



SomnoMed[®]

The Leader In COAT[™]
(Continuous Open Airway Therapy)

Restful Nights. Refreshing Days.

2014 Annual Report

TABLE OF CONTENTS

1	Executive Chairman's Report
6	Directors' Report
17	Corporate Governance Statement
21	Financial Reports
58	Auditor's Report
61	Additional Information

SOMNOMED LIMITED

EXECUTIVE CHAIRMAN'S REPORT

Dear SomnoMed Shareholder,

It is with pleasure that we submit to you our annual report for the financial year 2013/14. Once again our company was able to continue on its seven year path of continuing growth in global sales. The year finished with revenues of \$25.89 million, 40% higher than in the previous year. Earnings before interest, tax, depreciation and amortization grew by 26.5% to \$1.05 million.

Behind the growth in revenues were substantial increases in sales of apnea units. A total of 43,438 units were sold globally during the year, 21% more than in the previous year. Whilst the sales volume grew by 19% during the first half of the financial year, the second half showed an acceleration in our growth to over 23%. Sales in the fourth quarter reached a record 12,000 units.

The growth in earnings was achieved despite expensing \$2.28 million relating to the establishment of the medical departments in our US subsidiary and the costs associated with the acquisition and initial set up of new business entities in Europe and Korea.

All global regions showed good trends during the year, pointing to a further acceleration of growth in the future. SomnoMed is now a global device company operating in 26 countries. Every month new staff join our company somewhere in the world. The number of people employed by SomnoMed exceeded 250 by the end of June, an increase of 43% in one year.

Two important new products were developed during the year and introduced at the annual US Sleep Convention in Minneapolis in June 2014. The production capacity in our ISO 13485 regulated factory was continually increased throughout the year.

During the year we also established an Employee Share Trust to allow our global senior management to participate in the success and the increase in value of SomnoMed. A first issue of shares to the trust took place in November 2013.

2013/14 was a most productive year for our company. Global geographic coverage of the economically developed countries has now been achieved. A widening of our product line has been implemented; reorganization of various departments and recruitment of key managers were largely completed in all regions and a number of clinical research projects were supported. All this coincides with the increasing acceptance of COAT™ (Continuous Open Airway Therapy) from physicians, insurers and patients. We believe all the ingredients have been put in place to allow SomnoMed to continue its growth path as the global leader in oral appliance therapy and continually build the value of your company in the future.

FINANCIAL RESULTS

The 2014 financial year generated revenues of \$25.89 million, which was 40% higher than the prior year. Unit growth was 21%, with record sales reached in the fourth quarter.

The gross margin for the year for MAS devices was 67% and for all group revenue streams was 65%. This was slightly below that of the previous year, due to the acquisitions made in Europe, where additional laboratory costs were incorporated into the results. In these circumstances an improved average sales price per unit was achieved, due to the uplift in being able to sell directly into the market, whereas prior to those acquisitions a distribution price was received.

The operating profit before corporate, research and business development and other items of revenue and expenses was \$3.698 million and above that posted in the previous year by 14%. This growth in earnings was achieved despite expensing \$2.28 million relating to the establishment of the medical departments in our US subsidiary and the costs associated with the acquisition and initial set up of new business entities in Europe and Korea.

Our corporate expenses, which also include research and development expenses, product development and global production management costs, were \$2.648 million and only 7.6% above the previous year, despite the launch of new products and the ongoing participation in further medical research projects.

The result was earnings before interest, tax, depreciation and amortization of \$1.05m and a growth of 26.5% over the previous year.

The cash balance closed at just under \$3 million at 30 June 2014 and was less than the previous year's balance. This was due to the contributing factors of the various acquisitions made during the year, the significant growth in the European sales and marketing expansion, the conclusion of the set-up phase of the US Medical capabilities and increased working capital requirements. The strong financial management of the business's cash resources again enabled SomnoMed to continue on its growth path.

SOMNOMED LIMITED

EXECUTIVE CHAIRMAN'S REPORT (CONTINUED)

NORTH AMERICA

SomnoMed's largest market, representing 53% of our total sales, is the US and Canada. Sales volume grew by 12.3%, however, whilst first half sales only grew by 6.5%, the second half posted a volume growth of 18%, underlining the success of a number of changes and initiatives which were undertaken during the financial year.

Service and logistical issues in our Frisco/Dallas laboratory were overcome – a new leadership in our laboratory, revised processes and the introduction of new software systems allowed the laboratory to return to the high quality of service our customers expect. The laboratory operation in Texas is now in line with our other facilities around the world, with substantially improved turnaround times and the reduction in complaints from customers.

The dental sales operation was restructured. A new head for this department was appointed in early 2014 and the number of sales people was increased.

In September 2013 a SomnoDent[®] Herbst product was launched to service the Medicare market. The Herbst design, which is in the public domain, is well known in the US and was enhanced through the SomnoMed quality production process and the use of our proprietary materials to create a superior product for the mid-price Medicare market. The product was well received and demand exceeded our expectations.

The build-up of our medical departments, which had started in financial year 2012/13 continued during the financial year 2013/14. The Medical Advisory Board was formed and met for the first time in September 2013. A number of medical education programs was staged in various US states, informing physicians about COAT[™] (Continuous Open Airway Therapy) and its efficacy in treating obstructive sleep apnea, highlighting the advantages compared to CPAP when it comes to patient comfort, life quality and compliance.

Various different approaches were tested in medical sales, predominantly in our Florida test market, and achieved respectable results, delivering the highest growth rates in that state. Evaluation of the reasons for this success is continuing and is likely to lead to an expansion of our medical sales force during the new financial year.

The year also saw a significant expansion of our Managed Care department. Additional Key Account managers were appointed, predominantly to work with Kaiser Permanente, one of the leading US insurance and care providers. Pilot programs are currently running in a number of Kaiser medical centres to test the various protocols to treat Kaiser members with SomnoDent[®] COAT[™] as an alternative to CPAP, either after rejection of a CPAP treatment or on a first line basis for mild and moderate patients. These pilot programs are continuing in financial year 2014/15, delivering growth to our Managed Care sales.

During the year a new head was appointed as Director of Marketing and under the US leadership SomnoMed's global website was reconfigured and went live at the end of the year. The new site allows closer direct and interactive use by dentists, physicians and patients. A specialist in social media was appointed at the beginning of the new financial year.

The US market for custom made appliances for the treatment of obstructive sleep apnea is less developed than in many other markets we are operating in. A report published at the end of the financial year by respected global health care consulting firm Frost & Sullivan, observed that the current rate of patients treated with COAT[™] vis a vis CPAP was only 5% in 2013. The market is also very competitive and highly fragmented, reflecting the legacy of the past when custom made oral appliances were predominantly made by individual technicians and dental laboratories. However, over the last five years a number of companies have emerged specializing in the delivery of these appliances and conquering about 50% - 60% of that market. These companies, including SomnoMed North America, were instrumental in growing the demand. Frost & Sullivan is expecting significant growth in the sale of custom made oral appliances and an increase in the share of patients treated with COAT[™] to 20% by 2020. This would indicate a growth in sales from around 200,000 units in 2014 to over a million in 2020.

SomnoMed is dominant in the upper price segment in the US market. The launch of a mid-price product for the Medicare market and the launch of the proprietary SomnoDent[®] Herbst Advance product at the annual sleep convention in June this year, should allow SomnoMed to gain additional market share in this high growth market over the next five years.

SOMNOMED LIMITED

EXECUTIVE CHAIRMAN'S REPORT (CONTINUED)

EUROPE

Europe performed excellently in the financial year gone by – volume grew by 41% and revenues by over 50% compared to the previous year. Europe increased its share of our global sales from 31% in financial year 2012/13 to 36% in financial year 2013/14.

During the year the European operation was significantly expanded. On 1 July 2013 SomnoMed Europe took over the business of Orthosleep19 GmbH, a laboratory and our distribution partner in Germany. The acquisition and integration went smoothly and produced good growth in sales volume, revenues and profits.

Significant growth was achieved in the Netherlands, where all public insurers are reimbursing COAT™ as first line treatment for all mild and moderate patients. This has increased the share of patients being treated with COAT™ vs. CPAP to a ratio of 46% to 54%. We expect COAT™ in Holland, similar to Sweden, to exceed half the diagnosed patients going into treatment in the near future.

In April 2014 SomnoMed increased its share of the Dutch business from 50% to 62.5%, pursuant to the agreement entered into at the beginning of 2012. Over the next three years SomnoMed will acquire the remaining 37.5% in three tranches. The consideration is linked to the earnings of the business achieved in the previous year and will be made by way of cash and shares on a 50/50 basis.

“Emerging” European markets, which are countries where SomnoMed commenced operations in the year 2012/13, performed well and are contributing to the growth. Norway and Belgium both showed strong growth and offer ongoing growth potential for SomnoMed Europe.

In December 2012 SomnoMed acquired the business of Orthosom S.A. in France. In early 2013 education seminars introducing SomnoDent® to the French market were staged and first SomnoDent® sales were recorded shortly after. During the financial year 2013/14 sales of SomnoDent® devices in France grew quickly, allowing SomnoMed France to represent 10% of our total European sales. By the end of the financial year SomnoDent® devices outsold the inherited AMO device by almost two to one, reflecting the positive reaction of French practitioners, especially dentists, to our high quality device.

France, however, is a financial burden for our company. High fixed costs, a low productivity of our laboratory operations and sales force, combined with a low reimbursement price caused us to generate losses in this market. Increasing volume will improve results in the future but SomnoMed France (65% owned by SomnoMed) will need two more years to achieve a break even position.

During the financial year plans were drawn up and implementation started to cover the remaining countries in Western Europe. In early 2014 first sales were recorded in Denmark; in May 2014 SomnoMed commenced operations in Finland; in June 2014 first education seminars were held for dentists in the UK; also in June 2014 a sales manager was appointed for Spain and Portugal and at the end of the financial year SomnoMed entered into an agreement with its Italian distributor, which will see SomnoMed establishing its own subsidiary and sales operation in Italy during the first half of financial year 2014/15.

These new markets are expected to contribute to our growth in Europe from 2015 onwards. SomnoMed has now achieved full coverage of Europe – 16 countries are now covered by SomnoMed manifesting its position as the global leader in COAT™. We expect different developments in different countries, all depending on the reimbursement policies, which we expect to be introduced in many of these countries over the next years. Once reimbursement for COAT™ is offered, strong increases in the share of treated patients can be expected.

APAC & JAPAN

The regions sales grew by 12.7% during the financial year. A number of projects were implemented which strengthened growth during the financial year 2013/14.

SomnoMed's Australian operation, which represents about 80% of the region's sales, underwent a strategy review in 2013, which resulted in a shift of resources being dedicated to the medical side of the market. These programs reinvigorated sales in Australia, after some time of subdued growth in the non-reimbursed market. As a result, sales in Australia grew by almost 15% in the financial year.

During the year SomnoMed entered into agreements with its Korean distributor and terminated the third party production and distribution agreements entered into in 2009. This led to the establishment of a SomnoMed subsidiary in Korea, the appointment of a high quality orthodontic laboratory as our local service partner and to an agreement with one of the leading distributors of medical devices in South Korea. Sales restarted in early 2014 and good growth is expected over the next years.

Japan grew its sales volume by close to 22% in the financial year. Our Japanese subsidiary is continually increasing awareness and acceptance of SomnoDent® as the high quality oral appliance in the non-reimbursed market. Also in Japan strategy revisions took place in 2014 which will lead to a strengthening of our sales force and medical capacities.

APAC/JAPAN maintained an 11% share of our global sales. Further expansion into the economically developed markets in that region are planned to take place during the course of financial year 2014/15.

SOMNOMED LIMITED

EXECUTIVE CHAIRMAN'S REPORT (CONTINUED)

PRODUCT DEVELOPMENT

SomnoMed's product development department is engaged in a number of projects, principally aiming to increase patient comfort and the longevity of our SomnoDent® devices, through improved designs and superior proprietary material. During the financial year 2013/14 it developed two new devices which have been launched in September this year – the SomnoDent® Herbst Advance and the SomnoDent® Fusion.

Patents have been lodged for both designs in our principal markets. SomnoDent® Herbst Advance is the first new Herbst design in many years. It allows a more precise titration and easier handling by dentists and patients. The product was shown at the annual convention of the American Association of Dental Sleep Medicine and the convention of the American Association of Sleep Medicine in June this year and received excellent reviews from practitioners. SomnoDent® Herbst Advance is a premium product for the US Medicare mid-price market segment. PDAC approval for this product was received in September this year.

The SomnoDent® Fusion device is a new patented device with exchangeable wings. It offers longer titration and thus reduces the need for reset works at a later stage. This saves time and cost to dentists and patients. SomnoDent® Fusion received its FDA 510K approval in June and has been launched at the beginning of the new year in Europe, Australia and in September this year in the US. This product is part of SomnoMed's signature product line and commands a premium price in the upper price segment.

