

# SOMNOMED LIMITED

A B N 35 003 255 221

## Appendix 4D and Half-Year Financial Report

**31 December 2013**

This half-year report is for the six months ended 31 December 2013. The previous corresponding period is the half-year ended 31 December 2012.

The information in this report should be read in conjunction with the most recent annual financial report.

### Results for announcement to the market

Revenues from sale of goods and services, net of discounts	Up \$3,526,415 (39.1%)	to \$12,552,906
Revenues from ordinary activities	Up \$3,479,718 (38.3%)	to \$12,565,419
Operating profit before corporate and business development expenses, non-cash items and income tax	Down \$38,521 (1.69%)	to \$2,235,547
Profit/(loss) from ordinary activities after tax attributable to members	Down \$352,108 (183.9%)	to (\$160,602)
Net profit/(loss) for the period attributable to members	Down \$352,108 (183.9%)	to (\$160,602)

<b>Dividends</b>	Amount per security	Franked amount per security
Final dividend	- ¢	- ¢
Interim dividend	- ¢	- ¢

Record date for determining entitlements to the dividend	Not applicable
--	----------------

Brief explanation of any of the figures reported above:

Refer to comments in the attached Directors' Report.

<b>NTA Backing</b>	31 December 2013	31 December 2012
Net tangible asset backing per share	13.67 cents	15.1 cents

## **DIRECTORS' REPORT**

### **Review of Operations**

SomnoMed Limited announced today its results for the first half year to December 2013. The company posted strong unit and revenue growth, generated profits and cash whilst continuing to invest in its future through its medical initiative and further acquisitions in both Europe and the APAC regions.

Group revenues for the half year were \$12.55 million, an increase of 39% over the comparable six months of 2012. Sales of 20,455 apnea devices were recorded, an increase 19% over last year's 17,251 units, after unit sales accelerated in the second quarter to a growth of 23.8% above the previous year.

The operating profit before corporate, business development and non-cash items was \$2.235 million for the six months to December 2013, approximating the 2012 half year's result, despite medical initiative expenditure of \$915,000 being incurred in the current period.

The gross margin generated increased by 36% to \$8.1 million, due to the increased sales across the group, maintaining the group gross margin percentage of 65% (2012 – 66%). The MAS gross margin for the half year was 67% (2012 – 68%). Gross Margins are likely to remain around these levels, with further improvements linked to the planned introduction of digital processes and economies of scale expected in FY 14/15 and beyond.

The Company generated an EBITDA of \$680,000 for the six months to December 2013, after expenditure of more than \$900,000 on the US medical initiative, compared to an EBITDA of \$723,000 in the same period in the previous year, when \$300,000 was invested in the early stages of the medical initiative in the US. Taking this into consideration the underlying profits of the company continue to grow, with the underlying EBITDA in the reporting period being 13.2% of revenues, compared with the stated EBITDA of 5% of revenues.

The European region generated exceptional unit sales and revenue growth during the half year, with unit growth of 47% and a revenue increase of 60% (exchange rate constant). The strong performance of the region came as a result of the restructuring and expansion of various operations in the region and the acquisitions made in this and previous periods in Holland, Germany, Scandinavia and France. Europe is expected to continue on its growth path driven by increased demand, primarily due to rising insurer and physician support for SomnoDent® devices. SomnoMed also expects to open a number of new markets in Europe during the course of this calendar year.

In the United States, the company's largest market, the half year finished strongly, with solid sales in November and December and a record number of units sold in December 2013. This market continues to offer SomnoMed further growth opportunities and strategic alliances that should be reflected in more positive results in the second half. Initial indications of the results of the Company's medical initiative in the USA are positive and the Company continues to monitor and evaluate these results to determine extent and timing of its future build up.

Growing acceptance by medical practitioners in the US can also be observed in all our core markets in Europe and Asia-Pacific. Parallel to that we see growing interest from insurers, care providers and even corporations looking for a more patient friendly but medically effective treatment for obstructive sleep apnea. Oral appliance treatment offers this pathway and SomnoDent® is prominently positioned and seen as the globally leading product.

