

23 February 2018

Company Announcements Office
Australian Securities Exchange

Nanosonics 2018 half year financial results

HIGHLIGHTS

- **Continued strong installed base (IB) growth of trophon® EPR units in North America with IB growing by 1,700 units in the FY18 first half. Total North American IB grew to approximately 14,100 units by end of December.**
- **Growth momentum continues in United Kingdom with Managed Equipment Service (MES) units growing 86% in the first half.**
- **Sales in the first half reflect a broadening number of selling models each with different revenue profiles, including MES in the UK where a growing number of trophon units were placed. In addition, as foreshadowed, sales reflect a reduction in sales of consumables and accessories to GE Healthcare in North America of approximately \$1.8 million, mainly associated with GE inventory holding management. Total first half sales were \$30.0 million, a reduction of 4% compared with prior half (2% in constant currency).**
- **Operating profit before tax of \$3.7 million, up 3% on prior half.**
- **Cash reserve of \$66.5 million, up from \$63.0 million at 30 June 2017, maintaining a strong balance sheet to support ongoing growth strategy.**
- **International fundamentals for adoption continued to strengthen with new guidelines published in the first half, including European Society of Radiology and British Medical Ultrasound Society.**
- **New business development manager for the Europe and Middle East region appointed to drive geographical expansion and leverage continued introduction of new international guidelines.**
- **Market development in Middle East progressed with two new distribution agreements signed.**
- **Continued investment in new product development program with increased investment anticipated in second half.**

Nanosonics (ASX: NAN), a leader in infection control solutions, today announced its Appendix 4D Half Yearly Report for the half year ending 31 December 2017.

"The first half of FY18 demonstrates continued progress towards establishing the trophon technology as standard of care. In North America the strong adoption of trophon was maintained with a further 1,700 new units adopted in the half, growing the overall North American installed base to approximately 14,100 units. This equates to over 42,000 ultrasound procedures being 'trophoned' every working day in North America, or more importantly, over 42,000 patients being protected from the potential risk of cross contamination associated with ultrasound procedures, a figure that is growing daily," said Michael Kavanagh, Nanosonics' Chief Executive Officer and President.

"In the UK, momentum continues to build where the Managed Equipment Service installed base units grew by 86% in the half with trophon continuing to be adopted across the major UK luminary sites and NHS trusts. The fundamentals for adoption across Europe also strengthened with the release of a number of new guidelines including guidelines from the British Medical Ultrasound

Society (BMUS) as well as the European Society of Radiology, all requiring high level disinfection of semi critical ultrasound probes. Importantly, a large population based study from Scotland was released that clearly demonstrated the increased risk of cross contamination and consequent prescription of antibiotics after ultrasound procedures with probes that were not high level disinfected.

“Our geographic expansion strategy continued with new distribution agreements signed for Kuwait and Lebanon where sales commenced this half. A business development manager was appointed to support market expansion in Europe and the Middle East. Active projects are now in place in Israel, the Nordics and Switzerland. Progress was also made with our Japanese pre marketing activities with ongoing engagement with the Japanese Society for Infection Prevention and a local clinical trial planned to commence and complete this half.

“Operational capabilities and capacity also increased in the half where we grew our North American infrastructure by expanding our sales force and clinical applications specialist team as well as commissioning our new distribution facility to support in-house order fulfilment which became fully operational in January this year. Likewise, we expanded our UK warehouse and order fulfilment capabilities as well as expanding our sales force to support and drive ongoing sales momentum in that market. Growth in our sales force team is being planned in the second half for both Germany and France as the market fundamentals in both these countries mature.

“Our product expansion strategy is also progressing. A further ramp up in R&D activity is expected in the second half.”

FINANCIAL RESULTS

The FY18 first half financial results reflect a broadening number of selling models including capital equipment sales, capital equipment rentals and the MES model in the UK as well as inventory sales to distributors, each with different revenue profiles.

As foreshadowed, sales also reflect a reduction in sales of consumables and accessories to GE Healthcare of approximately \$1.8 million, mainly associated with GE inventory holding management. First half sales were \$30.0 million a reduction of 4% compared with the prior half (2% in constant currency).