The introduction of SomnoMed's DentiTrac™ compliance control system started at the end of the financial year through clinical test programs in Sydney, Tokyo, Bergen/Norway, Antwerp, Amsterdam and in Canada. The launch of the system in the US is awaiting FDA clearance to be obtained by the Canadian manufacturer.

During the year the Product Development department developed concepts and tested equipment for the introduction of digital to our manufacturing process. The aim is to facilitate the flow of digital information between our service hubs and our factory and thus reduce turnaround time and freight cost. Introduction of digital equipment is planned to take place during the new financial year.

PRODUCTION & SERVICE

Our factory achieved new highs in productivity and was able to pass on cost savings to our distribution entities. Production of devices grew by 38% year over year, with new output records being recorded consistently. At the beginning of the new financial year work started at the factory to double the capacity of our factory to allow for the increase of volume expected in the future.

Through acquisitions and new service agreements SomnoMed now operates through a chain of service laboratories in Sydney, Seoul, Tokyo, Stockholm, Helsinki, Oslo, Sheffield (UK), Ede (Netherlands), Bruges (Belgium), Thuengersheim (Germany), Luzern (Switzerland), Angers (France), Castellar de Valles (Spain), Thiene (Italy), and Frisco/Dallas. These fifteen laboratories, five of which are owned by SomnoMed, are responsible for logistics and quality control between local dentists and our factory and provide after sales service. They are an important part of our quality assurance and support operation.

RESEARCH

SomnoMed believes that its support for medical research focusing on the impact of treatment of OSA patients with SomnoDent® devices, especially in regards to co-morbidities such as cardiovascular disease, are important for the standing of our company in the medical community and the acceptance of our devices by specialists. Our company has been involved in 17 clinical studies, which were completed in the past proving the efficacy of our device treating OSA. SomnoMed has supported and continues to support a number of ongoing research studies.

In Australia a major three year study was completed by Dr Craig Phillips from Royal North Shore Hospital and other participants from various leading Australian institutions. This study was published in the American Journal of Respiratory and Critical Care Medicine in 2013. The study concluded that the treatment with SomnoDent® was in principal as effective as the treatment with Resmed's CPAP taking a number of factors into account.

Charite, the leading sleep clinic in Germany, finished a three year study led by Professor Fietze from the University of Berlin focusing on the general efficacy of SomnoDent® treatment of OSA patients and especially in regard to their cardiovascular conditions. The study involving over 100 patients will be published in the near future.

World renowned Professor John Remmers carried out a study at the University of Calgary, Canada to monitor the efficacy of titration and the effectiveness of remote controlled titration of the SomnoDent® device using the MATRx™ system. The study is ongoing with some results having been presented by Professor Remmers at various medical conferences.

SOMNOMED LIMITED

EXECUTIVE CHAIRMAN'S REPORT (CONTINUED)

RESEARCH (continued)

A three year study kicked off in early 2013 at the University of Antwerp with the support of SomnoMed. The focus of this research work is also the impact of treatment with SomnoDent® devices on cardiovascular conditions of OSA patients.

A number of clinical trials and studies are currently underway in Australia, Japan, Holland, Belgium, Norway, Canada and the USA testing the efficacy of SomnoMed's compliance control system DentiTrac.™

CAPITAL

In November 2013 the company established an Employee Share Trust ("EST"). Shares are issued to the EST on behalf of senior employees, with the company providing non-recourse finance in relation to the issue of these shares, subject to vesting conditions. The purpose of these share issues is to provide a medium to long-term incentive to the executives and staff of the Company.

In July 2014 SomnoMed Limited announced it would be raising a total of approximately \$7 million by way of a placement and Share Purchase Plan. The net proceeds are to be used to strengthen the Company's financial position and enable it to invest in doubling capacity of the plant and introducing digital processes in the plant and our hubs in Sydney, Tokyo, Seoul, Stockholm, Helsinki, Oslo, Ede (Holland), Thuengersheim (Germany), Angers (France), Madrid, Sheffield (United Kingdom), Thiene (Italy), Frisco Texas (USA) in 2014/15 and fund working capital for increased revenues in existing markets, as well as fund working capital and operational activities in new markets.

The placement was completed in August 2014 and the Share Purchase Plan ("SPP") received overwhelming support from shareholders. A further \$405,000 will be subscribed by Director related entities, subject to shareholder approval, which will be sought at the Annual General Meeting in November 2014. The funds raised from the placement and SPP will allow the Company to continue with the process of building a successful, fast growing global medical device company.

CORPORATE

Directors of SomnoMed were closely involved in all aspects of our business during the year. This included attendance of monthly board meetings, committee meetings and sessions relating to strategic issues.

Whilst the SomnoMed head office is in Sydney, over 90% of our global sales and all our production takes place outside of Australia. This offers challenges to our small head office corporate team, given we operate in 26 countries around the globe. Corporate overheads (Product Development, Global Production Control, Research, Global Finance Control and Global Management) have been strictly controlled and have dropped as percentage of sales revenues from 15.5% in 2011/12 to 13.3% in 2012/13, and further to 10.2% in 2013/14.

SomnoMed is a truly global company promoting equal opportunities in all its entities. A great number of nationalities, races and different religions are represented amongst our 250 employees with women being highly represented on all levels in our company.

CONCLUSION

SomnoMed is proud to operate without any external debt, producing positive cash flow, despite its strong growth and ongoing investments. The share price of SomnoMed opened on the 1st July 2013 at \$0.91 and closed on 30 June 2014 at a price of \$1.46, representing a value increase of in excess of 60% during the course of the year and an increase of 730% since the company's restructure at the end of 2006.

I would like to thank all our employees, management and directors for the hard work during 2013/14 and the excellent progress which has been made. My thanks also go to you, our shareholders, for the interest, loyalty and support you have again shown during the last financial year. We believe that SomnoMed's future is bright; it will offer our employees great career opportunities and it will offer you, our shareholders, continuing growth in the value of your investment.

Yours sincerely



Dr Peter Neustadt
Executive Chairman and CEO

SOMNOMED LIMITED
ACN 003255221
DIRECTORS' REPORT

The directors present their report, together with the financial statements, on the Consolidated Entity (referred to hereafter as the 'Consolidated Entity') consisting of SomnoMed Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2014.

Directors

The names of directors in office at any time during or since the end of the year are:

Peter Neustadt

Robert Scherini

Lee Ausburn

Directors have been in office since the start of the financial year to the date of this report, unless otherwise stated.

Principal Activity

The principal activity of the Consolidated Entity during the financial year was the commercialisation of the SomnoDent[®] MAS and other oral devices for sleep related disorders in Australia and overseas.

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

Operating Results

The net profit of the Consolidated Entity amounted to \$214,956 (2013: \$704,675). A more detailed review of the operations is contained on pages 1 to 5 of the Annual Report, which accompanies this Directors' Report.

Dividends Paid or Recommended

There are no dividends paid, declared or recommended for the year ended 30 June 2014 (2013: Nil).

Significant Changes in State of Affairs

Other than as stated in the accompanying Executive Chairman's Report and financial report, there were no significant changes in the state of affairs of the Company during the reporting year.

After Balance Date Events

The directors are not aware of any matter or circumstance that has arisen since the end of the 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 Company in subsequent years, other than:-

On 8th August 2014 the Company issued 3.430 million shares by way of a placement at an issue price of \$1.50 per share. In July 2014, subject to shareholder approval being obtained at the Company's 2014 AGM, entities associated with the Chairman and other Directors of the Company have committed to subscribe for a total of 270,000 shares at an issue price of \$1.50 per share. A total of 1 million shares were issued on 22nd August 2014 at \$1.50 per share, pursuant to a Share Purchase Plan offer made in July 2014. The total funds raised from the above-mentioned issues of approximately \$7 million will be utilised to provide the Company with sufficient resources to enable it to double its plant capacity and fund working capital for increased revenues in existing markets, as well as fund working capital and operational activities in new markets.

Future Developments

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

SOMNOMED LIMITED DIRECTORS' REPORT (CONTINUED)

Directors

Peter Neustadt

Executive Chairman, CEO and Member of the Audit Committee

Dr. Peter Neustadt, born in Germany, studied in Switzerland at St.Gall Graduate School for Business & Economics, where he earned a Master in Economics (lic.oec.HSG) and Doctorate in Business Administration (Dr.oec). He worked for McKinsey & Company based in Switzerland and in Mexico.

Dr Neustadt moved to Australia and joined Kerry Packer in 1980 as a member of the executive board of Consolidated Press Holdings. He was Executive Chairman and principal shareholder in diverse media group Communications & Entertainment Limited until 1987. He founded and managed resort and property group Cypress Lakes Group Limited and The Golden Door group of companies until the end of 2005. Dr Neustadt also served on the board of Channel Ten, Advance Bank, Trafalgar Properties Limited and Manboom Pty Ltd.

From February 2010 to August 2014 he chaired Australian financial services company and mortgage aggregator Vow Financial and negotiated the takeover of the company by Yellow Brick Road Limited. The transaction completed at the end of August 2014. He also serves as director on the board of private companies in Australia and in Europe.

Robert Scherini

Non-Executive Director, Chairman of the Audit Committee

Rob is a past Managing Director for Johnson & Johnson Medical Australia/NZ and has held senior management positions both locally and internationally. He was posted for a number of years in J&J's European headquarters in Brussels before returning to Australia where he was directly responsible for J&J's medical device business in Australia and New Zealand as well as responsibilities across the APAC region. He has a strong track record of growing businesses and brings to the Board a wealth of experience in Sales & Marketing, Business Development, Finance, Operations and Supply, Legal, Human Resources and Information Technology.

Rob has a bachelor's degree in Business and is a Certified Practising Accountant (CPA). He was a Member of the Board of the Medical Technology Association of Australia (MTAA) for nine years. He has been a strong advocate of Human Resources Strategy and was recognised as Best HR Champion at the 2004 Australian HR Awards. In 2007 was awarded a Rotary International Fellowship for his assistance to the community.

More recently Rob has devoted his time to consulting and mentoring. He is a senior advisor for a healthcare consultancy focused on Asia Pacific and a member of the Board of a large privately owned medical device company.

Lee Ausburn

Non-Executive Director, M.Pharm., B.Pharm., Dip.Hosp.Pharm. (University of Sydney), GAICD

Lee has had a long career in the health industry, beginning as a pharmacist before joining Merck and Co. Inc., a global pharmaceutical company. During this period, she progressed through a range of roles, beginning in marketing before becoming responsible for reimbursement and pricing of Merck products in Australia.

In 1998 she moved into a regional role and was ultimately Vice President, Asia Merck & Co. Inc. responsible for the general management and strong growth of Merck organisations and their products across Asia reporting directly to the executive responsible for the geographic area in the US. During this time, Lee built businesses in a number of countries, often from the very beginning, planned and launched new products, liaised with regulatory authorities and government agencies and built and supervised management teams responsible for building Merck's business in that part of the world. After leaving Merck in 2008, she has taken on a number of non-executive director roles.

She is a non-executive director of Australian Pharmaceutical Industries (API) Ltd, which distributes pharmaceuticals to pharmacies across Australia. API also has retail pharmacy operations through Priceline stores. She is currently a non-executive director of nib holdings ltd, a health insurer.

In addition she was a member of two NSW government boards which are responsible for the implementation of the Garling recommendations to improve the quality of care in NSW hospitals- the Clinical Excellence Commission and the Agency for Clinical Innovation. She is currently the Vice President Pharmacy Faculty Foundation, University of Sydney.

Company Secretary

Terence Flitcroft B Comm CA FSIA

Terence has been Company Secretary since 1995.

Terence is a Chartered Accountant with broad commercial and financial experience and has acted as director and company secretary for a number of private and public companies.

SOMNOMED LIMITED

DIRECTORS' REPORT (CONTINUED)

Board Member's Directorships

Listed below are details of other listed public company directorships held by Board Members over the last three years.

Director	Directorship of	Date Appointed	Date Resigned
Peter Neustadt	No other listed public company directorship	-	-
Robert Scherini	No other listed public company directorship	-	-
Lee Ausburn	Australian Pharmaceutical Industries Ltd nib holdings ltd	7 October 2008 13 November 2013	Current Current

Directors' Interests in Securities

As at the date of this report, details of Directors who hold shares or options in the Company for their own benefit or who have an interest in holdings through a third party are detailed below.

Director	Shares	Options over Ordinary Shares
Peter Neustadt *	3,502,023	325,000
Robert Scherini	10,000	50,000
Lee Ausburn	23,999	50,000

* Held by entities associated with the Director and in which he has a financial interest

In July 2014 entities associated with the Directors committed to a placement of 270,000 shares in the Company at a price of \$1.50 per share, subject to shareholder approval.