During the half year the USA SomnoMed Preferred Dental Network ("PDN") continued to grow and programs were implemented to improve our customer service, so as to further consolidate SomnoMed's position as the leader in COAT™ - Continuous Open Airway Therapy. SomnoDent® Herbst a high quality and differentiated Medicare product, was successfully launched at the beginning of the new financial year and recorded significant volume gains every month. Further product launches are planned over the course of 2014 and a clinical trial of the SomnoMed Compliance Recording System ("DentiTrac") is expected to commence in the current quarter.

The Board is very happy with the results achieved in the first half. Actions taken over the last twelve months are showing good results; unit and revenue growth accelerated and reached new highs in the last quarter of the year gone by. The Board is confident that these levels of growth should be maintained in the second half of the financial year. The guidance given to the market for the full year of 43,000 units is confirmed and the expectation of annual revenues to \$25 million from \$23 million is increased. SomnoMed's management is looking forward to the second half, where they will continue to focus on strengthening the SomnoMed brand as the leader in COAT™-Continuous Open Airway Therapy and the global expansion of SomnoMed's business.

SomnoMed's balance sheet remains strong with cash of \$3.9 million (2012 \$3.5million), with no debt.

### **Directors**

The names of directors who held office during or since the end of the half-year:

Peter Neustadt - Executive Chairman and CEO

Lee Ausburn - Non-Executive Director

Robert Scherini - Non-Executive Director

### **Principal Activity**

The principal activity of the Consolidated Entity during the half year was the commercialisation of the SomnoDent<sup>®</sup> MAS and other oral devices for sleep related disorders in Australia and overseas.

There were no other significant changes in the nature of the Consolidated Entity's principal activities during the half year.

### **Operating Results**

The net profit before income tax expense for the half year ended 31 December 2013 was \$370,291 (2012: \$412,034). The net profit of the Consolidated Entity amounted to \$8,603 (2012: 280,782).

### **Dividends Paid or Recommended**

There is no dividend paid, declared or recommended.

### **Significant Changes in State of Affairs**

Other than as stated above and in the accompanying financial report, there were no significant changes in the state of affairs of the Consolidated Entity during the reporting period.

### **After Balance Date Events**

The directors are not aware of any matter or circumstance that has arisen since the end of the half year to the date of this report that has significantly affected or may affect:

- (i) The operations of the company and the entities that it controls
- (ii) The results of those operations
- (iii) The state of affairs of the Consolidated Entity in subsequent years.

### **Future Developments**

The Consolidated Entity will continue to produce and sell devices for the oral treatment of sleep related disorders in Australia and overseas.

### **Auditor's Independence Declaration**

The auditor's independence declaration for the half year ended 31<sup>st</sup> December 2013 is set out on page 19 of these half yearly accounts.

Signed in accordance with a resolution of the Board of Directors.



Peter Neustadt (Chairman)  
Dated this 25<sup>th</sup> February 2014

## Financial Report contents

Consolidated Statement of profit or loss and other comprehensive income	5
Consolidated Statement of financial position	6
Consolidated Statement of changes in equity	7
Consolidated Statement of cash flows	8
Notes to the financial statements	9
Directors' Declaration	16
Independent auditor's review report to the members of SomnoMed Limited	17
Auditor's Declaration of Independence	19

## General information

The financial report covers SomnoMed Limited as a consolidated entity consisting of SomnoMed Limited and the entities it controlled during the period. The financial report is presented in Australian dollars, which is SomnoMed Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

SomnoMed Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

*Registered office and  
principal place of business in Australia*

Level 3  
20 Clarke Street  
Crows Nest NSW 2065

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 25 February 2014.