\$ millions	FY18 H1	FY17 H2	Change (vs H2 FY17)	FY17 H1	Change (vs H1 FY17)
Sale of goods and services	30.0	31.4	▼ 4%	36.1	▼ 17%
Gross profit	22.3	23.9	▼ 7%	26.3	▼ 15%
%	74%	76%		73%	
Selling, general and administration expenses	(14.7)	(15.7)	▼ 6%	(12.9)	▲ 14%
Research and development expenses	(4.6)	(5.2)	▼ 12%	(4.3)	▲ 7%
Other income	0.1	-		0.8	▼ 88%
Finance income (net)	0.6	0.6		0.4	▲ 50%
Operating income before income tax	3.7	3.6	▲ 3%	10.3	▼ 64%
Income tax benefit/(expense)	(1.5)	0.6	nm	11.7	nm
Profit after income tax	2.2	4.2	▼ 48%	22.0	▼ 90%

*nm not meaningful

Operating expenses were \$19.3 million in the half compared to \$20.9 million in the prior half. The prior half included net foreign currency losses of \$1.0 million and a number of significant one-off items related to new product development.

Operating profit before tax was \$3.7 million, up 3% on the last half with positive free cash flow of \$3.9 million and cash at 31 December 2017 totalling \$66.5 million, up from \$63.0 million at end of June 2017.

REGIONAL REVIEW

North America

The strong adoption of trophon continued in the first half of FY18 with the North American IB growing to approximately 14,100 units. Significant investment has been made in the region with the North American resources growing to 50 people across sales, clinical applications, service, finance and distribution functions. The investment is to support the ongoing growth of trophon and also set up the necessary infrastructure for the introduction of new products, as well as the capability to supply consumables to the North American installed base from July 2019. A new Regional President, Ken Shaw, was appointed in the first half to lead our growing North American operations.

A major focus in the region is the continuing investment in education, sales and marketing to increase awareness of the importance of and requirement for high level disinfection of all surface ultrasound probes that are deemed semi critical based on the procedure they are used for and not just intracavity probes. Ultrasound is now used extensively in many hospital departments for semi critical procedures such as biopsies, central and peripheral venous access, nerve blocks, tumour ablations and resection surgeries. All of these procedures require high level disinfection in accordance with guidelines and CDC mandates.

During the half an important survey of infection prevention specialists throughout the US was conducted to identify surface ultrasound probe use and high level disinfection practices for these probes. Preliminary data clearly demonstrates the need for major improvements in this area and the full results of the study, which was conducted through the University of Louisville, are expected to be peer review published this half. The outcomes from studies like this clearly demonstrate the ongoing opportunity for further trophon adoption in North America where the market opportunity is estimated to be approximately 40,000 units.

Capital reseller agreements are now in place with all major ultrasound companies in North America with sales through this channel growing. In this model the ultrasound companies have access to the trophon capital equipment. However, Nanosonics will install the unit and train the customer as well as be responsible for the ongoing provision of consumables and service. The majority of these companies now include trophon in their trade displays at major ultrasound meetings, demonstrating to customers the importance of probe decontamination and trophon as the recommended standard of care.

Europe

As the drivers for high level disinfection of ultrasound probes improve in Europe, investments were made in the first half of FY18 to support the adoption of trophon. These investments included the expansion of our UK sales and service team, as well as the appointment of a Regional Business Development manager for the Europe and Middle East region. Ongoing investments, in particular in Germany and France, are expected to continue in the second half to support our long term growth strategy.

In the UK, strong unit growth was recognised in the first half through our MES model. The MES installed base grew by 86% in the first half. Under the MES program, trophon capital equipment,

which is owned by Nanosonics, is placed in hospitals for a contracted period and the facility pays an all-inclusive price for consumables in return for the use and maintenance of the capital equipment. Luminary sites such as Kings College Hospital London adopted 40 units across nine departments and NHS Fife Hospital in Scotland adopted 20 units during the half.

During the period, the British Medical Ultrasound Society released guidance requiring high level disinfection for all semi critical ultrasound probes. Guidance such as this further supports the ongoing awareness and adoption of trophon technology.

Of note during the half was the publication of the first population-level study that for the first time quantified the increased infection risk from endocavity ultrasound procedures. Published by Health Protection Scotland and NHS National Services Scotland, the study demonstrated the clear link between improper endocavity ultrasound probe disinfection and increased infection risk. Results showed that patients were 41% more likely to have positive bacterial cultures and 26% more likely to be prescribed antibiotics 30 days after a transvaginal scan when the probe was not high level disinfected. Such data is applicable globally.

During the period, the European Society of Radiology also published best practice recommendations for infection prevention and control in ultrasound mandating high level disinfection.

In Germany, various German expert societies have published, or are preparing to publish, supporting recommendations for the decontamination of ultrasound probes stipulating specific efficacy, cleaning, validation and documentation requirements, all of which the trophon technology meets. During the period, the University Hospital Frankfurt, a recognised European luminary hospital, was one of the key accounts to adopt trophon and 22 units were installed under a rental model.

