

Appendix 4D

Nanosonics Limited Half Yearly Report

ABN: 11 095 076 896

Reporting period: 31 December 2018

Previous period: 31 December 2017

Results for announcement to the market

	31 December 2018 \$'000	31 December 2017 \$'000	Movement	
			%	\$'000
Revenue from ordinary activities	40,693	30,009	36%	10,684
Profit from ordinary activities before tax	11,000	3,729	195%	7,271
Profit from ordinary activities after tax attributable to members	7,105	2,213	221%	4,892
Net profit for the period attributable to members	7,105	2,213	221%	4,892
	Cents	Cents		Cents
Basic earnings per share	2.37	0.74	220%	1.63
Dividend per share	-	-		
Net tangible assets per share	30.08	25.90	16%	4.18

The information in this report should be read in conjunction with the 30 June 2018 Annual Report.

Record date for determining entitlements to the dividend and dividend payment date are not applicable. There were no distributions of dividends during the period or in previous corresponding period. No dividend reinvestment plans were in operation during or since the half-year.

On 11 January 2019 Nanosonics Japan KK was established, a wholly owned subsidiary of Nanosonics Limited, based in Japan. There were no other entities over which control has been gained or lost during the period.

The Group has no associates or joint venture entities.

The Group applies International Financial Reporting Standards in compiling the financial report of its wholly-owned subsidiaries, Saban Ventures Pty Ltd, Nanosonics Europe GmbH, Nanosonics, Inc., Nanosonics Canada, Inc., Nanosonics Europe Limited and Nanosonics UK Limited.

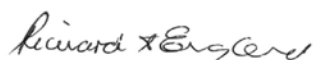
The financial statements included in the half year report are not subject to audit dispute or qualification.

The information set out above and in the attached half year report is provided to the ASX in accordance with a resolution of the Directors.

Attachments:

The Half-Year Report of Nanosonics Limited for the period ended 31 December 2018 is attached.

On behalf of the directors



Richard England

Director

Sydney, 25 February 2019

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HALF-YEAR REPORT

Given to the ASX under listing rule 4.2A.

31 DECEMBER 2018

The information in this report should be read in conjunction with the 30 June 2018 Annual Report.

Directors' report

For the half-year ended 31 December 2018

Your Directors present their report, together with the Interim Consolidated Financial Report for Nanosonics Limited (the Company) and its subsidiaries (together the Group) for the half-year ended 31 December 2018, and the Auditor's review report thereon.

Principal activities

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

- Manufacturing and distribution of trophon[®] ultrasound probe disinfectant and associated consumables and accessories; and
- Research and development of infection control and decontamination technologies and related products.

Further information is included in the Review of results and operations, below and in the financial statements.

Other than as discussed in this report, there have been no significant changes in the nature of these activities for the half-year ended 31 December 2018.

Directors

During the period and to the date of this report, the Board of Nanosonics Limited comprised of non-executive directors, Maurie Stang (Chairman), Steven Sargent (Deputy Chairman), David Fisher, Richard England and Marie McDonald, and executive director, Michael Kavanagh (CEO & President/Managing Director).

Review of results and operations

	31 December 2018	31 December 2017
	\$'000	\$'000
Revenue from contracts with customers	40,693	30,009
Cost of sales	(10,111)	(7,675)
Gross profit	30,582	22,334
Selling and general expenses	(11,181)	(10,204)
Administration expenses	(4,836)	(4,467)
Research and development expenses	(5,508)	(4,653)
Other income	5	-
Other gains - net	1,279	149
Finance income	768	602
Finance expense	(109)	(32)
Operating income before income tax	11,000	3,729
Income tax expense (note 3)	(3,895)	(1,516)
Profit attributable to members	7,105	2,213

	31 December 2018	30 June 2018
	\$'000	\$'000
Cash and cash equivalents	71,256	69,433
Net assets	101,670	94,303

Directors' report

For the half-year ended 31 December 2018

Sales for the period were \$40,693,000. This compares with sales of \$30,009,000 in the prior corresponding period. The installed base of trophon in North America increased by 1,400 units in the half-year to 31 December 2018 with the North American installed base growing to approximately 17,020 units. The installed base of trophon globally has increased by 1,570 growing to approximately 19,310 units.

Gross profit was \$30,582,000 compared with \$22,334,000 in the prior corresponding period. Gross margin as a percent of sales was 75% compared with 74% in the prior corresponding period as a result of a change in product sales mix and a higher proportion of direct sales.