**SomnoMed Limited**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**For the half-year ended 31<sup>st</sup> December 2013**

	<b>31.12.13</b>	<b>31.12.12</b>
	\$	\$
Revenue from sale of goods and services, net of discounts	12,552,906	9,026,491
Cost of Sales	(4,424,031)	(3,063,952)
Gross Margin	8,128,875	5,962,539
Sales and Marketing expenses	(3,484,967)	(2,088,786)
Administrative expenses	(2,408,361)	(1,599,685)
<b>Operating profit before corporate, research and business development expenses, non-cash items and income tax</b>	<b>2,235,547</b>	<b>2,274,068</b>
Corporate, research and business development expenses	(1,554,781)	(1,551,248)
Depreciation and amortization	(285,122)	(229,916)
Share and option expense	(44,094)	(107,712)
Revenue from investment activities	12,513	59,210
Share of profits of associates accounted for using the equity method	-	35,107
Unrealized foreign exchange gain/(loss)	6,228	(47,336)
Realized gain on derivatives	-	6,899
Unrealized loss on derivatives	-	(27,038)
<b>Profit before income tax expense</b>	<b>370,291</b>	<b>412,034</b>
Income tax expense	(361,688)	(131,252)
<b>Profit after income tax expense for the half year</b>	<b>8,603</b>	<b>280,782</b>
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Foreign exchange translation difference for foreign operations	110,595	166,734
Other comprehensive income for the half-year, net of tax	<b>110,595</b>	<b>166,734</b>
<b>Total comprehensive income for the half-year</b>	<b>119,198</b>	<b>447,516</b>
Profit/(loss) for the half-year is attributable to:		
Non-controlling interest	169,205	89,276
Owners of SomnoMed Limited	(160,602)	191,506
	8,603	280,782
Total comprehensive income for the half-year is attributable to:		
Non-controlling interest	169,205	89,276
Owners of SomnoMed Limited	(50,007)	358,240
	119,198	447,516
Basic earnings per share (cents)	(0.37)	0.45
Diluted earnings per share (cents)	(0.37)	0.45

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

**SomnoMed Limited**  
**Consolidated Statement of Financial Position**  
**As at 31<sup>st</sup> December 2013**

	31.12.13	30.06.13
	\$	\$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	3,964,060	4,221,299
Trade and other receivables	6,231,644	4,383,280
Inventory	1,011,881	854,169
Total Current Assets	<u>11,207,585</u>	<u>9,458,748</u>
<b>Non-Current Assets</b>		
Property, plant and equipment	1,333,491	1,154,789
Intangible assets	4,149,133	3,118,040
Investment in associate company	-	223,396
Deferred tax asset	2,208,392	2,156,015
Total Non-Current Assets	<u>7,691,016</u>	<u>6,652,240</u>
<b>Total Assets</b>	<u>18,898,601</u>	<u>16,110,988</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade and other payables	4,728,760	3,538,757
Provisions	1,321,758	860,660
Total Current Liabilities	<u>6,050,518</u>	<u>4,399,417</u>
<b>Non-Current Liabilities</b>		
Trade and other payables	362,466	123,992
Provisions	14,772	14,857
Total Non-Current Liabilities	<u>377,238</u>	<u>138,849</u>
<b>Total Liabilities</b>	<u>6,427,756</u>	<u>4,538,266</u>
<b>Net Assets</b>	<u><b>12,470,845</b></u>	<u><b>11,572,722</b></u>
<b>EQUITY</b>		
Issued capital	26,264,848	26,067,022
Reserves	2,664,843	2,431,879
Accumulated losses	(17,538,691)	(17,537,449)
Equity attributable to owners of SomnoMed Limited	<u>11,391,000</u>	<u>10,961,452</u>
Non-controlling interests	1,079,845	611,270
<b>Total Equity</b>	<u><b>12,470,845</b></u>	<u><b>11,572,722</b></u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