In France, consensus is building in support for high level disinfection of semi critical ultrasound probes. In July 2017 the president of the French infection control society was appointed by the Ministry of Health to head a working group tasked to draft new guidelines. This resulted from poor findings resulting from a national audit on compliance with current guidelines. In addition, in August the French Urology Association published a paper reporting only 22% of respondents comply with current guidelines and instructions. The authors concluded that high level disinfection should become the standard reprocessing method for ultrasound probes used during prostate biopsies.

Active programs are currently in place in the Nordics and Switzerland as part of our European expansion strategy with the potential for new distribution agreements to be signed in H2 FY18.

Asia Pacific / Middle East

In Australia / New Zealand, trophon has achieved high market penetration and is now the acknowledged standard of care. Marketing activities are focussed on ensuring all semicritical ultrasound probes are high level disinfected in accordance with local guidelines which will further drive consumables revenue.

In Japan, pre-marketing programs are progressing with engagement with relevant key opinion leaders and societies. A pivotal local clinical study which aims to provide local data on microbial contamination on ultrasound probes is scheduled to commence and be completed in H2 FY18. This data aims to support the generation of local Japanese guidelines. The subject of ultrasound probe decontamination will feature with our Japanese partner Sakura Seiki at the annual National Japanese Society of Infection Prevention meeting taking place this February.

In the Middle East, two new distribution agreements were signed in the half and sales have commenced into Kuwait and Lebanon. Discussions are also underway for expansion into further countries in the region including Israel, United Arab Emirates and the Kingdom of Saudi Arabia.

OUTLOOK

The Company's strategic growth agenda continues to be focussed on three core areas:

1. Establish the trophon technology as standard of care in those markets where trophon is already represented
2. Expand into new markets as fundamentals for adoption strengthen with the release of new guidelines; and
3. Develop new products focussing on unmet needs in infection prevention.

A number of selling models are now in operation for trophon adoption which can be tailored for specific customer needs. Each model has different implications for the timing of revenue recognition associated with the capital equipment. However, all are attractive, profitable models in the long term with annuity revenue growing as the installed base grows. These models include:

- Capital equipment sales (Direct)
- Capital equipment rentals (Direct)
- Managed Equipment Service model (Direct)
- Ultrasound Capital Reseller model
- Distribution model

"Importantly, in July 2019, our distribution agreement with GE Healthcare in the USA will change to a Capital Reseller model, resulting in a significant increase in consumable revenue and margin coming direct to Nanosonics associated with the GE Healthcare installed base in the USA," said Mr Kavanagh.

"For the second half of FY18 we expect:

- Continued growth in the installed base in North America with FY18 H2 similar to FY18 H1 resulting in strong growth in the total installed base and corresponding long term annuity revenue from consumables and service;
- Momentum continuing to grow in the UK where we expect FY18 new unit growth of 75% to 100% over FY17 of which 90% of installations will be under our Managed Equipment Service program;
- GE Healthcare will continue to manage inventory as per the first half, resulting in a degree of variability in volume and phasing of their purchases;
- Ongoing investment in our long term growth strategy with FY18 operating expenses expected to be in the range of \$48 million including an increase in R&D expenditure in H2 vs H1; and
- The USD is assumed at \$0.78 in the second half vs ~\$0.75 in FY17.

"Beyond FY18 we expect:

- Strong growth in trophon installed base in all core markets as new guidelines continue to be released and the requirements for high level disinfection of all semi critical probes is understood and adopted;
- Expansion into new markets;
- New GE Healthcare agreement coming into effect in July 2019 with material increase in revenue and margin for Nanosonics from the sale of consumables associated with the existing GE installed base; and
- Introduction of new products including the second generation of trophon and targeting one or more new infection prevention solutions in FY20, subject to regulatory approvals".

Michael Kavanagh
CEO / President

Investor conference call

Investors are invited to join a conference call hosted by Michael Kavanagh, CEO and President and McGregor Grant, CFO at **11.00am AEST on Friday 23 February 2018.**

Conference ID: 480 971

Australian Participant Dial-in Numbers

Toll: +61 2 9007 3187 (can be used if dialing from international location)

Toll Free: 1800 558 698

International Participant Dial-in Numbers

Toll-free dial-in numbers for each country are listed below. For countries not listed below, the Australian Toll number provided above may be used.

Canada	1855 881 339
China	4001 200 659
Hong Kong	800 966 806
India	0008 0010 08443
Japan	0053 116 1281
New Zealand	0800 453 055
Singapore	800 191 2785
United Kingdom	0800 051 8245
United States	855 881 1339

An archive of the conference call will be available at www.obenbriefing.com.

