

Appendix 4D

Nanosonics Limited Half Yearly Report

ABN: 11 095 076 896

Reporting period: 31 December 2020

Previous period: 31 December 2019

Results for announcement to the market

	31 December 2020 \$'000	31 December 2019 \$'000		Movement %	\$'000
Revenue from ordinary activities	43,148	48,527	Down	-11%	(5,379)
Profit from ordinary activities before tax	203	6,743	Down	-97%	(6,540)
Profit from ordinary activities after tax attributable to members	1,464	5,711	Down	-74%	(4,247)
Net profit for the period attributable to members	1,464	5,711	Down	-74%	(4,247)
Basic earnings per share	Cents 0.49	Cents 1.90	Down	-74%	Cents (1.41)
Dividend per share	-	-			
Net tangible assets per share ¹	38.73	34.68	up	12%	4.05

¹ For the period ended 31 December 2020, the Company has included the right-of-use asset in the calculation of the net tangible asset backing per ordinary security. For the period ended 31 December 2019, the net tangible asset backing per ordinary security has been amended to include the right-of-use asset. If the right-of-use asset was excluded, the net tangible asset backing per ordinary security on issue at period end would have been 38.13 (2019: 34.11).

The information in this report should be read in conjunction with the 30 June 2020 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 the 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, Nanosonics Europe GmbH, Nanosonics, Inc., Nanosonics Canada, Inc., Nanosonics Europe Limited, Nanosonics UK Limited, Nanosonics Japan K.K., Nanosonics Investments Pty Ltd and Saban Ventures Pty Ltd.

The financial statements included in the half yearly 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-Yearly Report of Nanosonics Limited for the period ended 31 December 2020 is attached.

On behalf of the directors



Geoff Wilson

Director

Sydney, 24 February 2021



HALF-YEARLY REPORT

Given to the ASX under listing rule 4.2A.

31 DECEMBER 2020

The information in this report should be read in conjunction with the 30 June 2020 Annual Report.

Directors' report

For the half-year ended 31 December 2020

Your Directors present their report, together with the interim consolidated financial statements and notes for Nanosonics Limited (the Company) and its subsidiaries (together the Group) for the half-year ended 31 December 2020, 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[®] ultrasound probe disinfectant and its associated consumables and accessories; and
- Research, development and commercialisation of infection control and decontamination products and related technologies.

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 2020.

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, Marie McDonald, Geoff Wilson, Lisa McIntyre and executive director, Michael Kavanagh (CEO & President/Managing Director).

Review of results and operations

	31 December 2020	31 December 2019
	\$'000	\$'000
Revenue from contracts with customers	43,148	48,527
Cost of sales	(8,908)	(12,128)
Gross profit	34,240	36,399
Selling and general expenses	(17,819)	(17,682)
Administration expenses	(7,619)	(6,215)
Research and development expenses	(7,632)	(6,834)
Other income	73	3
Other (losses)/gains - net	(1,241)	632
Finance income	366	609
Finance expense	(165)	(169)
Profit from ordinary activities before tax	203	6,743
Income tax benefit/(expense)	1,261	(1,032)
Net profit for the period attributable to members	1,464	5,711

	31 December 2020	30 June 2020
	\$'000	\$'000
Cash and cash equivalents	87,895	91,781
Net assets	130,348	124,230

Directors' report

For the half-year ended 31 December 2020

Sales for the period were \$43,148,000. This compares with sales of \$48,527,000 in the prior corresponding period. The installed base of trophon globally increased by 1,380 units, growing to approximately 25,100 units. In North America, the installed base of trophon increased by 1,130 units in the half-year to 31 December 2020 to approximately 22,120 units.

Gross profit was \$34,240,000 compared with \$36,399,000 in the prior corresponding period. Gross margin as a percent of sales was 79% compared with 75% in the prior corresponding period.

Selling, general and administration expenses were \$25,438,000, an increase of \$1,541,000 compared with \$23,897,000 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 and market expansion activities in the Europe/Middle East and Asia Pacific regions.

Research and development expenses for the half-year to 31 December 2020 were \$7,632,000, an increase of \$798,000 compared with the prior corresponding period.

Other losses – net for the period were \$1,241,000 compared with \$632,000 gain in the prior corresponding period, mainly as a result of net foreign exchange (losses)/gains.

Income tax benefit for the period was \$1,261,000 compared with an income tax expense of \$1,032,000 in the prior corresponding period.