Selling, general and administration expenses were \$16,017,000, an increase of \$1,346,000 compared with \$14,671,000 in the prior corresponding period. The increase is mainly attributable to an increase in staffing costs associated with an increase in headcount globally as the Company focusses on continuing to grow and establish trophon as a standard of care with existing markets including direct sales in North America, market expansion activities in Europe and geographical expansion into new markets.

Research and development expenses for the half-year to 31 December 2018 were \$5,508,000, an increase of \$855,000 compared with the prior corresponding period.

Other Income for the period was \$5,000 compared with nil in the prior half year.

Other Gains – net for the period was \$1,279,000 compared with \$149,000 in the prior half year, as a result of higher net foreign exchange gains.

Income tax expense for the period was \$3,895,000 compared with an income tax expense of \$1,516,000 in the prior corresponding period.

Cash and cash equivalents at 31 December 2018 amounted to \$71,256,000 compared with \$69,433,000 at 30 June 2018. The cash on hand provides a strong balance sheet for the Company to continue executing on its growth strategies. Free cash flow of \$1,631,000 compared with \$3,880,000 in the previous comparable period. Cash flow for the half was impacted by an increase in inventory of \$3,243,000 associated with the launch of trophon2 and an increase in trade and other receivables of \$4,974,000 due to realigning payment terms with a key distributor with the Group's standard payment terms and the timing of invoicing/payments by that distributor.

During the period the company launched trophon2, the second generation of trophon products.

Subsequent events

Note 9.4 sets out details of events subsequent to 31 December 2018 that may significantly affect the interim consolidated financial statements or require disclosure.

Apart from the items included in note 9.4 and in the half-year report, there are no matters or circumstances that have arisen since 31 December 2018 that have significantly affected, or may significantly affect:

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

Rounding

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

Directors' report


For the half-year ended 31 December 2018

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4.

This Report is made and signed in accordance with a resolution of the Directors made pursuant to section 306(3)(a) of the *Corporations Act 2001*.

On behalf of the Directors



Richard England

Director

Sydney, 25 February 2019

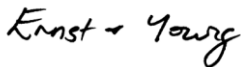
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Auditor's Independence Declaration to the Directors of Nanosonics Limited

As lead auditor for the review of Nanosonics Limited for the half-year ended 31 December 2018, 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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



Ernst & Young



Gamini Martinus
Partner
25 February 2019

Directors' declaration

In the opinion of the Directors of Nanosonics Limited:

1. The interim financial statements and notes set out on pages 6 to 24 are in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date, and
 - b. complying with the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and other mandatory professional reporting requirements.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



Richard England

Director

Sydney, 25 February 2019

Nanosonics Limited

Interim consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2018

		31 December 2018	31 December 2017
	Notes	\$'000	\$'000
Revenue from contracts with customers	2.1	40,693	30,009
Cost of sales		(10,111)	(7,675)
Gross profit		30,582	22,334
Selling and general expenses		(11,181)	(10,204)
Administration expenses		(4,836)	(4,467)
Research and development expenses		(5,508)	(4,653)
Other income		5	-
Other gains - net	2.4	1,279	149
Results from operating activities		10,341	3,159
Finance income - interest		768	602
Finance expense		(109)	(32)
Net finance income		659	570
Operating income before income tax		11,000	3,729
Income tax expense	3.1	(3,895)	(1,516)
Net income after income tax expense attributable to owners of the parent entity		7,105	2,213
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on foreign currency translation		(793)	(25)
Effective portion of changes in fair value of cash flow hedges		(75)	-
Income tax on items of other comprehensive income		22	-
Total items that may be reclassified subsequently to profit or loss		(846)	(25)
Total other comprehensive income		(846)	(25)
Total comprehensive income for the period attributable to owners of the parent entity		6,259	2,188
Earnings per share for losses attributable to ordinary shareholders of the company:		Cents	Cents
Basic earnings per share	2.5	2.37	0.74
Diluted earnings per share	2.5	2.35	0.73

The notes on pages 10 to 24 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Interim consolidated statement of financial position