Meetings of Directors

The number of meetings of the Company's Board of Directors and each board committee held during the year to 30 June 2014 and the number of meetings attended by each director were:

	COMMITTEE MEETINGS					
	DIRECTORS' MEETINGS		AUDIT COMMITTEE		REMUNERATION COMMITTEE	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
Peter Neustadt	12	12	2	2	2	2
Robert Scherini	12	12	2	2	2	2
Lee Ausburn	12	12	-	-	2	2

SOMNOMED LIMITED DIRECTORS' REPORT (CONTINUED)

Indemnifying Directors or Officers

Each Director has entered into a Deed with the Company under which the Director is given access to documentation and in addition is:

- indemnified by the Company to the full extent permitted by law against all liabilities sustained or incurred through acting as a Director (under the Corporations Act the indemnity does not extend to a liability owed to the Company or its related bodies corporate, or which arises out of conduct involving a lack of good faith, or is for a pecuniary penalty order under section 1317G of the Corporations Act or a compensation order under section 1317H of the Corporations Act);
- indemnified by the Company to the full extent permitted by law against legal costs and expenses incurred in defending an action for a liability incurred as an officer of the Company (under the Corporations Act the indemnity does not extend to costs incurred in circumstances where the Director is found to have a liability for which the Director cannot be indemnified, or costs of defending or resisting criminal proceedings in which the Director is found guilty or defending proceedings brought by ASIC or a liquidator for a court order where the court holds that the grounds for making the order are established, or costs of proceedings seeking relief for the Director under the Corporations Act where the court denies relief);
- entitled to a loan to meet the costs of defending or responding to any such claim or proceeding; and
- entitled to have the Company maintain and pay premiums in respect of directors' and officers' insurance. Premiums paid in respect of this insurance were \$36,029.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of SomnoMed Limited support and have adhered to key principles of corporate governance. Please refer to pages 17 to 20 of this annual report for more information.

Environmental regulations

The Company's operations are not materially affected by environmental regulations.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

SOMNOMED LIMITED DIRECTORS' REPORT (CONTINUED)

Options

At the date of this report the unissued ordinary shares of SomnoMed Limited under option are as follows:

Grant Dates	Date of Expiry	Exercise Price	Number under Option
26 October 2012	31 October 2015	\$0.87	180,000
21 November 2012	31 October 2015	\$0.87	225,000
21 November 2012	5 November 2015	\$0.92	200,000
22 November 2013	31 October 2016	\$1.23	200,000
			805,000

In addition to the above 805,000 options, a total of 1,899,500 shares issued by the Company pursuant to the Company's Executive Share and Option Plan have been treated as share based payments (exercise price equals issue price) in the accounts accompanying this Directors' Report, in accordance with the Company's accounting policies and Australian Accounting Standards. (refer Note 16 to the accompanying accounts)

No options were granted over unissued shares during or since the end of the financial year by the Company to directors or any of the specified officers as part of their remuneration, other than:

Option holder	Exercise price	Options
Belgove Pty Limited*	\$1.23	200,000
		200,000

* Belgove Pty Limited is a company associated with Dr Peter Neustadt.

A total of 225,000 options have been exercised since the end of the last financial year.

A total of 40,000 options expired or lapsed since the end of the previous financial year, which were not reported in the previous year's Directors' Report.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

SOMNOMED LIMITED

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of SomnoMed Limited and for the executives receiving the highest remuneration.

Remuneration Policy

The remuneration policy of SomnoMed Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Consolidated Entity's financial results. The board of SomnoMed Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Consolidated Entity, as well as create goal congruence between directors, executives and shareholders.

The following table shows the gross revenue and results for the last four years for the listed entity, as well as the share price at the end of the respective financial years.

	2010	2011	2012	2013	2014
Revenue	\$10,992,000	\$12,606,497	\$15,453,116	\$18,581,690	\$25,921,284
Net profit	\$786,143	\$739,537	\$699,745	\$704,675	\$214,956
Share price at year end	\$0.795	\$1.25	\$0.88	\$0.91	\$1.46

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the Consolidated Entity is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee, which currently is the entire board. All executives receive a total remuneration package, which may include a base salary (commensurate with their expertise and experience), superannuation, fringe benefits, options and performance incentives. The remuneration committee reviews executive packages annually by reference to the Consolidated Entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured with each executive and is based predominantly on the forecast growth of the Company's financial performance and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee option arrangements.

Senior executives receive a superannuation guarantee contribution required by the government, which is currently 9.25%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed. Options are valued using the Black Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Fees for non-executive directors are not linked to the performance of the Consolidated Entity. However, to align directors' interests with shareholder interests, the directors hold options in the Company.

Performance Based Remuneration

As part of senior executives' remuneration packages there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between executives with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with executives. The measures are specifically tailored to the areas each executive is involved in and has a level of control over. The KPIs target areas the board believes will improve the performance of the Company, covering financial and non-financial as well as short- and long-term goals. The level set for each KPI is based on budgeted figures for the group.

SOMNOMED LIMITED DIRECTORS' REPORT (CONTINUED)

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the KPIs achieved. Following the assessment, the KPIs are reviewed by the Remuneration Committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPIs are set for the following year.

In determining whether or not a KPI has been achieved, SomnoMed Limited bases the assessment on audited figures where appropriate.

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. There have been two methods applied in achieving this aim, the first being a performance based bonus based on key performance indicators, and the second being the issue of options to directors and executives to encourage the alignment of personal and shareholder interests. The Company believes this policy should be effective in increasing shareholder wealth over the medium term.

The board will review its remuneration policy annually to ensure it is effective.

Performance Income as a proportion of Total Remuneration

Senior executives are paid performance based bonuses based on a proportion of their total remuneration package. The remuneration committee has set these bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and financial performance of the Consolidated Entity. The remuneration committee will review the performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods.

All senior executives' remuneration for the year ended 30 June 2014 had a fixed component and a variable component of their overall remuneration, with the variable part of their remuneration paid subject to a performance condition.

Options issued as part of remuneration for the year ended 30 June 2014

During the year, options were issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to directors and executives of SomnoMed Limited and its subsidiaries to increase long term goal congruence between executives, directors and shareholders.

Company Directors/ Executives	Granted Number	Grant Date	Value per Option at Grant Date	Exercise Price	Earliest Exercise Date	Last Exercise Date
Belgove Pty Limited*	200,000	22 November 2013	36.8 cents	\$1.23	30 June 2014	31 October 2016

*Belgove Pty Limited is a company associated with Dr Peter Neustadt.

Employment Contracts of Directors and Senior Executives

The employment conditions of the chief executive officer and specified executives are formalised in contracts of employment or its wholly owned subsidiary. All executives are permanent employees of SomnoMed. No contract is for a fixed term. Each contract states it can be terminated by the Company by giving up to six months notice and by paying a redundancy of between three to six months.

SOMNOMED LIMITED

DIRECTORS' REPORT (CONTINUED)

Directors' remuneration

The following table discloses the remuneration of Directors of the Company for the year ended 30 June 2014, as specified for disclosure by AASB 124. The information contained in this table is audited.

Director	Short-term Benefits		Post- Employment Benefits	Termination Benefits	Share Based Payment	Total
	Salary & Fees	Other	Superannuation			
	\$	\$	\$	\$		\$
Peter Neustadt (1)						
-2013	190,000	-	-	-	17,432	207,432
-2014	370,000	-	-	-	40,463	410,463
Robert Scherini						
- 2013	54,500	-	-	-	6,973	61,473
- 2014	54,500	-	-	-	6,973	61,473
Lee Ausburn (2)						
- 2013	54,500	-	-	-	6,973	61,473
- 2014	54,500	-	-	-	6,973	61,473
TOTAL 2013	299,000	-	-	-	31,378	330,378
TOTAL 2014	479,000	-	-	-	54,409	533,409

(1) Dr Neustadt is a director of Belgove Pty Limited, which received consultancy fees during this and the previous year.

(2) Ms Ausburn is a director of Leedoc Pty Limited, which received consultancy fees during the year.

(3) No Director receives any performance related remuneration.

Shareholdings

Number of Shares held by Key Management Personnel, including shares held by associated entities

	Balance 1.7.13	Issued	Exercise of Options	Balance 30.6.14
Peter Neustadt	3,496,023	-	-	3,496,023
Lee Ausburn	19,499	-	-	19,499
Robert Scherini	10,000	-	-	10,000
Kien Nguyen ⁽³⁾	-	300,000	-	300,000
Ralf Barschow	-	-	-	-
Christopher Bedford ⁽¹⁾	175,000	40,000	50,000	265,000
Neil Verdal-Austin ⁽²⁾	600,000	150,000	125,000	875,000
	4,300,522	490,000	175,000	4,965,522
Less shares issued under the Employee Share Trust Plan ⁽¹⁾ & ⁽²⁾	(625,000)	(490,000)	(175,000)	(1,290,000)
	3,675,522	-	-	3,675,522

(1) 90,000 (2013: 175,000) shares issued by the Company utilising funds advanced by the Company to purchase these shares pursuant to the Company's Executive Share and Option Plan (refer Note 28(d)). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

(2) 275,000 (2013: 450,000) shares issued by the Company utilising funds advanced by the Company to purchase these shares pursuant to the Company's Executive Share and Option Plan (refer Note 28(d)). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

(3) 300,000 shares issued by the Company utilising funds advanced by the Company to purchase these shares pursuant to the Company's Executive Share and Option Plan (refer Note 28(d)). These shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards.

SOMNOMED LIMITED
DIRECTORS' REPORT (CONTINUED)

Options and Rights Holdings

Number of options held by Key Management Personnel, including options held by associated entities

	Balance 1.7.13	Granted as Remuneration/ (Exercised or Lapsed/Expired)	Balance 30.6.14	Total Vested 30.6.14	Total Exercisable	Total Un-exercisable
Neil Verdal-Austin	125,000	(125,000)	-	-	-	-
Christopher Bedford	50,000	(50,000)	-	-	-	-
Peter Neustadt ⁽¹⁾	125,000	200,000	325,000	325,000	-	325,000
Robert Scherini	50,000	-	50,000	50,000	-	50,000
Lee Ausburn	50,000	-	50,000	50,000	-	50,000
Kien Nguyen	200,000	-	200,000	-	-	200,000
Martin Weiland ⁽²⁾	60,000	(25,000)	35,000	-	-	35,000
Total	660,000	-	660,000	425,000	-	660,000
Issued shares treated as options in these accounts (refer table above and Note 16)						
Kien Nguyen	-	300,000	300,000	-	-	-
Neil Verdal-Austin	450,000	275,000	725,000	575,000	-	-
Christopher Bedford	175,000	90,000	265,000	225,000	-	-
Martin Weiland ⁽²⁾	-	100,000	100,000	25,000	-	-
Total	1,285,000	765,000	2,050,000	1,250,000	-	660,000

(1) Held by Belgove Pty Limited a company associated with Dr Peter Neustadt

(2) Not KMP in 2013

SOMNOMED LIMITED DIRECTORS' REPORT (CONTINUED)

Executives' remuneration

The following table discloses the remuneration of the specified executives of the company and the Consolidated Entity for the year ended 30 June 2014, as specified for disclosure by AASB 124. The information in this table is audited.

Executive	Salary & Fees	Short-term Benefits		Post- Employment Benefits	Long-term Benefits	Share-based Payment (1)	Termination Benefits	Total	Percentage of Remuneration Performance Related
		Bonuses	Other	Superannuation	Long service leave				
Chris Bedford									
-2013	170,000	20,000	-	15,300	-	-	-	205,300	10%
-2014	175,000	28,000	-	16,187	3,650	1,723	-	224,560	12%
Ralf Barschow (2)									
- 2013	15,500	-	2,124	-	-	-	146,843	164,467	-
Neil Verdal-Austin									
- 2013	238,532	40,000	-	21,468	-	-	-	300,000	13%
- 2014	274,600	50,000	-	25,400	4,578	6,671	-	361,249	14%
Kien Nguyen									
- 2013	205,129	-	7,413	-	-	27,500	-	240,042	-
- 2014	407,014	-	36,485	-	-	22,089	-	465,588	-
Martin Weiland									
- 2014	260,045	53,412	18,151	-	-	3,231	-	334,839	16%
TOTAL 2013	629,161	60,000	9,537	36,768	-	27,500	146,843	909,809	7%
TOTAL 2014	1,116,659	131,412	54,636	41,587	8,228	33,714	-	1,386,236	10%

(1) The amounts disclosed are based on the assessed fair value at the date of grant using the Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date.

(2) Resigned effective 31 July 2012

For the year ended 30 June 2014 the Company had four (2013 – four) persons employed who were deemed to be specified executives.

The key management personnel of the consolidated group comprise the directors and the specified executives.

Bonuses are awarded as part of the consolidated group's incentive scheme for the retention of key executives and are awarded as at year end. All bonuses have vested and the pre-requisites for the receipt of the award have been satisfied.

The terms and conditions relating to options granted as remuneration during the year to key management personnel are disclosed in Note 25.

This concludes the Remuneration Report which has been audited.

SOMNOMED LIMITED DIRECTORS' REPORT (CONTINUED)

Other Information

Non-audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Fees of nil (2013: \$3,000 – previous auditors) for non-audit services were paid/payable to the external auditors during the year ended 30th June 2014.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30th June 2014 is set out on page 60 of this annual report.

