended 30 June 2022, 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 2022 (2021:Nil).

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

As at 30 June 2022, the parent entity had commitments to purchase plant and equipment of $1,860,000 (2021: $249,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

v) Accounting policies

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

10.5 Remuneration of auditors

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

	2022	2021
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	**368,000**	371,528
Fees for non-audit services		
Tax compliance	**116,000**	106,500
Other services	**–**	37,719
Total fees to Ernst & Young (Australia)	**484,000**	515,747
Fees to other overseas member firms of Ernst & Young		
Fees for auditing the statutory financial report of the U.K. subsidiaries		
Fees for non-audit services	**44,084**	52,972
Tax compliance	**–**	7,147
Total fees to overseas member firms of Ernst & Young	**44,084**	60,119
Total auditors remuneration	**528,084**	575,866

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 17 August 2022, the Company issued 37,692 shares at $4.00 per share for a total of $150,768 under the Global Employee Share Plan (GESP).

No other matters or circumstances that have arisen since 30 June 2022 have significantly affected, or may significantly affect:

a) The Group's operations in the current of future financial years.

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

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

DIRECTORS' DECLARATION

For the year ended 30 June 2022

1. In the Directors' opinion:
   a) The financial statements and notes set out on pages 62 to 101 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 2022 and of its performance for the financial year ended on that date.
   b) The financial statements and notes also comply with International Financial reporting Standards as disclosed in Note 1.2.
   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

Sydney, 23 August 2022

INDEPENDENT AUDITOR'S REPORT

to the members of Nanosonics Limited

Building a better working world

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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 2022, 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 2022 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

to the members of Nanosonics Limited

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Revenue Recognition

Why significant	How our audit addressed the key audit matter
As disclosed in Note 2.1 of the financial report, revenue from the sale of goods is recognised when the Group has delivered goods to its customers and revenue from the sale of services is recognised as the service is provided. The Group has a number of different revenue streams and channels to market for its products. Judgement is involved in determining whether the criteria for revenue recognition have been met and that revenue is recognised in the correct period. On this basis this was considered a Key Audit Matter.	Our audit procedures included the following: ► 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. ► Selected a sample of service revenue contract liabilities, and obtained evidence of the sale and recalculated the contract liability recorded. ► Used data analytical procedures to corroborate expected correlations between revenue, contract liability, accounts receivable and cash. ► 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 2022 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

to the members of Nanosonics Limited

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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.

- 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.

INDEPENDENT AUDITOR'S REPORT

to the members of Nanosonics Limited

Building a better working world

- 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 61 of the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Nanosonics Limited for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

to the members of Nanosonics Limited

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Responsibilities

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

Ernst & Young

Ernst & Young

Gamini Martinus

Gamini Martinus
Partner
Sydney
23 August 2022

SHAREHOLDERS INFORMATION

The shareholder information set out below was applicable as at 17 August 2022.

A. EQUITY SECURITY HOLDERS

Twenty largest holders of quoted equity securities

Ordinary shares	Number of quoted shares held	Percentage
HSBC Custody Nominees (Australia) Limited	67,537,345	22.37%
J P Morgan Nominees Australia Pty Limited	41,848,804	13.86%
Citicorp Nominees Pty Limited	32,323,481	10.71%
BNP Paribas Noms Pty Ltd <Drp>	17,889,824	5.93%
UBS Nominees Pty Ltd	9,015,071	2.99%
Mr Maurie Stang [1]	8,629,534	2.86%
Mr Bernard Stang [1]	9,389,048	3.11%
Mr Steve Kritzler	7,489,737	2.48%
National Nominees Limited	7,370,598	2.44%
Australian Foundation Investment Company Limited	5,970,000	1.98%
Mirrabooka Investments Limited	2,276,674	0.75%
Dr Harry Hirschowitz	2,139,090	0.71%
HSBC Custody Nominees (Australia) Limited <Nt-Comnwlth Super Corp A/C>	1,968,977	0.65%
Asia Union Investments Pty Limited	1,700,000	0.56%
BNP Paribas Nominees Pty Ltd <Agency Lending Drp A/C>	1,580,028	0.52%
Amcil Limited	1,228,000	0.41%
Colonial First State Inv Ltd <2349414 Hofbauer A/C>	1,200,000	0.40%
Bnp Paribas Nominees Pty Ltd <Ib Au Noms Retailclient Drp>	1,130,050	0.37%
Powerwrap Limited <Escala Sma Trading A/C>	1,039,457	0.34%
Mr Michael Kavanagh [1]	1,018,363	0.34%
Total top 20 holders	**222,744,081**	**73.78%**
Total all other holders	79,128,740	26.22%
Total shares on issue	**301,872,821**	**100.00%**

1. Excludes 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		
Rights at nil exercise price under NOEP to take up unissued ordinary shares	1,700,704	154
Share appreciations rights under NOEP to take up unissued ordinary shares	1,674,299	44
Options under NOEP to take up unissued ordinary shares	2,407,524	33
Total rights and options on issue	**5,782,527**	**154**

1. There are 154 unique holders with some holding two or three types of unquoted securities.

SHAREHOLDERS INFORMATION

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	4,082,314	1%	9,473	34,529	1%	1%
1,001 – 5,000	14,791,852	5%	5,766	38,552	1%	1%
5,001 – 10,000	10,723,847	4%	1,433	38,652	1%	1%
10,001 – 100,000	27,571,882	9%	1,113	1,091,535	23%	19%
100,001 and over	244,702,926	81%	102	4,579,259	74%	79%
Total Holders	**301,872,821**	**100%**	**17,887**	**5,782,527**	**100%**	**100%**

A total of 64,865 units were held by 1,113 holders of less than a marketable parcel of 100 ordinary shares at $5.02 per share (being the closing market price on 17 August 2022).