Cash and cash equivalents at 31 December 2020 totalled \$87,895,000 compared with \$91,781,000 at 30 June 2020. The cash on hand provides a strong balance sheet for the Company to continue executing on its growth strategies. Free cash outflow amounted to \$2,373,000 compared with free cash inflow of \$10,016,000 in the prior corresponding period.

Subsequent events

Note 8.3 sets out details of events subsequent to 31 December 2020 that may significantly affect the interim consolidated financial statements or require disclosure.

Apart from the items included in Note 8.3 and in the half-year report, there are no matters or circumstances that have arisen since 31 December 2020 that have significantly affected, or may significantly affect:

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

Rounding

The amounts contained in this report and in the interim consolidated financial statements 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 2020

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



Geoff Wilson

Director

Sydney, 24 February 2021



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Auditor's Independence Declaration to the Directors of Nanosonics Limited

As lead auditor for the review of the half-yearly report of Nanosonics Limited for the half-year ended 31 December 2020, I declare to the best of my knowledge and belief, there have been:

- a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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
24 February 2021

Directors' declaration

In the opinion of the Directors of Nanosonics Limited:

1. The interim consolidated financial statements and notes set out on pages 6 to 19 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 2020 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



Geoff Wilson

Director

Sydney, 24 February 2021

Nanosonics Limited

Interim consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2020

		31 December 2020	31 December 2019
	Notes	\$'000	\$'000
Revenue from contracts with customers	2.2	43,148	48,527
Cost of sales		(8,908)	(12,128)
Gross profit		34,240	36,399
Selling and general expenses		(17,819)	(17,682)
Administration expenses		(7,619)	(6,215)
Research and development expenses		(7,632)	(6,834)
Other income		73	3
Other (losses)/gains - net	2.4	(1,241)	632
Results from operating activities		2	6,303
Finance income - interest		366	609
Finance expense		(165)	(169)
Net finance income		201	440
Profit from ordinary activities before tax		203	6,743
Income tax benefit/(expense)	3.1	1,261	(1,032)
Net profit for the period attributable to members		1,464	5,711
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on foreign currency translation		1,256	(593)
Effective portion of changes in fair value of cash flow hedges		2,110	574
Income tax on items of other comprehensive income		(633)	(172)
Total items that may be reclassified subsequently to profit or loss		2,733	(191)
Total other comprehensive income/(loss)		2,733	(191)
Total comprehensive income for the period attributable to owners of the parent entity		4,197	5,520
Earnings per share for profit attributable to ordinary shareholders of the Company:		Cents	Cents
Basic earnings per share	2.5	0.49	1.90
Diluted earnings per share	2.5	0.48	1.88

The notes on pages 10 to 19 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Interim consolidated statement of financial position

As at 31 December 2020

		31 December 2020	30 June 2020
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	5.1	87,895	91,781
Trade and other receivables		20,043	16,912
Inventories		12,313	11,838
Derivative financial instruments		3,950	652
Cost to obtain customer contracts		171	227
Income taxes receivable		37	34
Prepayments and other current assets		2,215	3,103
Total current assets		126,624	124,547
Non-current assets			
Property, plant and equipment		7,189	7,351
Right-of-use assets		1,794	2,265
Intangible assets		321	491
Net deferred tax assets		13,528	11,746
Other non-current assets		50	50
Derivative financial instruments		618	462
Costs to obtain customer contracts		163	158
Total non-current assets		23,663	22,523
Total assets		150,287	147,070
LIABILITIES			
Current liabilities			
Trade and other payables		5,165	7,674
Income taxes payable		811	88
Contract liabilities		3,986	4,753
Employees benefits liabilities	4.1	3,429	3,472
Provisions	6.1	393	732
Borrowings		-	77
Lease liabilities		790	1,158
Derivative financial instruments		-	70
Total current liabilities		14,574	18,024
Non-current liabilities			
Contract liabilities		3,428	2,759
Employees benefits liabilities	4.1	525	504
Provisions	6.1	130	135
Lease liabilities		1,282	1,374
Derivative financial instruments		-	44
Total non-current liabilities		5,365	4,816
Total liabilities		19,939	22,840
Net assets		130,348	124,230
EQUITY			
Contributed equity	7.1	113,375	113,177
Reserves		22,970	18,514
Accumulated losses		(5,997)	(7,461)
Total equity		130,348	124,230

The notes on pages 10 to 19 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 2020