Signed in accordance with a resolution of the Board of Directors pursuant to section 298(2)(a) of the *Corporations Act 2001*.



Peter Neustadt

Executive Chairman and CEO

29th September 2014

SOMNOMED LIMITED

CORPORATE GOVERNANCE STATEMENT

Corporate Governance

The Company formally has adopted corporate governance policies and practices as provided by the ASX Listing Rules and the principles of the ASX Corporate Governance Council. The Directors are of the opinion that the Company has complied with the above-mentioned policies. Set out below is more information on the Company's corporate governance policies.

Board Composition

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the director's report.

The Board reviews its composition and assesses nominations for new appointments from time to time to ensure the Board benefits from diversity with regard to gender, skills and experience.

The majority of the Board are to be independent directors, having no business or other relationship that could compromise their autonomy.

The Chairman and Chief Executive Officer roles are to be held by different persons. Dr Neustadt currently holds the role of Executive Chairman. It is intended he will remain in this role until a global CEO is appointed, at which time the abovementioned roles will be filled by different persons.

The Chief Executive Officer may also be a director of the Company. Non-executive directors retire by rotation in accordance with clause 16 of the Constitution.

Newly appointed directors must stand for re-election at the next Annual General Meeting in accordance with clause 16 of the Constitution, with the exception of the Managing Director.

The Board regularly assesses the independence of each non-executive director in the light of interests disclosed by them. The Company does not consider length of tenure as disqualifying criteria for independence.

An independent director is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In assessing the independence of each director, the board takes into consideration whether the director's shareholding in the Company, relationships with suppliers, customers and competitors, or tenure as a director of the Company would materially affect the director's ability to exercise unfettered and independent judgement in the interests of the Company's shareholders.

Dr Peter Neustadt holds the position of Chairman. Dr Neustadt is also a major shareholder in the Company.

Given the depth of his company experience and the size of the company he is considered to be excellently placed to serve as Chairman, notwithstanding that pursuant to the ASX recommendation he is not considered an 'independent' Chairman. The Non-Executive Directors meet as required without the Executive Chairman being present. For these reasons the ASX recommendation for an independent Chairman has not been adopted. The Board considers all of its Non-Executive Directors to be independent. The Board regularly assesses the independence of each Non-Executive Director.

Consistent with the emphasis on 'substance over form' advocated by the ASX Guidelines, the Board takes a qualitative approach to materiality, rather than setting strict numerical thresholds, and considers each director's individual circumstances on its merits.

The independence of each director is formally reviewed annually in June each year and at any time when a change occurs that may affect a director's independence. Non-executive directors must formally advise the Chairman of any relevant information, and update the Chairman if their circumstances change at any time.

The names of independent directors of the Company are Lee Ausburn and Robert Scherini.

Independent directors have the right to seek independent professional advice at the Company's expense in the furtherance of their duties as directors. Written approval must be obtained from the chairman prior to incurring any expense on behalf of the Company.

The Board has created a number of standing committees being the Audit Committee and the Remuneration Committee.

Shareholder Rights

Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the Constitution and receipt of annual and interim financial statements. Shareholders are strongly encouraged to attend and participate in the Annual General Meetings of Somnomed Limited, to lodge questions to be responded by the Board and/or the CEO, and are able to appoint proxies.

SOMNOMED LIMITED

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Role of the Board

The Company recognises that corporate governance is fundamental to the effective operation of the Company. The Board is the pivotal element of corporate governance, and the Company desires its Board to be effective, independent, representative of stakeholders and valuable to the organisation.

The Board's role is to provide governance of the Company in the best interests of shareholders, having regard to the interests of all stakeholders of the Company. The specific responsibilities of the Board include:

- the overall corporate governance of the Company including its strategic direction, financial objectives, and overseeing (or supervision) of control and accountability systems;
- input into and approval of strategic plans and goal and performance objectives, key operational and financial matters, as well as major investment and divestment proposals;
- appointing and removing the chief executive officer (or equivalent);
- ratifying the appointment and, where appropriate, the removal of the chief financial officer (or equivalent) and the Company Secretary;
- approving the nominations of Directors to the Board;
- ensuring Management maintains a sound system of internal controls to safeguard the assets of the Group;
- monitoring the performance of the Group;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance;
- monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- approving and monitoring financial and other Board reporting; and
- the approval of the annual and half yearly financial report.

Performance Evaluation

An annual self-assessment of the board and all board members is conducted by the board in such manner, as the board deems appropriate.

Trading Policy

The Company's policy regarding directors and employees trading in its securities has been set by the Board. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices.

Audit Committee

The names and qualifications of those appointed to the Audit Committee and their attendance at meetings of the committee are included in the directors' report.

The role of the Audit Committee is to:

- to review proposed reportable financial information and to recommend its approval or otherwise by the Board;
- to review and assess the Company's accounting policies, and determine in consultation with the Chief Financial Officer if any changes to policy should be enacted;
- to communicate with, and monitor the effectiveness of the Company's external auditor; and
- to make recommendations to the Board for the appointment, reappointment or replacement and remuneration of an appropriate independent external auditor.

SOMNOMED LIMITED

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Remuneration Committee

The Remuneration Committee comprises the full Board and their attendance at meetings of the committee is detailed in the Directors' Report. The responsibilities of the Remuneration Committee include:

- Assessing the skills and competencies required on the Board, from time to time assessing the extent to which the required skills are represented on the Board;
- Establishing processes for the review of the performance of individual directors and the Board as a whole;
- Encouraging and supporting directors' professional development to enhance director competencies;
- Establishing processes for the identification of suitable candidates for appointment to the Board;
- Developing Board succession plans to maintain an appropriate balance of skills, experience and expertise on the Board;
- Considering recommendations for the appointment and removal of Directors;
- Approving remuneration strategy and policies for senior management and selected packaged employees as well as the individual remuneration arrangements and terms of employment for positions/individuals who are direct reports to the Chief Executive Officer (or similar), ensuring that remuneration policies are not only effective, but that they are also reported and explained to shareholders.
- Reviewing the Company's Diversity policies and ensuring compliance with the ASX Diversity Recommendations.

Additional information on the Company's remuneration principles is contained in the Remuneration Report contained in the Directors' Report.

Continuous Disclosure and ASX Announcements

- Directors and Executive Management are to be aware of the continuous disclosure regulations in the ASX Listing Rules.

In the event that any Director or member of management becomes aware of any fact or circumstance which may give rise to a requirement to disclose such information under the Listing Rules, they are required to immediately inform either the Company Secretary, the CEO (or similar), the CFO or the Chairman.

- Prior to disclosure, the CFO will review the information to enable a judgement as to the appropriate disclosure, if any, to be made.
- If there is uncertainty over the requirement to comply with the continuous disclosure requirements, then the Company will seek external legal advice. The Company, through the Company Secretary, will notify the ASX of any information it is determined is required to be disclosed.

Where announcements are made to the market through the ASX, such announcements are pre-vetted by the CFO, Chairman and Board of Directors to ensure that such statements are:

- factual;
- do not omit material information; and
- expressed in a clear and objective manner.

Corporate Reporting

The Company strives to convey to its shareholders and the investing public pertinent information in a detailed, regular, factual and timely manner. Information is communicated to shareholders through: the Annual Financial Report, disclosures to the ASX, notices and explanatory memoranda of Annual General Meetings; and SomnoMed's website at www.somnomed.com.au.

Risk Management

The board is committed to the Senior executives and management are expected to practise sensible risk management in the day-to-day performance of their duties and are required to escalate any material issues, which arise or have the potential to arise. The CEO has the primary responsibility to advise the Board of material risk items, which arise and together the Board and senior management are responsible for taking all reasonable steps to address and mitigate such risk items.

SOMNOMED LIMITED CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Diversity

Somnomed embraces diversity. Diversity at SomnoMed recognises and values the diverse blend of skills, experiences and perspectives from individuals, irrespective of culture, gender or age. Somnomed does not consider diversity just in a metric capacity and hence measurable objectives may be subjective depending upon the specific circumstance.

SomnoMed regularly reviews policies to ensure that the Company is compliant with the ASX Diversity Recommendations.

Each year the SomnoMed's Annual Report will contain organisation-wide gender statistics. SomnoMed's objective is to ensure that each year its diversity statistics are equal to or an improvement on those of the previous year. A copy of the Diversity Policy is available on SomnoMed's website.

As at 30 June 2014 Somnomed employed approximately 256 people across 24 countries, speaking over 8 languages, 43% of whom are female.

SomnoMed's commitment to creating a flexible working environment and to putting people with the appropriate skills in the correct jobs has resulted in a richly diverse workplace. For example, women comprise 33% of Board positions and 19% of senior management roles.

SOMNOMED LIMITED
ACN 003255221
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	2014 \$	2013 \$
Sales revenue	5	25,894,846	18,488,871
Cost of sales		(9,085,059)	(6,221,200)
Gross margin		<u>16,809,787</u>	<u>12,267,671</u>
Sales and marketing expenses		(7,637,237)	(5,542,728)
Administrative expenses		(5,474,861)	(3,468,254)
Net foreign exchange gain/(loss) on derivative		-	(29,629)
Operating profit before corporate, research and business development expenses, other items of revenue and expenses and income tax		3,697,689	3,227,060
Corporate, research and business development expenses		(2,648,325)	(2,460,722)
Revenue from investment activities	5	26,438	92,819
Share and options expense	25c	(125,003)	(88,183)
Depreciation and amortization		(609,657)	(503,283)
Loss on disposal of fixed assets		(16,486)	-
Interest expense		(12,748)	-
Share of profit of associated company		-	63,601
Unrealised foreign exchange loss		(81,417)	(16,305)
Operating profit before income tax	6	230,491	314,987
Income tax (expense)/benefit attributable to operating profit	7	(15,535)	389,688
Operating profit after income tax expense for the year		<u>214,956</u>	<u>704,675</u>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation difference for foreign operations		(182,131)	1,193,504
Other comprehensive income for the year, net of tax		(182,131)	1,193,504
Total comprehensive income for the year attributable to the owners of SomnoMed Limited		<u>32,825</u>	<u>1,898,179</u>
Profit for the period is attributable to:			
Non-controlling interest		(190,905)	115,882
Owners of the parent		405,861	588,793
		<u>214,956</u>	<u>704,675</u>
Total comprehensive income for the year attributable to:			
Non-controlling interest		(190,905)	115,882
Owners of SomnoMed Limited		223,730	1,782,297
		<u>32,825</u>	<u>1,898,179</u>
Basic earnings per share (cents per share)	23	0.95	1.39
Diluted earnings per share (cents per share)	23	0.92	1.39

The above statement should be read in conjunction with the consolidated notes.

SOMNOMED LIMITED
ACN 003255221
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	NOTE	30.06.2014	30.06.2013	01.07.2012
		\$	restated \$	restated \$
ASSETS				
Current Assets				
Cash and cash equivalents	8	2,944,888	4,221,299	3,537,587
Trade and other receivables	9	5,495,228	4,383,280	3,741,407
Inventory	10	964,984	854,169	500,229
Total Current Assets		9,405,100	9,458,748	7,779,223
Non-Current Assets				
Property, plant and equipment	12	1,250,524	1,154,789	1,068,831
Intangible assets	13	6,092,389	5,309,127	3,795,853
Investment in associate entity	11	-	223,396	159,795
Deferred tax asset	7d	2,394,617	2,156,015	1,181,726
Total Non-Current Assets		9,737,530	8,843,327	6,206,205
Total Assets		19,142,630	18,302,075	13,985,428
LIABILITIES				
Current Liabilities				
Trade and other payables	14	3,324,963	3,538,757	3,041,511
Provisions	15	603,220	558,157	338,219
Current tax provision	15	222,452	302,503	-
Contingent consideration payable	20 (e)	585,475	382,485	-
Total Current Liabilities		4,736,110	4,781,902	3,379,730
Non-Current Liabilities				
Trade and other payables	14	131,795	123,992	1,997,617
Provisions	15	59,856	14,857	1,734
Contingent consideration payable	20 (e)	1,645,167	1,808,602	-
Total Non-Current Liabilities		1,836,818	1,947,451	1,999,351
Total Liabilities		6,572,928	6,729,353	5,379,081
Net Assets		12,569,702	11,572,722	8,606,347
EQUITY				
Issued capital	16	26,464,894	26,067,022	25,387,429
Reserves	17	2,402,924	2,431,879	1,150,192
Accumulated losses		(16,529,607)	(17,097,069)	(17,901,356)
Equity attributable to owners of SomnoMed Limited		12,338,211	11,401,832	8,636,265
Non-controlling interests		231,491	170,890	(29,918)
Total Equity		12,569,702	11,572,722	8,606,347

The above statement should be read in conjunction with the consolidated notes.