For more information please contact:

Michael Kavanagh, CEO / President or McGregor Grant, CFO, on (02) 8063 1600

Kyahn Williamson, Investor Relations, Buchan Consulting on (03) 9866 4722

Ben Walsh, Media Relations, Buchan Consulting on (03) 9866 4722.

About Nanosonics

Nanosonics Limited is developing a portfolio of decontamination products designed to reduce the spread of infection. The Company owns intellectual property relating to a unique disinfection and sterilisation technology which can be suited to a variety of markets. Initial market applications are designed for the reprocessing of reusable medical instruments. The Company's first product is designed to disinfect Ultrasound Transducers. For more information about Nanosonics please visit www.nanosonics.com.au

Appendix 4D

Nanosonics Limited Half Yearly Report

ABN: 11 095 076 896

Reporting period: 31 December 2017

Previous period: 31 December 2016

Results for announcement to the market

	31 December 2017 \$'000	31 December 2016 \$'000	Movement	
			%	\$'000
Revenue from ordinary activities excluding other income	30,009	36,120	(17%)	(6,111)
Revenue from ordinary activities	30,760	37,357	(18%)	(6,597)
Profit from ordinary activities before tax	3,729	10,270	(64%)	(6,541)
Profit from ordinary activities after tax attributable to members*	2,213	21,985	(90%)	(19,772)
Net profit for the period attributable to members*	2,213	21,985	(90%)	(19,772)
	Cents	Cents		Cents
Basic earnings per share	0.74	7.40	(90%)	(6.66)
Dividend per share	-	-		
Net tangible assets per share	25.90	27.11	(4%)	(1.21)

The information in this report should be read in conjunction with the 30 June 2017 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.

There were no 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.

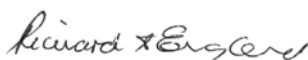
The information set out above and in the attached half year report is provided to the ASX in accordance with a resolution of the Directors.

*The profit from ordinary activities after tax attributable to members for the period ended 31 December 2016 included the effect of initial recognition of deferred tax assets. Further explanation of this matter and of all other movements are provided in the attached Directors' Report.

Attachments:

The Half-Year Report of Nanosonics Limited for the period ended 31 December 2017 is attached.

On behalf of the directors



Richard England

Director

Sydney, 23 February 2018



HALF-YEAR REPORT

Given to the ASX under listing rule 4.2A.

31 DECEMBER 2017

The information in this report should be read in conjunction with the 30 June 2017 Annual Report.

Directors' report

For the six months ended 31 December 2017

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 six months ended 31 December 2017, and the Auditor's review report thereon.

Principal activities

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

- Manufacturing and distribution of the trophon® EPR ultrasound probe disinfectant and its 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 2017.

Directors

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

Review of results and operations

	31 December 2017	31 December 2016
	\$'000	\$'000
Sale of goods and services	30,009	36,120
Cost of sales	(7,675)	(9,822)
Gross profit	22,334	26,298
Selling, general and administration expenses	(14,671)	(12,960)
Research and development expenses	(4,653)	(4,264)
Other income	149	757
Finance income	602	480
Finance expense	(32)	(41)
Operating income before income tax	3,729	10,270
Income tax (expense)/benefit (note 3)	(1,516)	11,715
Profit attributable to members	2,213	21,985

	31 December 2017	30 June 2017
	\$'000	\$'000
Cash and cash equivalents	66,507	62,989
Net assets	90,488	87,251

Directors' report

For the six months ended 31 December 2017

Sales for the period were \$30,009,000. This compares with sales of \$36,120,000 in the prior corresponding period which included sales to the Company's North American distribution partner GE Healthcare to build their inventory from a low level at the beginning of the period to meet safety stock requirements. The installed base of trophon® EPR in North America increased by 1,700 units in the six months to 31 December 2017 with the North American installed base growing to approximately 14,100 units.

Gross profit was \$22,334,000 compared with \$26,298,000 in the prior corresponding period. Gross margin as a percent of sales was 74% compared with 73% 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 \$14,671,000, an increase of \$1,711,000 compared with \$12,960,000 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. Recovery of production overheads was lower compared with the prior corresponding period as a result of lower production volumes.

Research and development expenses for the six months to 31 December 2017 were \$4,653,000, an increase of \$389,000 compared with the prior corresponding period.

Other income for the period was \$149,000 compared with \$757,000 in the prior half year, mainly as a result of lower net foreign exchange gains.