**SomnoMed Limited**  
**Consolidated Statement of Changes in Equity**  
**For the half-year ended 31 December 2013**

	<b>Issued Capital</b>	<b>Reserves</b>	<b>Accumulated Losses</b>	<b>Owners of parent</b>	<b>Non- controlling interest</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at 1 July 2012	25,387,429	1,150,192	(18,126,242)	8,411,379	194,968	8,606,347
Profit after income tax expense for the half-year	-	-	191,506	191,506	89,276	280,782
Other comprehensive income for the half-year, net of tax	-	166,731	-	166,731	-	166,731
Total comprehensive income for the half-year	-	166,731	191,506	358,237	89,276	447,516
Recognition of non- controlling interest	-	-	-	-	306,736	306,736
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued during the period	532,100	-	-	532,100	-	532,100
Share option reserve on recognition of remuneration options	-	107,712	-	107,712	-	107,712
Balance at 31 December 2012	25,919,529	1,424,635	(17,934,736)	9,409,428	590,980	10,004,408
	<b>Issued Capital</b>	<b>Reserves</b>	<b>Accumulated Losses</b>	<b>Owners of parent</b>	<b>Non- controlling interest</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at 1 July 2013 (refer Note 6(b))	26,067,022	2,484,941	(17,352,873)	11,199,090	910,640	12,109,730
Profit after income tax expense for the half-year	-	-	(160,602)	(160,602)	169,205	8,603
Other comprehensive income for the half-year, net of tax	-	110,595	-	110,595	-	110,595
Total comprehensive income for the half-year	-	110,595	(160,602)	(50,007)	169,205	119,198
Movement of other reserve	-	25,216	(25,216)	-	-	-
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued during the period	197,826	-	-	197,826	-	197,826
Share option reserve on recognition of remuneration options	-	44,091	-	44,091	-	44,091
Balance at 31 December 2013	26,264,848	2,664,843	(17,538,691)	11,391,000	1,079,845	12,470,845

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**SomnoMed Limited**  
**Consolidated Statement of Cash Flows**  
**For the half-year ended 31 December 2013**

	<b>31.12.13</b>	<b>31.12.12</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	12,259,546	8,735,369
Payments to suppliers and employees	(12,715,923)	(8,980,335)
Interest received	12,816	55,800
Income tax paid	(2,753)	(8,697)
	<hr/>	<hr/>
Net cash outflow from operating activities	(446,314)	(197,863)
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiary (net of cash acquired)	203,073	(372,554)
Payments for intangible assets	(75,000)	(26,186)
Payments for property, plant and equipment	(94,568)	(51,327)
	<hr/>	<hr/>
Net cash inflow/(outflow) from investing activities	33,505	(450,067)
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Proceeds from settlement of forward exchange	-	27,544
Proceeds from issue of shares	4,350	540,754
	<hr/>	<hr/>
Net cash inflow/(outflow) from financing activities	4,350	568,298
	<hr/>	<hr/>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(408,459)</b>	<b>(79,632)</b>
Cash at beginning of period	4,221,299	3,537,587
Exchange rate adjustment	151,220	77,124
<b>Cash at end of period</b>	<b>3,964,060</b>	<b>3,535,079</b>
	<hr/>	<hr/>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.



**Note 1. Significant accounting policies**

These general purpose financial statements for the interim half-year reporting period ended 31 December 2013 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

**New, revised or amending Accounting Standards and Interpretations adopted**

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

*AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income*

The consolidated entity has applied AASB 2011-9 amendments from 1 January 2013. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation.

*AASB 10 Consolidated Financial Statements*

The consolidated entity has applied AASB 10 from 1 January 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee's returns (e.g. operating policies, capital decisions, appointment of key management). The consolidated entity not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.

*AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)*

The consolidated entity has applied AASB 119 and its consequential amendments from 1 January 2013. The standard eliminates the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The standard also changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. Annual leave that is not expected to be wholly settled within 12 months is now discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

## **Note 2. Changes in Accounting Policies**

### **Presentation of transactions recognised in other comprehensive income**

From 1 July 2012 the Consolidated Entity applied amendments to AASB 134 Interim Financial Reporting outlined in AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income. The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and require the Consolidated Entity to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss.