SOMNOMED LIMITED
ACN 003255221
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non- controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2012	25,387,429	1,150,192	(18,126,242)	8,411,379	194,968	8,606,347
Adjustment for correction of error (Refer Note 32)	-	-	224,886	224,886	(224,886)	-
Balance at 1 July 2012 restated	25,387,429	1,150,192	(17,901,356)	8,636,265	(29,918)	8,606,347
Profit after income tax expense for the year	-	-	588,793	588,793	115,882	704,675
Other comprehensive income for the year, net of tax	-	1,193,504	-	1,193,504	-	1,193,504
Total comprehensive income for the year	-	1,193,504	588,793	1,782,297	115,882	1,898,179
Recognition of non-controlling interest	-	-	-	-	300,420	300,420
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued during the period	679,593	-	-	679,593	-	679,593
Share option reserve on recognition of remuneration options	-	88,183	-	88,183	-	88,183
Balance at 30 June 2013	26,067,022	2,431,879	(17,312,563)	11,186,338	386,384	11,572,722
Adjustment for correction of error (Refer Note 32)	-	-	215,494	215,494	(215,494)	-
Balance at 30 June 2013	26,067,022	2,431,879	(17,097,069)	11,401,832	170,890	11,572,722
	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non- controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2013	26,067,022	2,431,879	(17,097,069)	11,401,832	170,890	11,572,722
Acquisition of subsidiary (Refer Note 20(c))	-	53,062	184,576	237,638	299,370	537,008
Profit after income tax expense for the year	-	-	405,861	405,861	(190,905)	214,956
Other comprehensive income for the year, net of tax	-	(182,131)	-	(182,131)	-	(182,131)
Total comprehensive income for the year	-	(182,131)	405,861	223,730	(190,905)	32,825
Allocation from accumulated losses	-	22,975	(22,975)	-	-	-
Investment payback	-	(47,864)	-	(47,864)	(47,864)	(95,728)
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued during the period	397,872	-	-	397,872	-	397,872
Share option reserve on recognition of remuneration options	-	125,003	-	125,003	-	125,003
Balance at 30 June 2014	26,464,894	2,402,924	(16,529,607)	12,338,211	231,491	12,569,702

The above statement should be read in conjunction with the consolidated notes.

SOMNOMED LIMITED
ACN 003255221
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	2014 \$	2013 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		25,137,579	18,133,123
Payments to suppliers and employees (inclusive of GST)		(25,442,438)	(17,584,424)
Interest received		24,627	92,776
Income tax paid		(510,177)	(69,474)
Net cash (outflow)/inflow from operating activities	22	<u>(790,409)</u>	<u>572,001</u>
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		(348,929)	(521,903)
Payments for intangible assets		(85,376)	(100,273)
Net cash from acquisition of associated entity		352,758	-
Proceeds from settlement of forward exchange contract		-	27,544
Payments for property, plant and equipment		(314,404)	(198,016)
Net cash outflow from investing activities		<u>(395,951)</u>	<u>(792,648)</u>
Cash flows from financing activities			
Proceeds from issue of shares		4,350	540,754
Capital return to minority shareholder		(48,237)	-
Net cash (outflow)/inflow from financing activities		<u>(43,887)</u>	<u>540,754</u>
Net (decrease)/increase in cash and cash equivalents		(1,230,247)	320,107
Cash at beginning of the financial year		4,221,299	3,537,587
Exchange rate adjustment		(46,164)	363,605
Cash at the end of the financial year	21	<u>2,944,888</u>	<u>4,221,299</u>

The cash balances at 30 June 2013 and 30 June 2014 are represented by cash at bank and money market securities.

The above statement should be read in conjunction with the consolidated notes.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

1. REPORTING ENTITY

SomnoMed Limited is a company domiciled and incorporated in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2014 comprise the Company and its controlled entities (together referred to as the Consolidated Entity). The Consolidated Entity produces and sells devices for the oral treatment of sleep related disorders.

2. BASIS OF PREPARATION

a. Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board and the Corporations Act 2001 as appropriate for profit oriented entities. The financial report of the Consolidated Entity and the financial report of the Company comply with International Financial Reporting Standards and Interpretations adopted by the International Accounting Standards Board.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value.

c. Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

d. Use of judgments and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Management discussed with the Audit Committee the development, selection and disclosure of the Consolidated Entity's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in the following areas:

Share-based payment transactions

The Consolidated Entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Goodwill and other indefinite life intangible assets

The Consolidated Entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Income tax

The Consolidated Entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Consolidated Entity recognises liabilities for anticipated tax audit issues based on the Consolidated Entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

2. BASIS OF PREPARATION (continued)

d. Use of judgments and estimates (continued)

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Consolidated Entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Consolidated Entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Consolidated Entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Employee benefits provision

As discussed, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Lease make good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Warranty provision

In determining the level of provision required for warranties the Consolidated Entity has made judgements in respect of the expected performance of the products, the number of customers who will actually claim under the warranty and how often, and the costs of fulfilling the conditions of the warranty. The provision is based on estimates made from historical warranty data associated with similar products and services. In the past the Company calculated the warranty provision as a percentage of sales. Beginning in FY2014, the provision is based on estimates made from historical warranty data associated with similar products and services as this approach is deemed to be more representative of the actual warranty claims.

Business combinations

Business combinations are initially accounted for on a provisional basis.

The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Consolidated Entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all entities in the Consolidated Entity.

a. Basis of Consolidation

Controlled entities

Controlled entities are entities controlled by the Company. Control exists when the Company has power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in controlled entities are carried at their cost of acquisition in the Company's financial statements.

Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Basis of Consolidation (continued)

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

Business combinations

All transaction costs incurred in relation to business combinations are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment. Negative goodwill arising on an acquisition is recognised directly in the statement of profit or loss and other comprehensive income.

b. Income Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

Sales revenue

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products. Revenue from the sale of goods is recognised upon dispatch of goods to customers.

Other income

Other income is recognised on a systematic basis over the periods necessary to match it with the related costs for which it is intended to compensate or, if the costs have already been incurred, in the period in which it becomes receivable. The income is deemed to be receivable when the entitlement is confirmed. Dividend income from subsidiaries is recognised by the parent when the dividends are declared by the subsidiary.

c. Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the relevant taxation authority are classified as operating cash flows.

d. Foreign Currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of controlled entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary transactions denominated in foreign currencies that are stated at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rates ruling at the date the fair value was determined. Foreign exchange differences arising on translation are recognised in the statement of profit or loss and other comprehensive income.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Foreign Currency (continued)

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, generally are translated to the functional currency at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to the functional currency at rates approximating the foreign exchange rates ruling at the dates of transactions. Foreign currency differences arising from translation of controlled entities with a different functional currency to that of the Consolidated Entity are recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount of its FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

e. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

f. Financial Instruments

Derivative Financial Instruments

The Consolidated Entity does not currently hold, but held in the previous year, derivative financial instruments to hedge its exposure to foreign exchange risk arising from operating, investing and financing activities. In accordance with its treasury policy, the Consolidated Entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives are not hedge accounted and are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Attributable transaction costs are recognised in the statement of profit or loss and other comprehensive income when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value with changes in fair value accounted for in the statement of profit or loss and other comprehensive income.

Non-derivative financial assets and liabilities

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the statement of profit or loss and other comprehensive income, any attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Accounting for finance income is discussed in accounting policy (o).

Determination of fair values

The fair value of forward exchange contracts is based upon the listed market price, if available. If a listed market price is not available, the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate based upon government bonds.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any impairment losses.

g. Provisions

A provision is recognised in the balance sheet when the Consolidated Entity has a present legal or constructive obligation as a result of a past event that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Warranties

Provisions for warranty claims are made for claims in relation to sales made prior to the reporting date, based on historical claim rate, respective product populations and average costs of returns and repairs. Warranty periods on MAS devices are dependent on individual market and regulatory conditions in different countries.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Provisions (continued)

Make good lease costs

The Consolidated Entity has an operating lease over its premises that require the premises to be returned to the lessor in its original condition. The operating lease payments do not include an element for the repairs/overhauls. A provision for make good lease costs is recognised at the time it is determined that it is probable that such costs will be incurred in a future period, measured at the expected cost of returning the asset to the lessor in its original condition. An offsetting asset of the same value is also recognised and is classified in property, plant and equipment. This asset is amortised to the statement of profit or loss and other comprehensive income over the life of the lease.

Research and development expenditure

Research and development expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project.

Other intangible assets

Intellectual property, acquired is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (h)).

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment annually. The estimated useful lives for the current and comparative periods are as follows:

Patents 10 years

Product development expenditure capitalized 5 years

h. Impairment

The carrying amounts of the Consolidated Entity's assets, other than inventories (see accounting policy (j)) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below). An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss and other comprehensive income of profit or loss unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the statement of profit or loss and other comprehensive income of profit or loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit or a group of units and then, to reduce the carrying amount of the other assets in the unit or a group of units on a pro-rata basis.

Calculation of recoverable amount

Receivables

The recoverable amount of the Consolidated Entity's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date. The allowance for impairment is calculated with reference to the profile of debtors in the Consolidated Entity's sales and marketing regions.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Impairment (continued)

Other Assets

The recoverable amount of other assets is the greater of their fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of the cash flows of other assets or groups of assets (cash generating units). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to the cash generating units that are expected to benefit from the synergies of the combination. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversals of Impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i. Property, Plant and Equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (h)). An asset's cost is determined as the consideration provided plus incidental costs directly attributable to the acquisition. Subsequent costs in relation to replacing a part of property, plant and equipment are recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Consolidated Entity and its cost can be measured reliably. All other costs are recognised in the statement of profit or loss and other comprehensive income as incurred.

Leased assets - Operating leases

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property. Minimum lease payments include fixed rate increases.

Depreciation

Depreciation is recognised in the statement of profit or loss on a straight-line basis. Items of property, plant and equipment, including leasehold assets, are depreciated using the straight-line method over their estimated useful lives, taking into account estimated residual values. Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation rates and methods, useful lives and residual values are reviewed at each balance sheet date. When changes are made, adjustments are reflected prospectively in current and future financial periods only.

The estimated useful lives in the current and comparative periods are as follows:

Leasehold improvements	1 – 3 years
Plant & equipment	3 – 20 years

j. Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and selling, marketing and distribution expenses. Cost is based on the first-in-first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

k. Employee Benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave expected to settle within 12 months of the year end represent present obligations resulting from employees' services provided up to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Employee Benefits (continued)

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share based payments

The Company has granted options to certain directors and employees. The fair value of options and shares granted is recognised as a share and option expense with a corresponding increase in equity. The fair value is measured at the date the options or shares are granted taking into account market based criteria and expensed over the vesting period after which the employees become unconditionally entitled to the options and shares. The fair value of the options granted is measured using the Black-Scholes method, taking into account the terms and conditions attached to the options. The fair value of the performance shares granted is measured using the weighted average share price of ordinary shares in the Company, taking into account the terms and conditions attached to the shares. The amount recognised as an expense is adjusted to reflect the actual number of options and shares that vest except where forfeiture is due to market related conditions.

l. Receivables

Trade and other receivables are stated at amortised cost less impairment losses (see accounting policy (h)).

m. Taxation

Income tax expense in the statement of profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of goodwill and other assets or liabilities in a transaction that affects neither accounting nor taxable profit or differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based upon the laws that have been enacted at reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on a different tax entity but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

n. Payables

Trade and other payables are stated at amortised cost.

o. Finance income and expense

Interest income is recognised as it accrues in the statement of profit or loss using effective interest method.

p. Earnings per share

The Consolidated Entity presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss attributable to equity holders of the parent for the financial period, after excluding any costs of servicing equity (other than ordinary shares) by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated using the basic EPS earnings as the numerator. The weighted average number of shares used as the denominator is adjusted by the after-tax effect of financing costs associated with the dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares adjusted for any bonus issue.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Segment Reporting - Determination and presentation of operating segments

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.

r. Share Capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any income tax benefit.

s. New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Consolidated Entity for the annual reporting period ended 30 June 2014. The Consolidated Entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Consolidated Entity, are set out below.

Certain new accounting standards, amendments to accounting standards and interpretations are effective for the financial years beginning after 1 July 2013, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Consolidated Entity except for AASB 9 Financial Instruments, which becomes mandatory for the Consolidated Entity's 2016 consolidated financial statements and AASB 13 – Fair Value Measurement, which becomes mandatory for the Consolidated Entity's 2014 financial statements. The Consolidated Entity does not plan to adopt this standard early and the extent of the impact has not been determined.

Annual Improvements to IFRSs 2010-2012 Cycle

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity. The adoption of these amendments from 1 July 2014 will not have a material impact on the Consolidated Entity.