Income tax expense for the period was \$1,516,000 compared with an income tax benefit of \$11,715,000 in the prior corresponding period, which included the recognition of deferred tax assets relating to the Australian entities following an assessment of the operations of the Group which concluded that it was probable that taxable profits will be generated against which carried forward tax losses and tax credits will be utilised. Following a further assessment of the operations of the Group during the half year to 31 December 2017, it has been determined that it is probable that taxable profits will continue to be generated against which carried forward tax losses and tax credits will be utilised. Movements in the recognised deferred tax assets and further information on the income tax expense are detailed in note 3.

Cash and cash equivalents at 31 December 2017 amounted to \$66,507,000 compared with \$62,989,000 at 30 June 2017. The cash on hand provides a strong balance sheet for the Company to continue executing on its growth strategies.

Directors' report

For the six months ended 31 December 2017

Subsequent Events

Note 9.3 sets out details of events subsequent to 31 December 2017 that may significantly affect the interim consolidated financial statements or require disclosure.

Apart from the items included in note 9.3 and in the half-year report, there are no matters or circumstances that have arisen since 31 December 2017 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

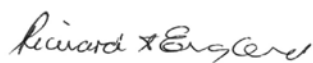
The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) and where noted (\$'000) under the option available to the Company under ASIC Instrument 2016/191. The Company is an entity to which that instrument applies.

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

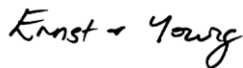
Sydney, 23 February 2018

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 2017, 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
23 February 2018

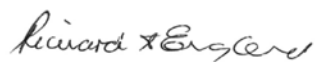
Directors' declaration

In the opinion of the Directors of Nanosonics Limited:

1. The interim financial statements and notes set out on pages 6 to 21 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 2017 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, 23 February 2018

Nanosonics Limited

Interim consolidated statement of profit or loss and other comprehensive income

For the six months ended 31 December 2017

		31 December 2017	31 December 2016
	Notes	\$'000	\$'000
Sale of goods and services	2.1	30,009	36,120
Cost of sales		(7,675)	(9,822)
Gross profit		22,334	26,298
Selling and general expenses		(10,204)	(8,967)
Administration expenses		(4,467)	(3,993)
Research and development expenses		(4,653)	(4,264)
Other income	2.3	149	757
Results from operating activities		3,159	9,831
Finance income - interest		602	480
Finance expense - borrowing costs		(32)	(41)
Net finance income		570	439
Operating income before income tax		3,729	10,270
Income tax (expense)/benefit	3.1	(1,516)	11,715
Net income after income tax expense attributable to owners of the parent entity		2,213	21,985
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on foreign currency translation		(25)	(574)
Total Items that may be reclassified subsequently to profit or loss		(25)	(574)
Total other comprehensive income		(25)	(574)
Total comprehensive income for the period attributable to owners of the parent entity		2,188	21,411
Earnings per share for losses attributable to ordinary shareholders of the company:			
		Cents	Cents
Basic earnings per share	2.4	0.74	7.40
Diluted earnings per share	2.4	0.73	7.30

The notes on pages 10 to 21 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Interim consolidated statement of financial position

As at 31 December 2017

		31 December 2017	30 June 2017
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	5.1	66,507	62,989
Trade and other receivables		9,158	8,923
Inventories		7,362	7,728
Derivative financial instruments		115	338
Prepayments and other current assets		1,239	1,379
Total current assets		84,381	81,357
Non-current assets			
Property, plant and equipment		4,640	3,464
Intangible assets		350	281
Net deferred tax assets	3.2	12,779	14,134
Other non-current assets		25	20
Total non-current assets		17,794	17,899
Total assets		102,175	99,256
LIABILITIES			
Current liabilities			
Trade and other payables		3,603	3,727
Income taxes payable		24	53
Deferred revenue		1,974	1,697
Employees benefits liabilities	4.1	2,448	2,748
Provisions	6.1	523	534
Borrowings		414	404
Total current liabilities		8,986	9,163
Non-current liabilities			
Trade and other payables		218	236
Deferred revenue		1,293	1,235
Employees benefits liabilities	4.1	384	355
Provisions	6.1	70	70
Borrowings		736	946
Total non-current liabilities		2,701	2,842
Total liabilities		11,687	12,005
Net assets		90,488	87,251
EQUITY			
Contributed equity	8.1	112,713	112,713
Reserves		12,784	11,760
Accumulated losses		(35,009)	(37,222)
Total equity		90,488	87,251

The notes on pages 10 to 21 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Interim consolidated statement of changes in equity