## **Note 3. Revenue**

	<b>31.12.13</b>	<b>Consolidated</b>	<b>31.12.12</b>
	\$		\$
Operating activities			
Revenue from sale of goods and services, net of discounts	12,552,906		9,026,491
Interest received or receivable	12,513		59,210
<b>Total Revenue</b>	<b>12,565,419</b>		<b>9,085,701</b>

## **Note 4. Profit/(loss) for the half year**

Profit/(loss) for the half year is after charging:

Employee benefits expense	5,253,285	3,393,015
Depreciation	224,096	173,931
Amortisation of intellectual property	61,026	55,982
Operating lease rentals	351,786	279,200
Auditors' remuneration	59,820	73,298

## **Note 5. Dividends**

No dividends were paid during or subsequent to the half year ended 31<sup>st</sup> December 2013.

**Note 6. Acquisition and Disposal of Subsidiaries and Restructurings**

a. SomnoMed acquired the entire business of Orthosleep 19 GmbH effective as at 1 July 2013. Orthosleep 19 is a leading technical dental laboratory producing and distributing oral appliances in Germany, which has been combined with the Company's operations in Germany, so as to provide a fully integrated operation.

(i) The purchase was satisfied by the issue of SomnoMed Shares, cash and contingent consideration.

	EUR €	AUD \$
<b>Purchase consideration</b>		
Cash paid to vendors	102,563	148,879
Issue of shares in SomnoMed Limited	66,667	96,773
Total consideration paid	169,230	245,652
Liability recognised for contingent consideration		
- Cash and shares	266,666	387,090
Total consideration paid or payable	435,896	632,742
Fair value of net identifiable assets	(35,897)	(52,108)
Goodwill (at date of acquisition)	399,999	580,634

The goodwill which arose on acquisition of Orthosleep 19 included customer information and market knowledge for which no separate value was determinable.

Contingent consideration is payable in 2 annual tranches, the amount of which is dependent on the achievement of certain sales volume and profitability targets.

(ii) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	EUR €	AUD \$
Inventory	12,900	18,726
Property, plant and equipment	22,997	33,382
100% net identifiable assets acquired	35,897	52,108

**Note 6. Acquisition and Disposal of Subsidiaries and Restructurings (continued)**

(iii) Revenue and Net profit after tax of SomnoMed Germany GmbH included in the consolidated revenue and results since the acquisition date amounted to \$863,282 and \$114,908 respectively. This result included the business of Orthosleep 19. The operations of the business are included in the operations of SomnoMed Germany GmbH and the result of the Company could have been different following the acquisition of the business by SomnoMed however it is not possible to determine the revenue or result which would have eventuated had the business been held for the entire financial year.

	EUR €	AUD \$
Revenue	594,715	863,282
Profit after tax	79,160	114,908

**Fair value of contingent consideration**

Contingent consideration payable on business combinations has been determined by taking into account the probability of achieving certain historical sales volumes. Should sales volumes be less than the respective base amounts, the liability for contingent consideration will decrease accordingly.

Fair value as at 31 December 2013	410,258
-----------------------------------	---------

**b.** SMH Biomaterial AG is jointly owned by SomnoMed Limited (50%) and Mr Konrad Hofman (50%) and in the 30 June 2013 accounts and prior to this date, this investment was considered an associated entity of SomnoMed and accounted for on an equity accounting basis. From 1 July 2013, Mr Hofman entered into an employment arrangement with the SomnoMed group. As a result of this arrangement and other considerations SMH Biomaterial AG has been accounted for as a controlled entity from 1 July 2013 when the control is deemed to have occurred. The table and information detailed below summarises the changes made to the opening balances and results for the year due to the above:

	Reserve \$	Accumulated Losses \$	Non-controlling Interest \$
Balance as reported at 30 June 2013	2,431,879	(17,537,449)	611,270
Effect of control of SMH	53,062	184,576	299,370
Restated balance at 1 July 2013	2,484,941	(17,352,873)	910,640

Revenue and net profit after tax of SMH Biomaterial AG included in the accounts are as follows:

	EUR €	AUD \$
Revenue	154,400	227,267
Profit after tax	59,940	88,228
Equity	473,112	775,195
Non-controlling interest	236,556	387,598

In the previous half year the result included 50% of the profit of SMH Biomaterial AG being \$35,107.