C. SUBSTANTIAL HOLDERS

Substantial holders in the Company are shown below

	Number of ordinary shares	Percentage
FMR LLC [1]	29,826,717	9.9%
Mr Maurie Stang [1,2]	18,971,717	6.3%
Yarra Capital Management Group1	16,933,061	5.6%
Mr Bernard Stang [1,2]	16,333,493	5.4%
AustralianSuper [1]	15,571,390	5.2%

1. Shares held as at 30 June 2022.
2. Includes indirect holdings but excludes 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 in person or by proxy shall have one vote for each share.

b. Rights and options
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
AcuTrace®	RFID technology that digitally captures the clinical workflow
AGM	Annual General Meeting
APES	Accounting Professional and Ethical Standard
ASEAN	Association of Southeast Asian Nations
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange Limited
AUD	Australian dollar
AuditPro ™	Digital workflow compliance management system for tracking various instruments used in medical procedures
ANZ	Australia and New Zealand
APIC	Association for Professionals in Infection Control
CAD	Canadian dollar
CAGR	Compounded Annual Growth Rate
CDC	Center for Disease Control
CEO	Chief Executive Officer
CEO&P	Chief Executive Officer and President
CFO	Chief Financial Officer
Company or Nanosonics	Nanosonics Limited ABN 11 095 076 896
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
COVID-19	Coronavirus disease of 2019
Date of this report	23 August 2022
EBIT	Earnings Before Interest and Tax
EBTDA	Earnings Before Tax Depreciation and Amortisation
EMEA	Europe Middle East and Africa
EPS	Earnings Per Share
ERP	Enterprise Resource Planning
ESG	Environmental, Social and Governance
ESOP	Employee Share Option Plan
EUR	European Currency
FDA	Food and Drug Administration
FY	Financial year e.g. FY22 is the financial year ended 30 June 2022
GBP	Great Britain Pound
GESP	Global Employee Share Plan
GRG	Godfrey Remuneration Group
Group	Nanosonics Limited and its wholly owned subsidiary companies
GST	Goods and Services Tax
H2O2	Hydrogen Peroxide
HIV	Human Immunodeficiency Virus
HLD	High Level Disinfection – involves the complete elimination of all microorganisms in or on an instrument, except for small numbers of bacterial spores
IASB	International Accounting Standards Board
IB	Installed base

GLOSSARY

IFRS	International Financial Reporting Standards
IP	Intellectual Property
ITAA	Income Tax Assessment Act
KMP	Key Management Personnel
LTI	Long-Term Incentives
LTIS	Long-Term Incentive Scheme
NAN	Nanosonics Limited (ASX Code)
NHS	National Health System (UK)
NOEP	Nanosonics Omnibus Equity Plan
OEM	Original Equipment Manufacturer
PBT	Profit before tax
PCP	Prior corresponding period
PR	Performance Rights
Q1, 2, 3, or 4	Three-monthly periods beginning 1 July, 1 October, 1 January and 1 April respectively
R&D	Research and Development
Reporting period	Year to 30 June 2022
RKI	The Robert Koch Institute
ROE	Return on equity
RPC	Remuneration & People Committee
RR	Restricted Rights
SARs	Share Appreciation Rights
SARS CoV-2	Severe acute respiratory syndrome coronavirus 2
SR	Service Rights
SG&A	Selling, General and Administration
STI	Short-Term Incentives
TFR	Total Fixed Remuneration
trophon®	The brand representing Nanosonics' range of infection control solutions designed specifically for healthcare settings
trophon® EPR	The brand of Nanosonics' first generation device specifically designed to disinfect intracavity and surface ultrasound probes
trophon®2	The next generation trophon® device with an enhanced design and new functionality including AcuTrace® for audit-ready digital record keeping and capabilities to seamlessly connect trophon®2 with hospital IT systems
TSR	Total Shareholder Return
UG	Ultrasound guided
UK	United Kingdom
US	United States of America
USD	United States dollar
VAT	Value Added Tax
VWAP	Volume Weighted Average Price
WAEP	Weighted Average Exercise Price
WEEE	Waste from Electrical and Electronic Equipment
WHS	Work, Health and Safety
WOFE	Wholly Owned Foreign Enterprise

CORPORATE DIRECTORY AND INFORMATION FOR INVESTORS

Nanosonics Limited ABN 11 095 076 896 incorporated 14 November 2000

DIRECTORS

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

COMPANY SECRETARY

McGregor Grant

REGISTERED OFFICE

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NSW 2113 Australia

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SHARE REGISTER

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Ph: +61 3 9415 4088
Ph: 1300 555 159 (within Australia)
www.computershare.com/au/contact

INVESTOR/MEDIA RELATIONS

McGregor Grant – Company Secretary

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AUDITOR

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Sydney, NSW 2000 Australia

LEGAL ADVISORS

Baker & McKenzie
AMP Centre
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Sydney NSW 2000 Australia

Spruson & Ferguson Pty Limited
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.

Canada:
HSBC Bank Canada

Japan:
MUFG Bank Ltd.

China:
HSBC Bank (China) Shanghai

STOCK EXCHANGE LISTING

Nanosonics Limited shares are listed on the Australian Securities Exchange

ASX code: NAN

Industry Group: Healthcare Equipment & Services

2022 ANNUAL GENERAL MEETING

The 2022 AGM of Nanosonics Limited will be held at 11:00am on 18 November 2022.

Four Seasons Hotel
199 George Street
Sydney NSW 2000

Further details to be announced separately.

Website address
www.nanosonics.com.au

nanosonics
Infection Prevention. For Life.