As at 31 December 2018

		31 December 2018	30 June 2018
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	5.1	71,256	69,433
Trade and other receivables		13,587	8,613
Inventories		12,179	8,936
Derivative financial instruments		131	158
Prepayments and other current assets		1,695	1,370
Costs to obtain customer contracts		301	-
Total current assets		99,149	88,510
Non-current assets			
Property, plant and equipment		5,800	5,268
Intangible assets		629	563
Net deferred tax assets	3.2	10,928	14,808
Other non-current assets		37	32
Derivative financial instruments		159	-
Costs to obtain customer contracts		139	-
Total non-current assets		17,692	20,671
Total assets		116,841	109,181
LIABILITIES			
Current liabilities			
Trade and other payables		4,329	4,371
Income taxes payable		34	46
Contract liabilities		3,404	2,932
Employees benefits liabilities	4.1	2,610	3,006
Provisions	6.1	593	505
Borrowings		435	424
Derivative financial instruments		823	684
Total current liabilities		12,228	11,968
Non-current liabilities			
Trade and other payables		177	195
Contract liabilities		1,675	1,678
Employees benefits liabilities	4.1	548	440
Provisions	6.1	75	75
Borrowings		302	522
Derivative financial instruments		166	-
Total non-current liabilities		2,943	2,910
Total liabilities		15,171	14,878
Net assets		101,670	94,303
EQUITY			
Contributed equity	8.1	112,713	112,713
Reserves		12,904	13,061
Accumulated losses		(23,947)	(31,471)
Total equity		101,670	94,303

The notes on pages 10 to 24 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Interim consolidated statement of changes in equity

For the half-year ended 31 December 2018

	Reserves						Total equity
	Contributed Equity	Share-based payments	Foreign currency translation	Hedging	Total reserves	Accumulated losses	
	Note 8.1						
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2018	112,713	13,386	(234)	(91)	13,061	(31,471)	94,303
Change in accounting policy ¹	-	-	-	-	-	419	419
At 1 July 2018 restated	112,713	13,386	(234)	(91)	13,061	(31,052)	94,722
Profit for the period	-	-	-	-	-	7,105	7,105
Other comprehensive income	-	-	(793)	(75)	(868)	-	(868)
Income tax on items of other comprehensive income	-	-	-	22	22	-	22
Total comprehensive income	-	-	(793)	(53)	(846)	7,105	6,259
Transaction with owners in their capacity as owners							
Share-based payments	-	725	-	-	725	-	725
Income tax on share-based payments	-	(36)	-	-	(36)	-	(36)
At 31 December 2018	112,713	14,075	(1,027)	(144)	12,904	(23,947)	101,670
At 1 July 2017	112,713	11,020	740	-	11,760	(37,222)	87,251
Profit for the period	-	-	-	-	-	2,213	2,213
Other comprehensive income	-	-	(25)	-	(25)	-	(25)
Total comprehensive income	-	-	(25)	-	(25)	2,213	2,188
Transaction with owners in their capacity as owners							
Share-based payments	-	1,057	-	-	1,057	-	1,057
On-market share purchase	-	(99)	-	-	(99)	-	(99)
Income tax on share-based payments	-	91	-	-	91	-	91
At 31 December 2017	112,713	12,069	715	-	12,784	(35,009)	90,488

1. Refer to Note 1.2(b) for further information regarding changes in accounting policies.

The notes on pages 10 to 24 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Interim consolidated statement of cash flows

For the half-year ended 31 December 2018

	31 December 2018	31 December 2017
Notes	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST/VAT)	35,286	30,534
Payments to suppliers and employees (inclusive of GST/VAT)	(33,390)	(25,723)
Interest received	766	679
Income tax (paid)	(96)	(99)
Net cash provided by operating activities	2,566	5,391
Cash flows from investing activities		
Purchase of property, plant and equipment	(736)	(1,340)
Purchase of intangible assets	(199)	(173)
Proceeds from disposal of property, plant and equipment	-	2
Net cash (used) in investing activities	(935)	(1,511)
Cash flows from financing activities		
Repayment of borrowings	(209)	(199)
Interest paid	(22)	(31)
Purchase of shares on exercise of performance rights	-	(99)
Net cash (used) in financing activities	(231)	(329)
Net increase in cash and cash equivalents	1,400	3,551
Cash and cash equivalents at the beginning of the financial half-year	69,433	62,989
Effect of exchange rate changes on cash and cash equivalents	423	(33)
Cash and cash equivalents at the end of the financial half-year	5.1 71,256	66,507

The notes on pages 10 to 24 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2018

1 General accounting policies

1.1 Reporting entity

Nanosonics Limited (the Company) is a publicly listed company, limited by shares, incorporated and domiciled in Australia. The interim consolidated financial report of the Company as at and for the half-year ended 31 December 2018 comprises Nanosonics Limited and its subsidiaries (the Group). The interim financial report is presented in Australian dollars.