**c.** In November 2013 SomnoMed acquired a business in South Korea enabling it to sell SomnoDent<sup>®</sup> MAS devices in the South Korean market. The total consideration of \$175,000 was paid as a combination of cash and shares. No identifiable tangible or intangible assets were acquired and therefore the entire consideration has been treated as goodwill.

**SomnoMed Limited**  
**Notes to the financial statements**  
**31 December 2013**

**Note 7. Share capital**

	<b>31.12.13</b>	<b>30.06.13</b>
	<b>\$</b>	<b>\$</b>
Issued and fully paid ordinary shares		
44,723,576 shares on issued (2013: 43,287,839)		
Issued capital	28,257,458	26,620,972
Less shares issued but not recorded in accounts**		
25,000 shares issued at 60 cents	(15,000)	(15,000)
125,000 shares issued at 80 cents	(100,000)	(100,000)
165,000 shares issued at 79 cents	(130,350)	(130,350)
160,000 shares issued at \$1.24	(198,400)	(198,400)
190,000 shares issued at 58 cents	-	(110,200)
182,500 shares issued at 58 cents	(105,850)	-
1,017,000 shares issued at \$1.18	(1,200,060)	-
125,000 shares issued at \$1.03	(128,750)	-
40,000 shares issued at \$1.37	(54,800)	-
60,000 shares issued at 99 cents	(59,400)	-
	<u>(1,992,610)</u>	<u>(553,950)</u>
Share capital recorded in Company accounts	<b>26,264,848</b>	<b>26,067,022</b>

\*\*The Company provides loans to employees and an employee share trust relating to the acquisition of shares in the Company. Whilst the accounting standards are not prescriptive in this area, the Company has determined it will only record shares in the accounts of the Company when the cash has been received for these shares and accordingly, no financial asset for the loans to employees and employee share trust is recognised in these accounts upon issue of the shares.

**Note 8. Segment Information**

**Segment Information**

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated Entity's other components if separately reported and monitored. An operating segment's operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate head office results.

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated Entity's other components if separately reported and monitored. An operating segment's operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

## Note 8. Segment Information (continued)

### Basis of accounting for purposes of reporting by operating segments

#### *Accounting policies adopted*

Unless stated otherwise, all amounts reported to the Board of Directors as the chief operating decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Consolidated Entity.

#### *Unallocated items*

The following items of revenue and expenses are not allocated to operating segments as they are not considered part of the core operations of any segment:

- derivatives and foreign exchange gains and losses;
- interest income;
- corporate and business development expenses;
- income tax expense; and
- amortisation of intangible assets.

#### Information about reportable segments

Geographical location:	Asia Pacific	USA	Europe	Total
<b>2013</b>	\$	\$	\$	\$
<b>External sales revenue</b>	<b>1,487,412</b>	<b>5,368,674</b>	<b>5,696,820</b>	<b>12,552,906</b>
<b>Segment net profit before tax</b>	<b>280,594</b>	<b>745,914</b>	<b>883,247</b>	<b>1,909,755</b>
Unallocated expense items				(1,551,977)
Interest received				12,513
<b>Profit before tax</b>				<b>370,291</b>
Income tax expense				(361,688)
<b>Profit after tax</b>				<b>8,603</b>