For the six months ended 31 December 2017

	Contributed Equity	Option premium on convertible notes	Reserves			Accumulated losses	Total equity
			Share-based payments	Foreign currency translation	Total reserves		
Note 8.1							
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
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
At 1 July 2016	112,698	-	7,107	239	7,346	(63,380)	56,664
Profit for the period	-	-	-	-	-	21,985	21,985
Other comprehensive income	-	-	-	(574)	(574)	-	(574)
Total comprehensive income	-	-	-	(574)	(574)	21,985	21,411
Transaction with owners in their capacity as owners							
Share-based payments	15	-	1,061	-	1,061	-	1,076
Income tax on share-based payments	-	-	1,860	-	1,860	-	1,860
At 31 December 2016	112,713	-	10,028	(335)	9,693	(41,395)	81,011

The notes on pages 10 to 21 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Interim consolidated statement of cash flows

For the six months ended 31 December 2017

	31 December 2017	31 December 2016
Notes	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST/VAT)	30,534	37,394
Payments to suppliers and employees (inclusive of GST/VAT)	(25,723)	(29,143)
Interest received	679	532
Income tax (paid)/refund	(99)	8
Net cash provided by operating activities	5,391	8,791
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,340)	(430)
Purchase of intangible assets	(173)	(120)
Proceeds from disposal of property, plant and equipment	2	-
Net cash (used) in investing activities	(1,511)	(550)
Cash flows from financing activities		
Proceeds from exercise of options	-	15
Purchase of shares on exercise of performance rights	(99)	-
Repayment of borrowings	(199)	(201)
Interest paid	(31)	(41)
Net cash (used) in financing activities	(329)	(227)
Net increase in cash and cash equivalents	3,551	8,014
Cash and cash equivalents at the beginning of the financial half-year period	62,989	48,841
Effect of exchange rate changes on cash and cash equivalents	(33)	18
Cash and cash equivalents at the end of the financial half-year period	5.1 66,507	56,873

The notes on pages 10 to 21 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Notes to the interim consolidated financial statements

For the six months ended 31 December 2017

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 condensed consolidated financial report of the Company as at and for the six months ended 31 December 2017 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 condensed consolidated financial report for the reporting period ended 31 December 2017 is prepared in accordance with AASB134 Interim Financial Reporting (IAS34 Interim Financial Reporting) and the *Corporations Act 2001*.

The interim condensed consolidated financial report does not include all of the information for a full annual 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 2017, 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 2017 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 condensed consolidated financial report was approved by the Board of Directors on 23 February 2018.

b. Significant accounting policies

The accounting policies applied by the Group in the interim condensed consolidated financial report are the same as those applied by the Group in the Annual Financial Report as at and for the year ended 30 June 2017.

2 Performance for the year

2.1 Segment Information

i. Operating segment

The Group has identified its operating segments based on the internal reports that are reviewed and used by the 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 54% of external revenue (31 December 2016: 73%). The next most significant customer accounts for approximately 4% of external revenue (31 December 2016: 3%).

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.

	31 December 2017	31 December 2016
	\$'000	\$'000
North America	27,163	33,963
Europe and Middle East	1,343	589
Asia Pacific	1,503	1,568
Total revenue	30,009	36,120

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

The analysis of non-current assets is detailed below:

	31 December 2017	30 June 2017
	\$'000	\$'000
North America	298	273
Europe and Middle East	422	103
Asia Pacific	17,074	17,523
Total non-current assets	17,794	17,899

2.2 Profit or loss items

The profit from ordinary activities before income tax includes:

	31 December 2017	31 December 2016
	\$'000	\$'000
Depreciation, amortisation and impairment	627	619
Rental expenses relating to operating leases	475	439
Inventory provision (reversal of provision)	(35)	149
(Gain)/loss on disposal of property, plant and equipment	(2)	3

2.3 Other income

	31 December 2017 \$'000	31 December 2016 \$'000
Realised foreign exchange (losses)/gains	(500)	66
Unrealised foreign exchange gains	501	594
Net foreign exchange gains	1	660
Realised gain on derivative financial instruments	32	507
Unrealised gain/(loss) derivative financial instruments	115	(415)
Net gain on derivative financial instruments	147	92
Others	1	5
Total	149	757

2.4 Earnings per share

i. Basic 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 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 2017 Cents	31 December 2016 Cents
(a) Basic earnings per share		
Basic earnings attributable to the ordinary equity holders of the company ¹	0.74	7.40
(b) Diluted earnings per share		
Diluted earnings attributable to the ordinary equity holders of the company ¹	0.73	7.30
	\$'000	\$'000
(c) Net earnings used in calculating earnings per share		
Net earnings after income tax expense attributable to shareholders ¹	2,213	21,985

¹ Net earnings after income tax expense attributable to shareholders used in calculating earnings per share for the period ended 31 December 2016 included the initial recognition of deferred tax assets in relation to the Australian operations.