1.2 Basis of preparation

a. Statement of Compliance

The interim consolidated financial report for the reporting period ended 31 December 2018 is prepared in accordance with AASB134 Interim Financial Reporting (IAS34 Interim Financial Reporting) and the *Corporations Act 2001*.

The interim consolidated financial report does not include all of the information for a full annual financial report. Accordingly, this report should be read in conjunction with the Annual Financial Report for the Group as at and for the year ended 30 June 2018, together with the public announcements made by the Company during the half year and to the date of this report in accordance with continuous disclosure requirements of the *Corporations Act 2001*. The audited Annual Financial Report for the Company as at and for the year ended 30 June 2018 is available upon request from the Company's registered office and principal place of business at 14 Mars Road, Lane Cove NSW 2066, Australia or from the Investor Centre section of the Company's website: www.nanosonics.com.au. Copies of the Company's public announcements made during the half year and to the date of this report are also available from the Investor Centre section of the Company's website.

The interim consolidated financial report was approved by the Board of Directors on 25 February 2019.

b. Changes in significant accounting policies

The Group has adopted the new accounting standards AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* utilising the modified retrospective method with initial application from 1 July 2018. The cumulative effect of adopting the standards has been recorded as an adjustment to the opening balance of retained earnings as set out below. Therefore, the comparative information was not restated and continues to be reported under the previous accounting standard.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 provides a single, principles-based five-step model to be applied to all sales contracts based on the transfer of control of goods and services to customers. AASB 15 requires separation of distinct performance obligations. Revenue is recognised when the performance obligations are satisfied and recognised at an amount that reflects the consideration the Group expects to be entitled to. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Opening balance adjustment as at 1 July 2018

		1 July 2018
		\$'000
Increase in costs to obtain customer contracts	<i>i</i>	301
Decrease in contract liabilities	<i>ii, iii</i>	256
Decrease in net deferred tax assets		(138)
Increase in retained earnings as at 1 July 2018		419

b. Changes in significant accounting policies (continued)

The following tables summarise the impact of adopting AASB 15 on the Group's statement of financial position as at 31 December 2018 and its statement of profit or loss and other comprehensive income for the year then ended for each of the line items affected.

Impact on the consolidated statement of financial position

As at 31 December 2018

	Notes	As reported \$'000	Adjustments \$'000	Amounts without adoption of AASB 15 \$'000
Assets				
Costs to obtain customer contracts	<i>i</i>	440	(440)	-
Net deferred tax assets		10,928	153	11,081
Others		105,473	-	105,473
Total assets		116,841	(287)	116,554
Liabilities				
Contract liabilities	<i>ii, iii</i>	5,079	314	5,393
Others		10,092	-	10,092
Total liabilities		15,171	314	15,485
Net assets		101,670	(601)	101,069
Equity				
Accumulated losses		(23,947)	(579)	(24,526)
Foreign currency translation reserve		(1,027)	(22)	(1,049)
Others		126,644	-	126,644
Total equity		101,670	(601)	101,069

Impact on the consolidated statement of profit or loss and other comprehensive income

For the period ended 31 December 2018

	Notes	As reported \$'000	Adjustments \$'000	Amounts without adoption of AASB 15 \$'000
Continuing operations				
Revenue from customer contracts	<i>ii, iii</i>	40,693	(145)	40,548
Selling and general expenses	<i>i</i>	(11,181)	(118)	(11,299)
Finance cost	<i>iii</i>	(90)	90	-
Income tax expense		(3,895)	13	(3,882)
Others		(18,422)	-	(18,422)
Profit after tax		7,105	(160)	6,945
Foreign currency translation reserve		(793)	(22)	(815)
Others		(53)	-	(53)
Total comprehensive income		6,259	(182)	6,077

b. Changes in significant accounting policies (continued)

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- i) Under AASB 15, incremental contract costs of sales commissions will be amortised over the contract period. These were previously expensed in the period they are paid or become payable. The impact of the change results in the capitalisation as costs to obtain customer contracts, and a decrease in selling and general expenses.
 - ii) Under AASB 15, the recognition of revenue on multi-element service contracts occurs upon the fulfilment of distinct performance obligations within service contracts. Certain performance obligations within existing service contracts are recognised at a point in time under AASB 15. These were previously not differentiated and recognised over the contract period. The impact of the change results in an adjustment to service revenue and contract liabilities.
 - iii) Some customers purchase service contracts up-front or enter into multi-period service contracts resulting in the Group holding the payment for periods greater than 12 months in advance of revenue recognition. Under AASB 15, timing between upfront consideration received and the fulfilment of services gives rise to a financing component. The impact of the change results in an adjustment to service revenue, finance costs and contract liabilities. The Group has elected to use the practical expedient related to the existence of significant financing components under the new standard.