	Reserves				Accumulated losses	Total equity
	Contributed equity	Share-based payments	Foreign currency translation	Hedging	Total reserves	
Note 7.1						
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2020	113,177	19,279	(1,458)	693	18,514	124,230
Profit for the period	-	-	-	-	-	1,464
Other comprehensive income	-	-	1,256	2,110	3,366	-
Income tax on items of other comprehensive income	-	-	-	(633)	(633)	-
Total comprehensive income	-	-	1,256	1,477	2,733	1,464
Transaction with owners in their capacity as owners						
Issue of shares under employee share plans	198	-	-	-	-	-
Share-based payments	-	1,297	-	-	1,297	-
Income tax on share-based payments	-	426	-	-	426	-
At 31 December 2020	113,375	21,002	(202)	2,170	22,970	130,348
At 1 July 2019	112,713	16,324	(1,458)	(46)	14,820	(17,450)
Change in accounting policy ¹	-	-	-	-	-	(150)
At 1 July 2019 restated	112,713	16,324	(1,458)	(46)	14,820	(17,600)
Profit for the period	-	-	-	-	-	5,711
Other comprehensive loss	-	-	(593)	574	(19)	-
Income tax on items of other comprehensive loss	-	-	-	(172)	(172)	-
Total comprehensive income	-	-	(593)	402	(191)	5,711
Transaction with owners in their capacity as owners						
Issue of shares under employee share plans	464	-	-	-	-	-
Share-based payments	-	713	-	-	713	-
Income tax on share-based payments	-	928	-	-	928	-
At 31 December 2019	113,177	17,965	(2,051)	356	16,270	(11,889)

1. Refer to the 30 June 2020 Annual Report for information regarding changes in the accounting policies related to AASB 16.

The notes on pages 10 to 19 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 2020

	31 December 2020	31 December 2019
Notes	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST/VAT)	40,231	49,676
Payments to suppliers and employees (inclusive of GST/VAT)	(41,872)	(39,119)
Interest received	306	768
Income taxes paid	(148)	(123)
Net cash (used in)/proceeds from operating activities	(1,483)	11,202
Cash flows from investing activities		
Purchase of property, plant and equipment	(881)	(1,182)
Purchase of intangible assets	(9)	(4)
Net cash used in investing activities	(890)	(1,186)
Cash flows from financing activities		
Payment of principal portion of lease liabilities	(632)	(559)
Interest paid on lease liabilities	(50)	(48)
Repayment of borrowings	(76)	(220)
Interest paid on borrowings	(1)	(12)
Proceeds from issue of shares under employee share plans	198	464
Net cash used in financing activities	(561)	(375)
Net (decrease)/increase in cash and cash equivalents	(2,934)	9,641
Cash and cash equivalents at the beginning of the financial half-year	91,781	72,180
Effect of exchange rate changes on cash and cash equivalents	(952)	144
Cash and cash equivalents at the end of the financial half-year	5.1 87,895	81,965

The notes on pages 10 to 19 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 2020

1 General accounting policies

1.1 Reporting entity

Nanosonics Limited (the Company) is a listed public company, limited by shares, incorporated and domiciled in Australia. The interim consolidated financial statements of the Company as at and for the half-year ended 31 December 2020 comprises Nanosonics Limited and its subsidiaries (the Group). The interim consolidated financial statements are presented in Australian dollars.

1.2 Basis of preparation

a. Statement of Compliance

The interim consolidated financial statements and notes for the reporting period ended 31 December 2020 are 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 2020, 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 2020 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 Board of Directors approved the interim consolidated financial statements on 24 February 2021.

b. Changes in significant accounting policies

The accounting policies applied in the interim consolidated financial statements for the half year ended 31 December 2020 are consistent with those applied by the Group in the Annual Financial Report as at and for the year ended 30 June 2020 and the corresponding interim reporting period.

2 Performance for the year

2.1 Revenue

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

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

Sale of goods

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

The Group provides retrospective volume rebates to certain customers once certain contracted thresholds have been achieved. Rebates are offset against amounts 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 thresholds. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Group then applies the requirements on constraining estimates of variable consideration and recognises an offset against trade and other receivables for the expected future rebates.

Rental revenue

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

Service

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

Financing component

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

Interest income

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

2 Performance for the year (continued)

2.2 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, GE Healthcare, accounts for approximately 45% of external revenue (31 December 2019: 54%). The next most significant customer, Regional Healthcare Group Pty Ltd, accounts for approximately 4% of external revenue (31 December 2019: 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.