	31 December 2017 Number	31 December 2016 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	298,634,074	296,530,473
Adjustments for calculation of diluted earnings per share:		
Options and performance rights unvested	2,592,632	3,794,081
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	301,226,706	300,324,554

2.5 Dividends

No dividends were proposed, declared or paid during the interim financial period and to the date of this report (31 December 2016: 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)/benefit

The major components of income tax (expense)/benefit for the period are:

	31 December 2017 \$'000	31 December 2016 \$'000
Consolidated statement of profit or loss		
Current tax		
Current tax expense for the period	(2,831)	(4,030)
Deferred tax		
Recognition of deferred tax assets (net) including origination and reversal of temporary differences	1,313	15,839
	(1,518)	11,809
Adjustment relating to prior periods	2	(94)
Income tax (expense)/benefit reported in the statement of profit or loss	(1,516)	11,715
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	508	1,138
Deferred tax (expense)/benefit on share-based payments	(417)	722
Tax benefit charged to equity	91	1,860

The reconciliation of income tax benefit/(expense) to prima facie tax payable is as follows:

	31 December 2017	31 December 2016
	\$'000	\$'000
Operating profit from ordinary activities	3,729	10,270
The prima facie income tax (expense) applicable to the operating profit is calculated at the Australian tax rate of 30% (31 December 2016: 30%)	(1,119)	(3,081)
Increase in income tax expense due to:		
Non-deductible expenses	(103)	(2)
Taxable intercompany income eliminated on consolidation	(477)	(389)
Derecognition of deferred tax assets in foreign jurisdictions	(283)	(1,878)
Effect of tax rate in foreign jurisdictions	(275)	-
Decrease in income tax expense due to:		
Other deductible expenses	48	105
Research and development expenses	396	362
Utilisation and initial recognition of deferred tax assets in Australia	-	16,381
Utilisation of unrecognized deferred tax assets in foreign jurisdictions	295	-
Effect of tax rate in foreign jurisdictions	-	311
	(1,518)	11,809
Adjustment relating to prior periods	2	(94)
Income tax (expense)/benefit	(1,516)	11,715

3.2 Deferred taxes

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

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

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

Significant management judgment is required to determine the amount of the 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.

As at 31 December 2017, the net deferred tax assets recognised in the statement of financial position comprises:

	31 December 2017 \$'000	30 June 2017 \$'000
Deferred tax assets		
Non-refundable R&D tax credits	9,883	8,092
Tax losses	401	2,277
Share-based payments	726	1,401
Employee benefits liabilities	630	695
Patent costs	635	593
Provisions for warranties and make good	188	184
Provisions for impairment	14	11
Share issue costs	91	120
Deferred revenue	147	172
Inventory provision	200	217
Deferred rent	76	79
Unrealised foreign exchange losses	-	283
Others	75	236
Total deferred tax assets	13,066	14,360
Deferred tax liabilities		
Derivative financial instruments	(35)	(101)
Unrealised foreign exchange gains	(160)	-
Accrued interest and other income	(78)	(104)
Prepayments	(2)	(7)
Property, plant and equipment	(12)	(14)
Total deferred tax liabilities	(287)	(226)
Net deferred tax assets	12,779	14,134

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 2017, the Group has unrecognised deferred tax assets in relation to its subsidiaries.

Unrecognised deferred tax assets include:

	31 December 2017 \$'000	30 June 2017 \$'000
Estimated tax losses carried forward (a)	2,348	3,439
Non-refundable R&D tax credits (b)	-	-
	2,348	3,439

	31 December 2017 \$'000	30 June 2017 \$'000
(a) Estimated unrecognised tax losses carried forward:		
Unrecognised tax losses carried forward at the beginning of the period	11,284	57,489
Adjustment in respect of unrecognised tax losses carried forward relating to prior periods ²	(17)	(15,664)
Tax losses for the period related to non-Australian entities	1,399	3,059
Carried forward tax losses utilised by the Australian entities	-	(26,011)
Carried forward tax losses utilised by non- Australian entities	(1,797)	-
Recognition of deferred tax assets on Australian tax losses	-	(7,589)
Estimated unrecognised tax losses carried forward at the end of the period	10,869	11,284
Potential tax benefit at 21.6% ¹ effective tax rate (30 June 2017: 30.5%)	2,348	3,439
	31 December 2017 \$'000	30 June 2017 \$'000
(b) Estimated unrecognised non-refundable R&D tax credits:		
Non-refundable R&D tax credits brought forward at the beginning of the period	-	-
Credits that arose during the period	-	9,488
Credits that were utilised during the period	-	-
Adjustment in respect of non-refundable R&D tax credits carried forward relating to prior periods ²	-	11,097
Recognition of deferred tax assets on R&D tax credits	-	(20,585)
Estimated unrecognised non-refundable R&D tax credits at the end of the period	-	-

1. The potential tax benefit on estimated unrecognised tax losses takes into account the reduction in the United States federal income tax rate from 35% to 21% from 1 January 2018.