The accounting policy for revenue recognition is set out in Note 2.2.

AASB 9 *Financial Instruments*

The standard replaces all previous versions of AASB 9 and IAS 39 '*Financial Instruments: Recognition and Measurement.*' AASB 9 introduces new classification and measurement models for financial assets. New hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. AASB 9 has changed the assumptions for the Group's accounting for impairment losses for financial assets by replacing the incurred loss approach with a forward-looking expected credit loss (ECL) approach.

Except for derivative financial instruments, the group initially recognises a financial asset, including trade receivables, at fair value and subsequently measures these at amortised cost using the effective interest rate. The Group's receivable are held to collect contractual cash flows and the cash flows represent solely payments of principal and interest. The accounting policy for derivative financial instruments is set out in Note 5.2.

The Group assessed ECL related to each category of receivables. The adoption of AASB 9 has no significant impact to the Group and no adjustments were required in relation to AASB 9. The accounting for the Group's financial liabilities remains largely the same as it was under AASB 139.

The accounting policies of the comparative information in this report should be read in conjunction with the 30 June 2018 Annual Report.

2 Performance for the year

2.1 Segment and revenue information

i. 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.

ii. Types of products and services

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

iii. Major customers

The group has a number of customers to which it provides products and services. The most significant customer accounts for approximately 56% of external revenue (31 December 2017: 54%). The next most significant customer accounts for approximately 3% of external revenue (31 December 2017: 4%).

iv. 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.

For the half-year ended 31 December 2018

	North America	Europe and Middle East	Asia Pacific	Total
Capital revenue before hedging	15,756	479	334	16,569
Foreign exchange loss on hedged sales	(169)	-	-	(169)
Total capital revenue	15,587	479	334	16,400
Consumables and spare parts	19,102	996	754	20,852
Service	2,408	238	795	3,441
Total consumables and service revenue	21,510	1,234	1,549	24,293
Total revenue	37,097	1,713	1,883	40,693

For the half-year ended 31 December 2017

	North America	Europe and Middle East	Asia Pacific	Total
Capital revenue before hedging	14,050	362	338	14,750
Foreign exchange loss on hedged sales	-	-	-	-
Total capital revenue	14,050	362	338	14,750
Consumables and spare parts	11,844	786	536	13,166
Service	1,269	195	629	2,093
Total consumables and service revenue	13,113	981	1,165	15,259
Total revenue	27,163	1,343	1,503	30,009

iv. Geographical information (continued)

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

The analysis of non-current assets is detailed below:

	31 December 2018	30 June 2018
	\$'000	\$'000
North America	2,865	2,733
Europe and Middle East	705	518
Asia Pacific	14,122	17,420
Total non-current assets	17,692	20,671

2.2 Revenue recognition

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

The Group has revised its accounting policy in line with the requirements of AASB 15. A summary of the impact of the revised accounting policy for the period ended 31 December 2018 is included in note 1.2(b).

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.

(i) Sale of goods

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

The Group provides retrospective volume rebates to certain customers once certain contracted thresholds have been achieved. Rebates are offset against amounts payable by 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 threshold. 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.

(ii) 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.

2.2 Revenue recognition (continued)

(iii) Contract liabilities

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

(iv) Financing component

Generally, the Group receives short-term advances from its customers. 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 contract 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.

(v) Costs to obtain customer contracts

The Group pays sales commissions to its employees for revenue from customer contracts which are amortised over the contract period.

(vi) Interest income

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

The accounting policy for foreign exchange gains arising from hedges of forecast sales transactions is set out in Note 5.2.

2.3 Profit or loss items

The profit from ordinary activities before income tax includes:

	31 December 2018	31 December 2017
	\$'000	\$'000
Depreciation, amortisation and impairment	998	627
Rental expenses relating to operating leases	547	475
Inventory provision/(reversal of provision)	6	(35)
Gain on disposal of property, plant and equipment	-	(2)

2.4 Other gains - net

Foreign exchange gains and losses are recognised in accordance with the accounting policy at Note 1.2. Gains or losses on derivative financial instruments are recognised in accordance with the accounting policy referred in Note 5.2.