For the half-year ended 31 December 2020

	North America	Europe and Middle East	Asia Pacific	Total
Capital revenue before hedging	7,230	1,470	730	9,430
Foreign exchange gain on hedged sales	39	-	-	39
Total capital revenue	7,269	1,470	730	9,469
Consumables and spare parts	25,604	1,664	1,115	28,383
Service	4,072	471	796	5,339
Foreign exchange loss on hedged sales	(43)	-	-	(43)
Total consumables and service revenue	29,633	2,135	1,911	33,679
Total revenue	36,902	3,605	2,641	43,148
At a point in time	30,472	3,129	1,845	35,446
Over time	6,430	476	796	7,702

For the half-year ended 31 December 2019

	North America	Europe and Middle East	Asia Pacific	Total
Capital revenue before hedging	13,819	466	450	14,735
Foreign exchange loss on hedged sales	(334)	-	-	(334)
Total capital revenue	13,485	466	450	14,401
Consumables and spare parts	26,663	1,633	963	29,259
Service	3,633	257	977	4,867
Total consumables and service revenue	30,296	1,890	1,940	34,126
Total revenue	43,781	2,356	2,390	48,527
At a point in time	40,148	2,099	1,413	43,660
Over time	3,633	257	977	4,867

2 Performance for the year (continued)

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

The analysis of non-current assets is detailed below:

	31 December 2020	30 June 2020
	\$'000	\$'000
North America	1,398	1,540
Europe and Middle East	2,000	1,701
Asia Pacific	6,119	7,074
Total non-current assets	9,517	10,315

2.3 Profit or loss items

The profit from ordinary activities before income tax includes:

	31 December 2020	31 December 2019
	\$'000	\$'000
Depreciation, amortisation and impairment	2,060	1,935
Inventory provision	101	263
Loss on disposal of property, plant and equipment	8	12

2.4 Other (losses)/gains - net

Foreign exchange gains and losses are recognised in accordance with the accounting policy set out in the 30 June 2020 Annual Report. Gains or losses on derivative financial instruments are recognised in accordance with the accounting policy referred in Note 5.2.

	31 December 2020	31 December 2019
	\$'000	\$'000
Realised gain/(loss) on derivative financial instruments	643	(222)
Unrealised gain on derivative financial instruments	1,467	211
Net foreign exchange (loss)/ gain	(3,325)	655
Net (loss)/gain on foreign currency	(1,214)	644
Loss on disposal of fixed assets	(26)	(12)
Total other (losses)/gains – net	(1,241)	632

2 Performance for the year (continued)

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 2020 Cents	31 December 2019 Cents
(a) Basic earnings per share		
Basic earnings attributable to the ordinary equity holders of the Company	0.49	1.90
(b) Diluted earnings per share		
Diluted earnings attributable to the ordinary equity holders of the Company	0.48	1.88
	\$'000	\$'000
(c) Net earnings used in calculating earnings per share		
Net earnings after income tax expense attributable to shareholders	1,464	5,711
	31 December 2020 Number	31 December 2019 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	300,814,283	300,198,013
Adjustments for calculation of diluted earnings per share:		
Options and performance rights unvested	3,859,243	3,604,024
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	304,673,526	303,802,037

2.6 Dividends

No dividends were proposed, declared or paid during the interim financial period and to the date of this report (31 December 2019: 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 reconciliation of income tax benefit/(expense) to prima facie tax payable is as follows:

	31 December 2020	31 December 2019
	\$'000	\$'000
Profit from ordinary activities before tax	203	6,743
The prima facie income tax benefit/(expense) applicable to the operating profit is calculated at the Australian tax rate of 30% (31 December 2019: 30%)	(61)	(2,023)
Increase in income tax expense due to:		
Non-deductible expenses	(36)	(75)
Derecognition of deferred tax assets in foreign jurisdictions	(55)	(133)
Decrease in income tax expense due to:		
Net R&D tax credit/benefit	648	581
Other deductible expenses	337	384
Utilisation of unrecognised deferred tax assets in foreign jurisdictions	-	-
Effect of tax rate in foreign jurisdictions	239	234
Adjustment relating to prior periods	189	-
Income tax benefit/(expense)	1,261	(1,032)

The Group offsets tax assets and liabilities only if it has a 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 2020, the Group has unrecognised deferred tax assets in relation to its subsidiaries.

Estimated unrecognised losses carried forward at the end of the period are \$6,982,000 (30 June 2020: \$6,627,000) for a potential tax benefit of \$1,481,000 (30 June 2020: \$1,425,000) at an effective tax rate of 21.2% (30 June 2020: 21.5%). The probability of recovery of unrecognised tax losses in relation to the subsidiaries is reviewed on an on-going basis.