2. At 30 June 2016 it was anticipated that the Company would utilise the available R&D tax credits to offset its Australian current tax expense in relation to the year ended 30 June 2016. Subsequently, it was determined that the Company would first utilise carried forward tax losses instead of R&D tax credits.

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 2017			30 June 2017		
	Current	Non-current	Total	Current	Non-current	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Provision of annual leave	1,287	-	1,287	1,182	-	1,182
Provision for long service leave	332	384	716	302	355	657
Provision for bonuses	829	-	829	1,264	-	1,264
Total employee benefit liabilities	2,448	384	2,832	2,748	355	3,103

4.2 Share based payments

For the six months ended 31 December 2017, share-based payments expense amounted to \$1,057,000 (31 December 2016: \$1,061,000).

On 25 January 2018, the Company issued 307,090 performance rights to employees, including Executive Director, Michael Kavanagh under the Nanosonics Omnibus Equity Plan in relation to the 2017 short term incentive scheme. The performance rights, which have a nil exercise price, will vest on 31 August 2018 and will expire on 31 August 2021. These performance rights are subject to service condition 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 2017	31 December 2016
	\$'000	\$'000
Cash at bank and on hand	10,186	14,646
Deposit on call	5,702	468
Short term deposits	50,619	41,759
Total cash and cash equivalents	66,507	56,873

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 2017, the Group has \$115,000 derivative financial assets (30 June 2017: derivative financial assets of \$338,000).

6 Operating assets and liabilities

6.1 Provisions

a. Provisions as at the reporting date

	31 December 2017			30 June 2017		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Provision for warranty	523	-	523	534	-	534
Make good provision	-	70	70	-	70	70
Total provisions	523	70	593	534	70	604

b. Movements in provisions

	Provision for warranty \$'000	Make good provision \$'000	Total \$'000
Carrying amount at start of period	534	70	604
Additional provisions recognised	47	-	47
Unused amount reversed during the period	(9)	-	(9)
Amounts used during the period	(49)	-	(49)
Carrying amount at end of period	523	70	593

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 2017	30 June 2017
	USD \$'000	USD \$'000
Cash and cash equivalents	6,742	8,380
Trade and other receivables	4,861	5,068
Trade and other payables	(514)	(597)
Foreign currency contracts to buy/sell USD	8,585	10,186

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:

	Impact on post-tax profit		Impact on other components of equity	
Change in USD Rate	31 December 2017	30 June 2017	31 December 2017	30 June 2017
	\$'000	\$'000	\$'000	\$'000
Increase 5% (30 June 2017: 10%)	1,288	2,234	(598)	(1,216)
Decrease 5% (30 June 2017: 5%)	(1,240)	(1,344)	541	521

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 2017, GE Healthcare (worldwide) and Regional Healthcare Group combined accounted for approximately 49% (30 June 2017: over 40%) 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 2017	297,732,955	112,713
Exercise of options and performance rights - proceeds received	1,562,311	-
Balance 31 December 2017	299,295,266	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 2017 \$'000	30 June 2017 \$'000
Within one year	1,040	949
One year or later and no later than five years	2,567	2,644
Five years or later	-	-
	3,607	3,593

Capital commitments

As at 31 December 2017, the Group had commitments to purchase plant and equipment of \$823,000 (30 June 2017: \$1,434,000). 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 2017 \$	31 December 2016 \$
Sale of products and services to Related Parties	1,103,839	721,537
Purchases of goods and services from Related Parties	1,742	4,082
Interest charged	-	1,115

b. 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 2017	30 June 2017
	\$	\$
Current trade receivables (supply of goods and services)	644,777	791,582
Current trade payables (purchases of goods and services)	-	1,976

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 2017: Nil) and no expense has been recognised during the period in respect of impaired receivables due from Related Parties.

c. 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 2017 (30 June 2017 : Nil).

d. 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 Events occurring after the balance date

Other than 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 2017 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 2017, 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 2017 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.

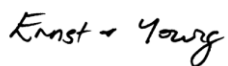
Auditor's Responsibility

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 2017 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



Gamini Martinus
Partner
Sydney
23 February 2018

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 Secretaries

McGregor Grant
Robert Waring

Registered Office

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

Bankers

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