	31 December 2018	31 December 2017
	\$'000	\$'000
Realised (loss)/gain on derivative financial instruments	(67)	32
Unrealised (loss)/gain on derivative financial instruments	(495)	114
Net foreign exchange gain	1,841	1
Net gain on derivative financial instruments	1,279	147
Gain on disposal of fixed assets	-	2
Total other gains – net	1,279	149

2.5 Earnings per share (EPS)

i. Basic earnings per share

Basic 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 half year.

ii. Diluted earnings per share

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

	31 December 2018	31 December 2017
	Cents	Cents
(a) Basic earnings per share		
Basic earnings attributable to the ordinary equity holders of the company	2.37	0.74
(b) Diluted earnings per share		
Diluted earnings attributable to the ordinary equity holders of the company	2.35	0.73
	\$'000	\$'000
(c) Net earnings used in calculating earnings per share		
Net earnings after income tax expense attributable to shareholders	7,105	2,213
	31 December 2018	31 December 2017
	Number	Number
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	299,607,040	298,634,074
Adjustments for calculation of diluted earnings per share:		
Options and performance rights unvested	2,887,164	2,592,632
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	302,494,204	301,226,706

2.6 Dividends

No dividends were proposed, declared or paid during the interim financial period and to the date of this report (31 December 2017: Nil).

3 Income taxes

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

3.1 Income tax expense

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

	31 December 2018 \$'000	31 December 2017 \$'000
Consolidated statement of profit or loss		
Current tax		
Current tax expense for the period	(7,776)	(2,831)
Deferred tax		
Recognition of deferred tax assets (net) including origination and reversal of temporary differences	3,881	1,313
	(3,895)	(1,518)
Adjustment relating to prior periods	-	2
Income tax expense reported in the statement of profit or loss	(3,895)	(1,516)
Consolidated statement of changes in equity		
Aggregate current and deferred tax not recognised in net profit or loss but directly debited or credited into equity		
Current tax benefit on share-based payments	86	508
Deferred tax expense on share-based payments	(122)	(417)
Tax (expense)/benefit charged to equity	(36)	91

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

	31 December 2018 \$'000	31 December 2017 \$'000
Operating profit from ordinary activities	11,000	3,729
The prima facie income tax (expense) applicable to the operating profit is calculated at the Australian tax rate of 30% (31 December 2017: 30%)	(3,300)	(1,119)
<i>Increase in income tax expense due to:</i>		
Non-deductible expenses	(165)	(103)
Taxable intercompany income eliminated on consolidation	(237)	(477)
Derecognition of deferred tax assets in foreign jurisdictions	(541)	(283)
Effect of tax rate in foreign jurisdictions	(348)	(275)
<i>Decrease in income tax expense due to:</i>		
Other deductible expenses	191	48
Research and development– net of utilised credits	475	396
Utilisation of unrecognised deferred tax assets in foreign jurisdictions	30	295
	(3,895)	(1,518)
Adjustment relating to prior periods	-	2
Income tax expense	(3,895)	(1,516)

3.2 Deferred taxes

As at 31 December 2018, the net deferred tax assets recognised in the statement of financial position comprises:

	31 December 2018 \$'000	30 June 2018 \$'000
Deferred tax assets		
Non-refundable R&D tax credits	4,555	9,915
Tax losses in United States	626	1,102
Share-based payments	1,045	1,073
Employee benefits liabilities	810	857
Patent costs	613	605
Provisions for warranties and make good	186	174
Provisions for impairment	14	14
Share issue costs	31	61
Contract Liabilities	1,251	1,091
Inventory provision	338	358
Deferred rent	68	73
Unrealised foreign exchange losses	149	-
Derivative financial instruments	61	158
Others	1,727	356
Total deferred tax assets	11,474	15,837
Deferred tax liabilities		
Unrealised foreign exchange gains	(298)	(893)
Accrued interest and other income	(115)	(117)
Prepayments	(6)	(7)
Property, plant and equipment	(10)	(12)
Contract assets	(117)	-
Total deferred tax liabilities	(546)	(1,029)
Net deferred tax assets	10,928	14,808

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.

As at 31 December 2018, the Group has unrecognised deferred tax assets in relation to its subsidiaries.