4 Employee benefits

4.1 Employee benefit liabilities

	31 December 2020			30 June 2020		
	Current	Non-current	Total	Current	Non-current	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Provision of annual leave	1,817	-	1,817	2,027	-	2,027
Provision for long service leave	179	525	704	138	504	642
Provision for bonuses	1,433	-	1,433	1,307	-	1,307
Total employee benefit liabilities	3,429	525	3,954	3,472	504	3,976

4.2 Share based payments

For the half-year ended 31 December 2020, share-based payments expense amounted to \$1,297,000 (31 December 2019: \$713,000).

On 27 January 2021, the Company issued 143,788 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 2020 Short Term Incentive Scheme. 54,686 performance rights will vest on 31 August 2021 and will be available for exercise until expiry on 31 August 2024. 89,102 performance rights will vest and automatically exercise on 31 August 2021 into restricted shares and will be subject to a one year holding lock. These performance rights are subject to a service condition up to the date of vesting.

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 which are carried at fair value.

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 2020	30 June 2020
	\$'000	\$'000
Cash at bank and on hand	12,917	11,333
Deposit on call	478	6,948
Short term deposits	74,500	73,500
Total cash and cash equivalents	87,895	91,781

5 Financial assets and financial liabilities (continued)

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; and
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

All of the Group's foreign 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 valuations reflect the actual transactions in similar instruments.

As at 31 December 2020, the Group has \$4,568,000 derivative financial assets (30 June 2020: \$1,114,000) and no derivative financial liabilities (30 June 2020: \$114,000).

6 Operating assets and liabilities

6.1 Provisions

a. Provisions as at the reporting date

	31 December 2020			30 June 2020		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Provision for warranty	393	-	393	732	-	732
Make good provision	-	130	130	-	135	135
Total provisions	393	130	523	732	135	867

b. Movements in provisions

	Provision for warranty \$'000	Make good provision \$'000	Total \$'000
Carrying amount at start of period	732	135	867
Additional provisions recognised	30	-	30
Amounts used and released during the period	(369)	(5)	(374)
Carrying amount at end of period	393	130	523

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 Capital structure

7.1 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 2020	300,603,570	113,177
Issue of shares under employee share plans	444,872	198
Balance 31 December 2020	301,048,442	113,375

8 Other notes

8.1 Commitments

Capital commitments

As at 31 December 2020, the Group had commitments to purchase plant and equipment of \$517,000 (30 June 2020: \$464,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

8.2 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 was paid through his personally-related management entity.

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

	31 December 2020 \$	31 December 2019 \$
Sale of products and services to Related Parties	1,935,204	1,496,340
Purchases of goods and services from Related Parties	5,532	1,227

The above transactions exclude Director fees paid through personally-related management entities.

8 Other notes (continued)

a. Transactions with related parties (continued)

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

	31 December 2020	30 June 2020
	\$	\$
Current trade receivables (supply of goods and services)	527,994	562,396

There were no other amounts due from or to other Related Parties. There were no provisions for impaired receivables in relation to any outstanding balances from Related Parties (30 June 2020: Nil) and no expense has been recognised during the period in respect of impaired receivables due from Related Parties.

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 31 December 2020 (30 June 2020 : 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.

8.3 Events occurring after the balance date

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 2020 that have significantly affected, or may significantly affect:

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



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Independent auditor's review report to the members of Nanosonics Limited

Report on the Half-Yearly Report

Conclusion

We have reviewed the accompanying half-yearly report of Nanosonics Limited (the Company) and its subsidiaries (collectively the Group), which comprises the interim consolidated statement of financial position as 31 December 2020, 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 significant 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-yearly 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 2020 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-yearly report

The directors of the Company are responsible for the preparation of the half-yearly 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-yearly 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-yearly 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-yearly 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 2020 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-yearly 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.



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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
24 February 2021

Corporate directory

Nanosonics Limited ABN 11 095 076 896 incorporated 14 November 2000

Directors

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

Company Secretary

McGregor Grant

Registered Office

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Share Register

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McGregor Grant – Company Secretary
Ph: +61 2 8063 1600
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Auditor

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Sydney, NSW 2000 Australia

Legal Advisors

Baker & McKenzie
AMP Centre
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Sydney NSW 2000 Australia

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

Bankers

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

United Kingdom: HSBC Bank Plc

Germany: HSBC Trinkaus & Burkhardt AG and Deutsche Bank AG

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

Japan: MUFG Bank, Ltd

Canada: HSBC Bank Canada

Stock Exchange Listing

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

Website address
www.nanosonics.com.au