IFRS 15 – Revenue from contracts with customers

An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue. This is applicable for annual reporting periods beginning on or after 1 January 2017. Due to the recent release of this standard, the entity has not yet made a detailed assessment of the impact of this standard.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

t. 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 10 Consolidated Financial Statements

The Consolidated Entity has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns 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 that give it the current ability to direct the activities that significantly affect the investee's returns. 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 12 Disclosure of Interests in Other Entities

The Consolidated Entity has applied AASB 12 from 1 July 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

The Consolidated Entity has applied AASB 13 and its consequential amendments from 1 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

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 July 2013. The standard 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.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement

The Consolidated Entity has applied 2011-4 from 1 July 2013, which amends AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No.1) now specify the KMP disclosure requirements to be included within the directors' report.

u. Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

v. Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Fair value measurement hierarchy

The Consolidated Entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

4. FINANCIAL RISK MANAGEMENT

Overview

The Company and Consolidated Entity have exposure to the following risks from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's and the Consolidated Entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the risk management and monitors operational and financial risk management throughout the Consolidated Entity. Monitoring risk management includes ensuring appropriate policies and procedures are published and adhered to. The Management reports to the Audit Committee.

The Board aims to manage the impact of short-term fluctuations on the Company's and the Consolidated Entity's earnings. Over the longer term, permanent changes in market rates will have an impact on earnings.

The Company and the Consolidated Entity are exposed to risks from movements in exchange rates and interest rates that affect revenues, expenses, assets, liabilities and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities.

Exposure to credit, foreign exchange and interest rate risks arises in the normal course of the Company's and the Consolidated Entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates.

The Audit Committee oversees adequacy of the Company's risk management framework in relation to the risks faced by the Company and the Consolidated Entity.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

4. FINANCIAL RISK MANAGEMENT (continued)

Overview (continued)

Credit Risk

Credit risk is the risk of financial loss to the Company or the Consolidated Entity if a customer, controlled entity or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's and the Consolidated Entity's receivables from customers.

Trade and other receivables

The Company's and Consolidated Entity's exposure to credit risk is influenced mainly by the geographical location and characteristics of individual customers. The Consolidated Entity does not have a significant concentration of credit risk with a single customer.

Policies and procedures of credit management and administration of receivables are established and executed at a regional level. Individual regions deliver reports to management and the Board on debtor ageing and collection activities on a monthly basis.

In monitoring customer credit risk, the ageing profile of total receivables balances is reviewed by management by geographic region on a monthly basis. Regional management are responsible for identifying high risk customers and placing restrictions on future trading, including suspending future shipments and administering dispatches on a prepayment basis.

The Company and the Consolidated Entity have established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables.

Liquidity Risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

The Consolidated Entity monitors cash flow requirements and produces cash flow projections for the short and long term with a view to optimising return on investments. Typically, the Consolidated Entity ensures that it has sufficient cash on demand to meet expected operational net cash flows for a period of at least 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's and the Consolidated Entity's net profit or loss or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency Risk

The Consolidated Entity is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the controlled entities, primarily Australian dollars (AUD), but also United States dollars (USD), Euros (EUR), Swiss francs (CHF), Singapore dollar (SGD) and Japanese Yen (JPY). The currencies in which these transactions primarily are denominated are AUD, USD, EUR, CHF, SGD, JPY and Philippine Peso (PHP) and Korean Won (KRW).

Over 89% (2013-87%) of the Consolidated Entity's revenues and over 82% (2013-76%) of costs are denominated in currencies other than AUD. Risk resulting from the translation of assets and liabilities of foreign operations into the Consolidated Entity's reporting currency is not hedged.

Interest Rate Risk

The Consolidated Entity is exposed to interest rate risks in Australia.

Capital Management

The Consolidated Entity's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns to shareholders, to provide benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Board aims to maintain and develop a capital base appropriate to the Consolidated Entity. In order to maintain or adjust the capital structure, the Consolidated Entity can issue new shares. The Board of Directors undertakes periodic reviews of the Consolidated Entity's capital management position to assess whether the capital management structure is appropriate to meet the Consolidated Entity's medium and long-term strategic requirements. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements. There were no significant changes in the Consolidated Entity's approach to capital management during the year.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	2014 \$	2013 \$
5. REVENUE			
Interest received - other persons		26,438	92,819
Revenue from sale of goods, net of discounts		25,894,846	18,488,871
		25,921,284	18,581,690
6. PROFIT FOR THE YEAR			
Profit for the year is after charging:			
Operating lease rentals		730,961	569,117
Employee benefits expense		10,867,668	7,022,050
Depreciation		438,555	374,654
Amortisation of intellectual property		171,102	128,629
Research and development expenditure		555,808	502,223
7. INCOME TAX EXPENSE			
a. The components of tax expense comprise:			
Current tax		(318,546)	(290,692)
Deferred tax	7e	303,011	680,380
		(15,535)	389,688
b. The prima facie tax on profit before income tax is reconciled to the income tax (expense)/benefit as follows:			
Prima facie income tax expense calculated using the Australian tax rate of 30% (2013: 30%)		(69,147)	(94,496)
Increase/(decrease) in income tax expense due to non-deductible/(assessable) and other items		(249,399)	(184,632)
Deferred tax asset due to tax losses and temporary differences		303,011	668,816
Income tax (expense)/benefit		(15,535)	389,688
c. Deferred tax assets not brought to account			
Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 3(m) occur			
Tax losses		2,182,084	2,382,748
Temporary differences		469,386	1,837,059
d. Deferred tax assets			
Recognised deferred tax assets			
Plant and equipment		(109,075)	17,705
Accruals		219,932	148,226
Provisions		54,119	33,379
Other			
Tax loss carry-forwards		2,229,641	1,956,705
Deferred tax assets		2,394,617	2,156,015
e. Movement in temporary differences during the year			
Carrying amount at beginning of financial year		2,156,015	1,181,726
Recognised in the statement of profit or loss and other comprehensive income	7a	303,011	680,380
Foreign exchange adjustment		(64,409)	293,909
Carrying amount at end of financial year		2,394,617	2,156,015

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	2014 \$	2013 \$
8. CASH AND CASH EQUIVALENTS			
Cash at bank and on deposit and money market securities		2,944,888	4,221,299
		2,944,888	4,221,299

9. TRADE AND OTHER RECEIVABLES

Current

Trade Debtors		4,494,650	4,185,526
Less provision for doubtful debts		(148,283)	(268,258)
		4,346,367	3,917,268
Other debtors		1,148,861	466,012
		5,495,228	4,383,280

Current amounts are not interest bearing and are normally settled within 40 to 80 days.

10. INVENTORY

Raw materials and consumables		964,984	854,169

11. INVESTMENT IN ASSOCIATED COMPANY

Interests were held in the following associated company

Name	Principal Activities	Country of Incorporation	Ownership Interest		Carrying amount of Investment (Note 11(a))	
			2014 %	2013 %	2014 \$	2013 \$
SMH Biomaterial AG	Material manufacturer	Switzerland**	-	50	-	223,396

		2014 \$	2013 \$
--	--	------------	------------

a. Movements During the Year in Equity Accounted Investment in Associated Company

Balance at beginning of the financial year			223,396	159,795
Share of associated company's profit after income tax	11b		-	63,601
Effect of control of SMH Biomaterial AG			(223,396)	-
Balance at end of the financial year			-	223,396

b. Equity accounted profit of associate is broken down as follows:

Share of associate's profit before income tax expense			-	72,049
Share of associate's income tax expense			-	(8,448)
Share of associate's profit after income tax			-	63,601

**SMH Biomaterial AG has been accounted for as a Controlled Entity from 1st July 2013. Refer Note 20 (c).

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

11. INVESTMENT IN ASSOCIATED COMPANY (continued)	2014	2013
	\$	\$
c. Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associated Company		
Current assets	-	549,308
Non-current assets	-	86,581
Total assets	-	635,889
Current liabilities	-	47,494
Non-current liabilities	-	-
Total liabilities	-	47,494
Net assets	-	588,395
Revenues	-	355,331
Profit after income tax of associated company	-	127,205

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment -at cost	3,721,814	3,201,942
Accumulated depreciation	(2,471,290)	(2,047,153)
	1,250,524	1,154,789
Movements in the carrying amounts of plant and equipment during the current financial year:		
Balance at the beginning of the year	1,154,789	1,068,831
Additions	600,986	411,433
Disposals	(22,619)	(14,531)
Depreciation expense	(438,555)	(374,654)
Effect of movements in foreign exchange	(44,077)	63,710
Carrying amount at the end of the year	1,250,524	1,154,789

Included in property, plant and equipment are capitalised lease incentives of \$360,620 (2013: \$363,755). Lease incentives are recognised as an asset and a liability in the financial statements and amortised over the term of the lease.

13. INTANGIBLE ASSETS

Patents and trademarks – at cost	629,942	519,620
Accumulated amortisation	(539,928)	(443,826)
	90,014	75,794
Product development expenditure capitalised	464,065	453,692
Accumulated amortisation	(151,669)	(76,669)
	312,396	377,023
Goodwill on consolidation*	5,689,979	4,856,310
	6,092,389	5,309,127

*Goodwill on consolidation is translated at 30th June 2014 closing exchange rate, which differs to the goodwill calculations in Note 20 (b) as those calculations used the exchange rate on the date of acquisition.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

13. INTANGIBLE ASSETS (continued)	2014	2013
	\$	\$
Movements in Patents and Trademarks		
Balance at beginning of year	75,794	127,754
Additions	110,322	-
Amortisation expense	(96,102)	(51,960)
Balance at end of year	<u>90,014</u>	<u>75,794</u>

Movements in product development expenditure capitalised

Balance at beginning of year	377,023	353,419
Additions	10,373	100,273
Amortisation expense	(75,000)	(76,669)
Balance at end of year	<u>312,396</u>	<u>377,023</u>

Movements in Goodwill

Balance at beginning of year	2,665,223	1,321,190
Goodwill arising on the acquisition of Orthosom business	-	567,819
Goodwill arising on the acquisition of MAS Nordic business	-	466,628
Goodwill arising on the acquisition of Orthosleep 19 GmbH	580,634	-
Goodwill arising on the acquisition of intangible assets in South Korea market	175,000	-
Goodwill arising on the prior period adjustment in relation to the acquisition of Goedegebuure Slaaptechniek B.V.	2,233,420	2,191,087
Foreign currency translation difference	35,702	309,586
Balance at end of year	<u>5,689,979</u>	<u>4,856,310</u>

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the consolidated statement of profit or loss and other comprehensive income. Goodwill has an indefinite useful life.

Goodwill is allocated to cash generating units, which are based on the Group's geographic reporting segments.

Asia Pacific Segment	175,000	-
European Segment	5,514,979	4,856,310

Impairment Test

The recoverable amount of the Consolidated Entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 5 year projection period approved by management.

Based on the above, the recoverable amount of the Asia Pacific division exceeded the carrying amount by \$86,000.

Based on the above, the recoverable amount of the European division exceeded the carrying amount by \$24,200,000.

The European cash generating unit (CGU) has a revenue growth per annum range of between 13% and 46% due to the differing stages of development these various markets are in. More established markets are experiencing lower growth rates than those in their infancy and considered to still be developing when it comes to Sleep Disordered Breathing treatment. The average growth of total costs per annum ranges between 12% and 19% due to the differing costs of business in different European markets. A similar range (7%-16%) is seen for the average growth of operating costs per annum. The average discount rate used was 5% which is the 1-5 year business loan rate used in the Euro region. Based on the above, no impairment has been applied as the carrying amount of goodwill didn't exceed its recoverable amount for the European business segment.

Goodwill due to acquisition of intangible assets in South Korea is \$175,000, representing 3 per cent of total goodwill at 30 June 2014. The growth of revenue and expenses is expected to be 50% and 30% per annum with a discount rate of 16% applied in the valuation. The impairment test indicated that no impairments were required.

Sensitivity

(a) Revenue would need to decrease by 8-45% for different CGUs before goodwill would need to be impaired, with all other assumptions remaining constant.