Estimated unrecognised losses carried forward at the end of the period are \$10,653,000 (30 June 2018: \$7,846,000) for a potential tax benefit of \$2,141,000 (30 June 2018: \$1,628,000) at an effective tax rate of 20.1% (30 June 2018: 20.7%). The probability of recovery of unrecognised tax losses in relation to the subsidiaries are reviewed on an on-going basis.

4 Employee benefits

4.1 Employee benefit liabilities

	31 December 2018			30 June 2018		
	Current	Non-current	Total	Current	Non-current	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Provision of annual leave	1,545	-	1,545	1,471	-	1,471
Provision for long service leave	203	548	751	200	440	640
Provision for bonuses	862	-	862	1,335	-	1,335
Total employee benefit liabilities	2,610	548	3,158	3,006	440	3,446

4.2 Share based payments

For the half-year ended 31 December 2018, share-based payments expense amounted to \$725,000 (31 December 2017: \$1,057,000).

On 30 November 2018, the Company issued 236,982 performance rights, which have a nil exercise price, to employees, including Executive Director, Michael Kavanagh, under the Nanosonics Omnibus Equity Plan in relation to the 2018 Short Term Incentive Scheme. 220,481 performance rights will vest on 31 August 2019 and will expire on 31 August 2022 and 16,501 performance rights will vest on 31 August 2020 and will expire on 31 August 2023. These performance rights are subject to a service condition up to the dates of vesting, after which they can be exercised until the expiry date.

On 7 February 2019, the Company issued 1,392,296 options and 140,947 performance rights to employees, including Executive Director, Michael Kavanagh, under the Nanosonics Omnibus Equity Plan in relation to the 2018 Long Term Incentive Scheme. The options, which have an exercise price of \$3.442, and the performance rights, which have a nil exercise price, will vest on 30 September 2021 and will expire on 30 September 2024. These options and performance rights are subject to performance and service conditions (the details of which are included in the 2018 Notice of Annual General Meeting) up to the date of vesting, after which they can be exercised until the expiry date.

5 Financial assets and financial liabilities

The carrying amounts and estimated fair value of the Group's financial assets and liabilities are materially the same except for derivative financial instruments.

5.1 Cash and cash equivalents

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

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

	31 December 2018	30 June 2018
	\$'000	\$'000
Cash at bank and on hand	10,475	13,812
Deposit on call	281	2,130
Short term deposits	60,500	53,491
Total cash and cash equivalents	71,256	69,433

5.2 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.

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

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

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

As at 31 December 2018, the Group has \$290,000 derivative financial assets (30 June 2018: \$158,000) and \$989,000 derivative financial liabilities (30 June 2018: \$684,000).

6 Operating assets and liabilities

6.1 Provisions

a. Provisions as at the reporting date

	31 December 2018			30 June 2018		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Provision for warranty	593	-	593	505	-	505
Make good provision	-	75	75	-	75	75
Total provisions	593	75	668	505	75	580

b. Movements in provisions

	Provision for warranty	Make good provision	Total
	\$'000	\$'000	\$'000
Carrying amount at start of period	505	75	580
Additional provisions recognised	136	-	136
Unused amount reversed during the period	-	-	-
Amounts used during the period	(48)	-	(48)
Carrying amount at end of period	593	75	668

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.

7 Financial risk management

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

The 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.

7.1 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 (USD, GBP, EUR, CAD) 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.

The Group's primary exposure to foreign currency risk to which the profit is more sensitive is the USD/AUD movements and comprises:

	31 December 2018	30 June 2018
	USD \$'000	USD \$'000
Cash and cash equivalents	3,988	6,951
Trade and other receivables	7,753	4,098
Trade and other payables	(358)	(486)
Foreign currency contracts to buy/sell USD	19,604	9,789

7.1 Foreign currency risk (continued)

The following table demonstrates the sensitivity to a reasonable possible change in the USD rate against the AUD assuming all other variables are held constant:

Change in USD Rate	Impact on post-tax profit		Impact on other components of equity	
	31 December 2018	30 June 2018	31 December 2018	30 June 2018
	\$'000	\$'000	\$'000	\$'000
Increase 5% (30 June 2018: 5%)	750	1,410	1,245	(520)
Decrease 5% (30 June 2018: 5%)	(806)	(1,333)	(1,126)	470

The sensitivity analysis above takes into account foreign currency denominated receivables and payables which are not considered to form part of the parent entity's net investment in foreign operations. Intercompany balances are eliminated in the consolidated balance sheet, however, the effect on profit or loss of their revaluation is not fully eliminated.