Geographical location:	Asia Pacific	USA	Europe	Total
<b>2012</b>	\$	\$	\$	\$
<b>External sales revenue</b>	<b>1,313,990</b>	<b>4,725,074</b>	<b>2,987,427</b>	<b>9,026,491</b>
<b>Segment net profit before tax</b>	<b>261,632</b>	<b>1,437,903</b>	<b>370,598</b>	<b>2,070,133</b>
Unallocated expense items				(1,717,309)
Interest received				59,210
<b>Profit before tax</b>				<b>412,034</b>
Income tax expense				(131,252)
<b>Profit after tax</b>				<b>280,782</b>

**Note 9. Goodwill**

	<b>31.12.13</b>	<b>30.06.13</b>
	<b>\$</b>	<b>\$</b>
<b>Gross Carrying Amount</b>		
Balance beginning of period	2,665,223	1,321,190
Additional amount recognised from business combinations during the period (refer Note 6)	755,634	1,034,447
Foreign currency translation difference	254,495	309,586
Balance at end of period	<u>3,675,352</u>	<u>2,665,223</u>
<b>Accumulated impairment losses</b>		
Balance beginning of period	-	-
Additional amount recognised from business combinations during the period	-	-
Balance at end of period	<u>-</u>	<u>-</u>
<b>Net book value</b>		
Balance beginning of period	2,665,223	1,321,190
Balance at end of period	<u>3,675,352</u>	<u>2,665,223</u>

\* Goodwill on consolidation is translated at 31<sup>st</sup> December 2013 closing exchange rate, which differs to the goodwill calculation in note 6 as that calculation used the exchange rate on the date of acquisition.

Of the goodwill referred to above, \$580,634 related to acquisition of the Orthosleep 19 and \$175,000 was paid in combination of cash and share issues for the acquisition of intangible assets enabling SomnoMed to sell SomnoDent<sup>®</sup> MAS devices in the South Korean market. Refer to Note 6.

**Note 10. Contingent liabilities and commitments**

At 31<sup>st</sup> December 2013 no contingent liabilities or capital commitments existed, other than

- i. the remaining 50% of the Dutch oral appliance distribution company Goedegebuure Slaaptechniek B.V may be acquired by SomnoMed over a period of 5 years in four equal annual portions commencing in April 2014. The price for these 12.5% tranches will be linked to the future net profits generated by this business in the Netherlands and will be payable half in cash and half in shares in SomnoMed Limited; and
- ii. pursuant to acquiring the MAS Nordic business in January 2013 subject to the performance of SomnoMed's business in the Nordic region, additional SomnoMed shares to the value of approximately A\$70,000 may be issued over the next two years as part of this acquisition.

**Note 11. Events subsequent to reporting date**

Since the end of the financial period, the directors are not aware of any matter that has significantly affected or may significantly affect the operations of the Company in subsequent financial periods.

**SomnoMed Limited**  
**Declaration by Directors**

- (a) The financial statements and notes set out on pages 5 to 15 are in accordance with the Corporations Act 2001 and:
- (i) comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
  - (ii) give a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date.
- (b) In the directors' opinion, 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 the Board of Directors and is signed for and behalf of the directors by:



---

Peter Neustadt  
Chairman

25 February 2014  
Sydney



## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of SomnoMed Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of SomnoMed Limited, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

### 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, we have become aware of any matter that makes us 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 consolidated entity's financial position as at 31 December 2013 and its 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 SomnoMed Limited, 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which

has been given to the directors of SomnoMed Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

#### **Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of SomnoMed Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

#### **BDO East Coast Partnership**

The image shows two handwritten signatures. The top signature is in blue ink and appears to be 'BDO' with a checkmark-like flourish. The bottom signature is in black ink and is a cursive signature that reads 'Grant Saxon'.

**Grant Saxon**  
**Partner**

Sydney, 25 February 2014

## DECLARATION OF INDEPENDENCE BY GRANT SAXON TO THE DIRECTORS OF SOMNOMED LIMITED

As lead auditor for the review of SomnoMed Limited for the half-year ended 31 December 2013, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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

**BDO East Coast Partnership**



Grant Saxon  
Partner

Sydney, 25 February 2014