(b) The discount rate would be required to increase by 18-125% for the different CGUs before goodwill would need to be impaired, with all other assumptions remaining constant.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

14. TRADE AND OTHER PAYABLES	2014	2013
	\$	\$
CURRENT		
Trade creditors, other payables and accruals	3,045,745	3,077,417
Income received in advance	102,279	240,979
Deferred rent	176,939	190,468
Forward exchange contract	-	29,893
	<u>3,324,963</u>	<u>3,538,757</u>
All amounts are not interest bearing and are normally settled on 45 day terms		
NON CURRENT		
Other creditors	<u>131,795</u>	<u>123,992</u>

15. PROVISIONS

CURRENT		
Warranty	126,408	102,972
Lease make good	67,212	67,212
Employee entitlements	<u>409,600</u>	<u>387,973</u>
	<u>603,220</u>	<u>558,157</u>
CURRENT		
Income tax	<u>222,452</u>	<u>302,503</u>

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Consolidated Entity does not have an unconditional right to defer settlement. However, based on past experience, the Consolidated Entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

Employee benefits obligation expected to be settled after 12 months	<u>80,574</u>	<u>77,595</u>
NON CURRENT		
Employee entitlements	<u>59,856</u>	<u>14,857</u>

Movements in Provisions

2014	Warranty	Lease make good	Employee entitlement
	\$	\$	\$
Balance at the beginning of the year	102,972	67,212	387,973
Additional provisions recognised	253,576	-	382,840
Amounts used	(140,678)	-	(359,756)
Forward exchange contract	(2,999)	-	(1,457)
Unused amounts reversed	(86,463)	-	-
Balance at end of year	<u>126,408</u>	<u>67,212</u>	<u>409,600</u>

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

16. ISSUED CAPITAL	2014	2013
	\$	\$
Issued and fully paid ordinary shares		
44,856,380 (2013- 42,287,839) ordinary shares		
Balance of issued capital at the beginning of year	26,620,972	25,700,829
Shares issued during period:		
- 72,500 pursuant to exercise of options at 58 cents on 2 October 2012	-	42,050
- 132,500 pursuant to exercise of options at 58 cents on 26 October 2012	-	76,850
- 165,000 pursuant to executive share plan at 79 cents on 26 October 2012	-	130,350
- 260,000 pursuant to exercise of options at 58 cents on 11 September 2012	-	150,800
- 464,395 pursuant to issue of shares at 80.23 cents on 6 December 2012	-	372,600
- 175,024 pursuant to exercise of options at 84.27 cents on 4 January 2013	-	147,493
- 99,157 pursuant to issue of shares at 94.27 cents on 17 July 2013	93,475	-
- 60,000 pursuant to exercise of options on 4 October 2013	59,400	-
- 1,017,000 pursuant to issue of shares at \$1.18 on 13 November 2013	1,200,060	-
- 125,000 pursuant to exercise of options \$1.03 on 13 November 2013	128,750	-
- 40,000 pursuant to exercise of options at \$1.37 on 13 November 2013	54,800	-
- 94,580 pursuant to acquisition of subsidiary at \$1.05731 on 13 November 2013	100,000	-
- 132,804 pursuant to acquisition of subsidiary at \$1.506335 on 5 May 2014	200,047	-
Balance of issued capital at end of year	28,457,504	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)
- 182,500 (2013: 190,000) shares issued at 58 cents	(105,850)	(110,200)
- 60,000 shares issued at 99 cents	(59,400)	-
- 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)	-
Total advances to executives to acquire shares in the Company	(1,992,610)	(553,950)
Issued share capital recorded in the Company accounts	26,464,894	26,067,022

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

At 30 June 2014 there were 2,704,500 (2013: 1,535,000) unissued ordinary shares for which options were outstanding (including 1,899,500 (2013: 665,000) issued ordinary shares which are treated as options in these accounts).

Capital Risk Management

The Consolidated Entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Consolidated Entity may issue new shares, return capital to shareholders, sell assets or commence the payment of dividends to shareholders.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

17. RESERVES	2014	2013
	\$	\$
Share based payment reserve	1,796,461	1,671,458
Foreign currency translation reserve	578,290	760,421
Capital reserve	28,173	-
	2,402,924	2,431,879

The share based payment reserve records the fair value of share based payments as remuneration.

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries.

The capital reserve records profits which will be distributed back to investors in SMH Biomaterial AG, an entity which SomnoMed Ltd owns 100%.

18. REMUNERATION OF AUDITORS

Remuneration of the Company's auditors for:

Auditing or reviewing the financial report (Stirling)	-	43,000
Auditing or reviewing the financial report (BDO)	51,000	-
Other services (taxation)	-	3,000
Remuneration of other auditors for auditing or reviewing the financial reports of subsidiaries paid to BDO Network firms	99,000	86,268
Total auditors' remuneration included in operating result	150,000	132,268

19. SEGMENT OPERATIONS

Primary Reporting – Business Segments

The Consolidated Entity produces and sells devices for the oral treatment of sleep related disorders primarily in the Asia Pacific region, the United States and Europe.

The Consolidated Entity has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Consolidated Entity is managed primarily on the basis of geographical segments and the operating segments are therefore determined on the same basis.

SomnoMed's operations during the period related to the production and sale of products treating sleep disorder breathing, which is the only business segment.

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 decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the 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 to be directly attributable to the operations of any segment:

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

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

19. SEGMENT OPERATIONS (continued)

Secondary Reporting – Geographical Segments

Geographic location:	Asia Pacific	USA	Europe	Total
2014	\$	\$	\$	\$
External sales revenue	3,103,179	11,029,038	11,762,629	25,894,846
Segment net profit before interest and tax	531,888	541,559	1,567,992	2,641,439
Unallocated expense items				(2,424,638)
Interest received				26,438
Interest paid				(12,748)
Profit before tax				230,491
Income tax expense				(15,535)
Profit after tax				214,956

Geographic location:	Asia Pacific	USA	Europe	Total
2013	\$	\$	\$	\$
External sales revenue	2,630,412	9,705,124	6,153,335	18,488,871
Segment net profit before interest and tax	447,184	1,381,542	520,445	2,349,171
Unallocated expense items				(2,127,003)
Interest received				92,819
Profit before tax				314,987
Income tax benefit				389,688
Profit after tax				704,675

20. PARTICULARS RELATING TO CONTROLLED AND ASSOCIATED ENTITIES

(a) Details of controlled entities are reflected below

Company	Country of Incorporation	Interest %	
		2014	2013
SomnoMed Limited	Australia		
Entities controlled by SomnoMed Limited			
SomCentre Pty Limited	Australia	100%	100%
SomnoMed Inc.	USA	100%	100%
SomnoDent Pty Limited	Australia	100%	100%
SomnoMed Pte Ltd	Singapore	100%	100%
SomnoMed AG	Switzerland	100%	100%
SomnoMed Corporation Japan	Japan	100%	100%
SomnoMed Nordic AB	Sweden	100%	100%
SomnoMed Philippines Inc.	Philippines	100%	100%
SomnoMed Netherlands BV	Netherlands	100%	100%
SomnoMed France	France	65%	65%
Goedegebuure Slaaptechniek BV*	Netherlands	62.5%	50%
SomnoMed Germany GmbH	Germany	100%	100%
SMH Biomaterial AG**	Switzerland	50%	-
SomnoMed Korea	South Korea	100%	-

* Restated - refer Note 32

** Refer Note 20(c) on SMH Biomaterial AG acquisition

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

20. PARTICULARS RELATING TO CONTROLLED AND ASSOCIATED ENTITIES (continued)

(b) 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 payable.

	EUR €	AUD \$
Purchase consideration		
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. Additional contingent consideration may be payable in 2 annual tranches dependent on the achievement of certain sales volume and profitability targets. The second and third tranche of consideration is linked to the results of sales achieved with key Orthosleep customers in the financial year 2013/14 and 2014/15 and may be payable through the issue of shares in SomnoMed in equal parcels, on the first and second anniversary of the acquisition. Shares will be issued at the weighted average market price during the three months preceding the issue.

(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

(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

Additional consideration may be payable to the vendors, subject to certain conditions, as described in Note 27.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

20. PARTICULARS RELATING TO CONTROLLED AND ASSOCIATED ENTITIES (continued)

(c) SMH Biomaterial AG is jointly owned by SomnoMed Limited (50%) and Mr Konrad Hofmann (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 Hofmann 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	(17,097,069)	170,890
Effect of control of SMH	53,062	184,576	299,370
Balance at 1 July 2013	2,484,941	(16,912,493)	470,260

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.

(d) In November 2013 SomnoMed acquired various intangible assets enabling it to sell SomnoDent[®] MAS devices in the South Korean market, including registration approvals, customer information and marketing materials. The total consideration of \$175,000 was paid as a combination of cash and shares. No tangible assets were acquired and therefore the entire consideration has been treated as goodwill.

(e) Contingent Consideration Payable	2014	2013
	\$	\$
Current	585,475	382,485
Non-current	1,645,167	1,808,602

The above mentioned amounts of contingent consideration payable relate to the acquisitions of Goedegebuure Slaaptechniek B.V. (refer Note 32) and Orthosleep 19 (refer Note 20(b) (i)).

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

21. RECONCILIATION OF CASH **2014**
\$ **2013**
\$

Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

Cash at bank and on deposit and money market securities	2,944,888	4,221,299
	2,944,888	4,221,299

22. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

Profit after income tax	214,956	704,675
Share and option expense	125,003	88,183
Share of associate company profit	-	(63,601)
Net exchange differences	81,417	45,933
Depreciation and amortization	609,657	503,283
Change in operating assets and liabilities		
(Increase)/Decrease in inventories	(44,214)	(217,702)
(Increase)/Decrease in receivables	(975,382)	(384,108)
Increase/(Decrease) in other payables	(510,466)	349,976
Increase/(Decrease) in provisions	11,631	184,252
(Increase)/Decrease in deferred tax assets	(303,011)	(638,890)
Net cash inflow/(outflow) from operating activities	(790,409)	572,001

23. EARNINGS PER SHARE

The following reflects the profit and share data used in the calculations of basic and diluted earnings per share.

	2014	2013
Net profit used in calculating basic and diluted earnings per share	\$405,861	\$588,793
Basic profit per share (cents per share)	0.95	1.39
Diluted profit per share (cents per share)	0.92	1.39
Weighted average number of shares used in the calculation of diluted earnings per share	44,224,907	42,402,661
Weighted average number of shares used in the calculation of basic earnings per share	42,796,729	42,269,254
Shares on issue at year end per accounts (refer Note 16)	44,138,880	42,622,839
Number of options on issue at year end(including shares treated as options-refer Note 16) – each option is exercisable at between 87 cents and \$1.23 per share and converts to one ordinary share	805,000	1,535,000

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
	\$	\$
24. CAPITAL AND LEASING COMMITMENTS		
Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable		
— not later than 1 year	748,406	559,013
— later than 1 year but not later than 5 years	1,073,657	1,293,841
— later than 5 years	71,857	237,725
	1,893,920	2,090,579

Included in the operating lease commitments are non-cancellable property leases with terms of between two years and five years. All leases have rent payable monthly in advance. Contingent rental provisions within the lease agreements require the minimum lease payments shall be increased by between nil % and 3.75% per annum. No option exists to renew the leases at the end of the terms, except for the lease in Frisco, Dallas, which allows an option to extend the lease term by a further 5 years.

The leases allow for subletting of all lease areas.

25. SHARE BASED PAYMENTS

	2014	2013
	#	#
(a) Movements in the number of share options held by employees are:		
Opening balance	1,310,000	1,660,000
Granted during the year	-	550,000
Exercised during the year	(225,000)	(465,000)
Shares issued and treated as options in these accounts (refer Note 16)	1,242,000	355,000
Shares issued and treated as options in previous accounts now treated as shares (refer Note 16)	(7,500)	-
Lapsed during the year	(40,000)	(790,000)
Closing Balance	2,279,500	1,310,000

(b) Details of employee share options outstanding as at end of year:

Grant Date	Expiry and Exercise Date	Exercise Price		
3 September 2010	30 September 2012 30 September 2013	\$0.99	-	60,000
1 October 2010	31 October 2012 31 October 2013	\$1.03	-	125,000
31 October 2011	1 October 2013 30 October 2013	\$1.37	-	50,000
21 November 2012	5 November 2014 5 November 2015	\$0.92	200,000	200,000
26 October 2012	1 October 2014 31 October 2015	\$0.87	180,000	210,000
Shares treated as options in accounts (refer Note 16)			1,899,500	665,000
			2,279,500	1,310,000

Options granted to employees hold no voting or dividend rights and are not transferable.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

25. SHARE BASED PAYMENTS (continued)

(c) Options

The options and shares issued under the Employee Share and Option plan outstanding at 30 June 2014 had a weighted average exercise price of \$0.97 (2013: \$0.89) and a weighted average remaining contractual life of 1.59 years (2013: 1.23 years). Exercise prices range from \$0.87 to \$1.23 in respect of options outstanding at 30 June 2014 (2013: \$0.58 to \$1.37 range).

The weighted average fair value of the options granted during the year was \$0.5213 (2013: \$0.2778).

	2014	2013
Weighted average exercise price	\$1.1882	\$0.8857
Weighted average life of the option	4.038 years	3.00 years
Underlying share price between	\$1.18-\$1.23	\$0.87-\$0.92
Expected share price volatility	49.00	50.32
Risk free interest rate	3.49%	3.5%

This price was calculated by using a Black-Scholes option pricing model applying the following inputs:

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future trends, which may not eventuate.

Exercisability of the options has been considered when determining the fair value of the options.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Included under share and option expense in the statement of profit or loss and other comprehensive income is \$125,003 (2013: \$88,183), that relates, in full, to equity-settled share-based payment transactions.

(d) Shareholdings and Options and Rights Holdings held by Key Management Personnel, including options held in associated entities.

Please refer to the pages 11 to15 of the Remuneration Report.