7.2 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 these financial assets. The carrying amount is determined according to the Group's accounting policies.

As of 31 December 2018, GE Healthcare (worldwide) and Regional Healthcare Group combined accounted for approximately 62% (30 June 2018: 34%) of the trade receivables outstanding.

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

8 Capital structure

8.1 Contributed equity

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

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

Movements in ordinary share capital

	Number of shares	\$'000
Opening balance 1 July 2018	299,345,079	112,713
Exercise of options and performance rights	539,216	-
Balance 31 December 2018	299,884,295	112,713

9 Other notes

9.1 Commitments

Non-cancellable operating leases

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

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

	31 December 2018	30 June 2018
	\$'000	\$'000
Within one year	1,043	1,066
One year or later and no later than five years	1,785	2,099
Five years or later	-	-
	2,828	3,165

Capital commitments

As at 31 December 2018, the Group had commitments to purchase plant and equipment of \$326,157 (30 June 2018: \$399,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

9.2 Related party transactions

a. Transactions with related parties

Certain directors 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.

Director fees for Maurie Stang and Richard England were paid through their personally-related management entities.

Maurie Stang is related to Regional Healthcare Group Pty Ltd and the following transactions occurred with this entity:

	31 December 2018	31 December 2017
	\$	\$
Sale of products and services to Related Parties	1,328,388	1,103,839
Purchases of goods and services from Related Parties	1,025	1,742

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:

	31 December 2018	30 June 2018
	\$	\$
Current trade receivables (supply of goods and services)	388,577	643,725

There were no amounts due from/(to) other Related Parties. There were no provisions for impaired receivables in relation to any outstanding balances from Related Parties (30 June 2018: Nil) and no expense has been recognised during the period in respect of impaired receivables due from Related Parties.

9.2 Related party transactions (continued)

b. Loans to directors and Key Management Personnel

During the half year and to the date of this report, the Group made no loans to directors and Key Management Personnel and none were outstanding at the year ended 31 December 2018 (30 June 2018 : Nil).

c. Terms and conditions

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

Outstanding balances are unsecured and are repayable in cash.

9.3 New standards and interpretations not yet adopted

AASB 16 *Leases*, which is effective for annual reporting periods beginning on or after 1 January 2019.

For lessee accounting, the standard eliminates the 'operating lease' and finance lease classification required by AASB 117, *Leases*. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets where an accounting policy choice exists whereby either a right-of-use asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the lease asset (included in operating expenses) and in interest expense on the recognised lease liability (included in finance costs). For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) components. For lessor accounting, standard does not substantially change how a lessor accounts for leases. The Group's operating leases with terms of more than 12 months relates to leases of office facilities. As at 31 December 2018, the Group has non-cancellable operating lease commitments of \$2,828,000 (see note 9.1). The Group is in the process of assessing the impact of this standard but has not yet determined to what extent these commitments will result in the recognition of an asset and liability for future payments. The impact is not expected to be material.

9.4 Events occurring after the balance date

On 11 January 2019 Nanosonics Japan KK was established, a wholly owned subsidiary of Nanosonics Limited, based in Japan. This entity will be the Group's master distributor in the Japanese market.

Other than above and as disclosed in note 4.2 of the half-year financial report, there are no other matters or circumstances that have arisen since 31 December 2018 that have significantly affected, or may significantly affect:

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

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Nanosonics Limited (the Company) and its subsidiaries (collectively the Group), which comprises of the interim consolidated statement of financial position as at 31 December 2018, the interim consolidated statement of profit or loss and other comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of description of accounting policies and other explanatory information, and the directors' declaration

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not 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 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Ernst & Young

Ernst & Young

Gamini Martinus

Gamini Martinus
Partner
Sydney
25 February 2019

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Corporate directory and information for investors

Nanosonics Limited ABN 11 095 076 896 incorporated 14 November 2000

Directors

Maurie Stang
Richard England
David Fisher
Steven Sargent
Marie McDonald
Michael Kavanagh

Company Secretary

McGregor Grant

Registered Office

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

Share Register

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

Investor/Media Relations

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

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

Auditor

Ernst & Young
200 George Street
Sydney, NSW 2000 Australia

Legal Advisors

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

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

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

Bankers

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

United Kingdom: HSBC Bank Plc

Germany: Deutsche Bank AG

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

Stock Exchange Listing

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

Website address
www.nanosonics.com.au