(e) Share based payments

There were no other share-based payment arrangements in the year to 30 June 2014, other than shares and options issued to directors and executives pursuant to the Company's Executive Share and Option Plan as detailed in the Remuneration Report.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

26. EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year, the directors are not aware of any matter that has significantly affected or may significantly affect the operations of the Company in subsequent financial years other than as set out below:-

On 8th August 2014 the Company issued 3.430 million shares by way of a placement at an issue price of \$1.50 per share. In July 2014, subject to shareholder approval being obtained at the Company's 2014 AGM, entities associated with the Chairman and other Directors of the Company have committed to subscribe for a total of 270,000 shares at an issue price of \$1.50 per share. A total of 1 million shares were issued on 22nd August 2014 at \$1.50 per share, pursuant to a Share Purchase Plan offer made in July 2014. The total funds raised from the above-mentioned issues of approximately \$7 million will be utilised to provide the Company with sufficient resources to enable it to double its plant capacity and fund working capital for increased revenues in existing markets, as well as fund working capital and operational activities in new markets.

27. CONTINGENT LIABILITIES AND COMMITMENTS

As at 30 June 2014 no contingent liabilities or capital commitments existed, other than pursuant to acquiring the MAS Nordic business in January 2013 and 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.

28. RELATED PARTY DISCLOSURES

Related party transactions fall into the following categories:

(a) Controlled entities

Interests in controlled entities are disclosed in Note 20. The Company engages in transactions with its controlled entities, which are in ordinary course of business at arm's length on a transfer pricing basis.

	2014	2013
	\$	\$
The aggregate amount included in the profit before income tax for the Company that resulted from transactions with non-director related parties are:		
License fees	-	2,612,915
Revenue from provision of services	1,247,988	545,179
Interest income	231,313	152,889
The aggregate amounts receivable from wholly-owned controlled entities by the Company at the reporting date are:		
Current receivables	13,820,933	14,041,496
Less impairment	(548,593)	(5,292,253)
	13,272,340	8,749,243

(b) Director related entities

During the year consultancy fees of \$370,000 (2013: \$190,000) were paid/are payable to Belgove Pty Limited, a company associated with Dr Neustadt and consultancy fees of \$54,500 (2013: \$54,500) were paid to Leedoc Pty Limited, a company associated with Ms Ausburn (as per Director's remuneration).

(c) Transactions in securities of the Company

During the year directors or entities related to directors acquired under normal commercial terms shares or options in the Company as detailed in Note 25. Directors acquired these shares or options through the public offering, direct issue or on-market purchase.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

28. RELATED PARTY DISCLOSURES (continued)

	2014	2013
	\$	\$
(d) Loans to key management personnel		
Balance beginning of the year	521,000	488,200
Loans advanced	49,500	220,000
Loans repaid	-	(187,200)
Interest charged – advance	-	40,623
Interest received	-	(40,623)
Balance end of the year	570,500	521,000

The highest amount of indebtedness during the reporting period for each key management personnel who received the loans:

Neil Verdall-Austin	375,500	375,500
Christopher Bedford	195,000	145,500

Non-recourse advances to executives to acquire shares issued in the Company are not recorded in the Company's accounts and these shares are treated as options in these accounts in accordance with the Company's accounting policies and Australian Accounting Standards (Note 3(r)). The total of such loans is reflected in Note 16. These loans are repayable the earlier of two years from the provision of the advances and the date the borrower ceases to be the legal owner of the shares.

29. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Names and positions held of Consolidated Entity and Company Key Management Personnel in office at any time during the financial year are:

Key Management Person

Peter Neustadt	Executive Chairman and CEO
Lee Ausburn	Director — Non-Executive
Robert Scherini	Director — Non-Executive
Kien Nguyen	President SomnoMed Inc.
Neil Verdall-Austin	Chief Financial Officer and Executive Vice President Asia Pacific
Christopher Bedford	Vice President – Global Production and Product Development
Martin Weiland	Vice President – Marketing and Sales Europe

(b) Compensation Practices and Key Management Personnel Compensation

Details of compensation practices and key management personnel compensation are disclosed in the Directors' Report, which accompanies these financial statements.

Details of management personnel compensation shares and options are disclosed in Note 25.

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Consolidated Entity is set out below:

Short-term employee benefits	1,781,707	997,698
Post-employment benefits	41,587	183,611
Other	8,228	-
Share-based payments	88,124	58,878
	1,919,646	1,240,187

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

30. FINANCIAL INSTRUMENTS

Credit Risk

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2014	2013
	\$	\$
Cash and equivalents	2,944,888	4,221,299
Trade receivables	4,346,367	3,917,268
Other receivables - current	830,974	258,654
	<u>8,122,229</u>	<u>8,397,221</u>

The maximum exposure to credit risk for trade and related party receivables at the reporting date by geographic region was:

United States	1,576,554	1,528,398
Europe	2,428,195	2,102,331
Asia Pacific	341,618	286,539
	<u>4,346,367</u>	<u>3,917,268</u>

Impairment Losses

The ageing of the trade receivables at the reporting date was:

Gross receivables

Past due 0 – 30	3,650,158	2,758,874
Past due 31 – 60	201,304	359,108
Past due 60 – 90	92,775	212,383
Past due 90 days and over	550,413	684,270
	<u>4,494,650</u>	<u>4,014,635</u>
Impairment	(148,283)	(97,367)
Trade receivables net of impairment loss	<u>4,346,367</u>	<u>3,917,268</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

Balance at 1 July	(97,367)	(113,279)
Impairment movement	(54,713)	16,680
Exchange effect	3,797	(768)
Balance at 30 June	<u>(148,283)</u>	<u>(97,367)</u>

Impairment losses recognised in the year relate to significant individual customers, which have been assessed as impaired under the Consolidated Entity's accounting policy as detailed in Note 3(h).

Based upon past experience, the Consolidated Entity believes that no impairment allowance other than as provided in these accounts is necessary in respect of trade receivables not past due.

The allowance accounts used in respect of trade receivables are used to record impairment losses unless the Consolidated Entity is satisfied that non recovery of the amount owing is possible; at that point, the amount considered non-recoverable is written off against the financial asset directly.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

30. FINANCIAL INSTRUMENTS (continued)

Currency Risk

Consolidated Entity's exposure to foreign currency risk was as follows, based upon notional amounts:

Amounts local currency	KRW	SGD	PHP	JPY	USD	EUR	CHF	SEK	NOK
2014									
Cash and cash equivalents	29,254	-	140,449	45,666	361,064	1,376,710	334	107,025	170,143
Trade receivables	18,770	-	-	28,807	1,576,554	2,428,195	-	-	-
Trade payables	(3,526)	-	(483,563)	(12,361)	(650,820)	(575,359)	-	-	-
Gross balance sheet exposure	44,498	-	(343,114)	62,112	1,286,798	3,229,546	334	107,025	170,143

Amounts local currency	SGD	PHP	JPY	USD	EUR	CHF	SEK	NOK
2013								
Cash and cash equivalents	1,723	59,587	37,675	1,796,275	1,357,155	4,479	-	-
Trade receivables	-	-	20,309	1,528,398	2,102,331	-	-	-
Trade payables	-	(211,408)	(9,788)	(621,397)	(395,001)	-	-	-
Gross balance sheet exposure	1,723	(151,821)	48,196	2,703,276	3,064,485	4,479	-	-

SomnoMed enters into forward exchange contracts to hedge its exposure to the foreign currencies. The amounts of forward cover taken are in accordance with approved policy and internal forecasts.

The following table sets out the gross value to be received (sell) or paid (buy) under forward exchange contracts and the weighted average contracted exchange rates of outstanding contracts:

	Foreign exchange rates		Gross Value	
	2014	2013	2014	2013
Sell EUR				
Not later than one year	-	-	-	303,841
Weighted average exchange rates contracted	-	0.8228	-	-
Buy EUR				
Not later than one year	-	-	-	333,734
Weighted average exchange rates contracted	-	0.7491	-	-

The following significant exchange rates applied to the Consolidated Entity during the year:

	Average Rate		Reporting date spot rate	
	2014	2013	2014	2013
AUD = 1				
USD	0.9136	1.0215	0.9432	0.9137
EUR	0.6740	0.7878	0.6889	0.7022
JPY	92.15	88.76	95.58	90.62
PHP	40.262	42.372	41.191	39.414
KRW	959.53	-	954.55	-

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

30. FINANCIAL INSTRUMENTS (continued)

Interest Rate Risk

Profile

At the reporting date, the interest rate profile of the Consolidated Entity's interest bearing financial instruments was:

Carrying amount	2014	2013
	\$	\$
Variable rate instruments		
Financial assets	513,345	494,222

The following are the contractual maturities of the Consolidated Entity's financial assets and liabilities including estimated interest payments.

2014	Effective interest rate p.a.	Carrying amount \$	Less than 1 year	1-5 years	More than 5 years
Cash and cash equivalents	0.83%	2,944,888	2,944,888	-	-
Receivables	-	5,177,341	5,177,341	-	-
Payables	-	(2,541,823)	(2,410,028)	(131,795)	-
Total	-	5,580,406	5,712,201	(131,795)	-
2013	Effective interest rate p.a.	Carrying amount \$	Less than 1 year	1-5 years	More than 5 years
Cash and cash equivalents	2.84%	4,221,299	4,221,299	-	-
Receivables	-	4,175,922	4,175,922	-	-
Payables	-	(2,519,384)	(2,395,392)	(123,992)	-
Total	-	5,877,837	6,001,829	(123,992)	-

Fair Values

The fair values of financial assets and liabilities, together with carrying amounts in the balance sheet are as follows:

	2014		2013	
	\$		\$	
Consolidated	Carrying amount	Fair value	Carrying amount	Fair value
Cash and equivalents	2,944,888	2,944,888	4,221,299	4,221,299
Trade and other receivables - current	5,177,341	5,177,341	4,175,922	4,175,922
Financial assets/(liabilities) at fair value through profit or loss:				
- Forward exchange contract	-	-	(29,893)	(29,893)
Trade and other payables - current	(2,410,028)	(2,410,028)	(2,395,392)	(2,395,392)
Trade and other payables - non current	(131,795)	(131,795)	(123,992)	(123,992)
Contingent consideration payable – current	(585,475)	(585,475)	(382,485)	(382,485)
Contingent consideration payable – non current	(1,645,167)	(1,645,167)	(1,808,602)	(1,808,602)
Total	3,349,764	3,349,764	3,656,857	3,656,857

Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Non-derivative financial assets and liabilities

The fair value of cash, receivables, payables and short-term borrowings is considered to approximate their carrying amount because of their short maturity.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

30. FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobvious inputs).

	Level 2	Level 3	Total
30 June 2014			
Derivative financial assets/(liabilities)			
- Forward exchange contracts	-	-	-
Financial liabilities			
- Contingent consideration payable	-	2,230,642	2,230,642
30 June 2013			
Derivative financial assets			
- Forward exchange contracts	(29,893)	-	(29,893)
Financial liabilities			
- Contingent consideration payable	-	2,191,087	2,191,087
30 June 2012			
Derivative financial assets/(liabilities)			
- Forward exchange contracts	20,644	-	20,644
Financial liabilities			
- Contingent consideration payable	-	-	-

There are no other financial instruments carried at fair value or valued using the above criteria.

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

Valuation techniques for fair value measurements categorised within level 2 and level 3

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

The fair value of contingent consideration payable in relation to the Goedegebuure Slaaptechniek B.V. acquisition is based on the value of the additional 12.5% interest acquired in the current year. Contingent consideration in relation to the Orthosleep 19 acquisition has been assessed using current year and budgeted sales volumes and profits.

	2014	2013
Contingent consideration payable		
	\$	\$
Balance at beginning of year	2,191,087	1,987,317
Additional payable recognised	387,091	-
Amount paid	(382,485)	-
Foreign currency translation difference	34,949	203,770
Balance at end of year	2,230,642	2,191,087

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

30. FINANCIAL INSTRUMENTS (continued)

Sensitivity Analysis

In managing interest rate and currency risks, the Consolidated Entity aims to reduce the impact of short-term fluctuations on the Consolidated Entity's earnings. Over the longer term however, permanent changes in foreign exchange and interest rates will have an impact on the result.

For the year ended 30 June 2014, it is estimated that a general increase of one percent in interest rates would have increased the Consolidated Entity's profit after income tax and equity by approximately \$38,000 and for the year ended 30 June 2013 the effect would have been to increase the Consolidated Entity's profit after income tax and equity by approximately \$39,000. A one percent decrease in interest rates would have had the equal but opposite effect on the Consolidated Entity's profit and equity.

It is estimated that a general increase of ten percent in the value of the AUD against other foreign currencies would have decreased the Consolidated Entity's profit for the year ended 30 June 2014, and decrease the Consolidated Entity's equity by approximately \$15,000. For the year ended 30 June 2013 the effect would have been to increase the Consolidated Entity's profit and increase the equity by \$196,000.

It is estimated that a general decrease of ten percent in the value of the AUD against other foreign currencies would have increased the Consolidated Entity's profit for the year ended 30 June 2014, and increase the Consolidated Entity's equity by approximately \$22,000. For the year ended 30 June 2013 the effect would have been to decrease the Consolidated Entity's profit and increase the equity by \$286,000.

31. PARENT ENTITY DISCLOSURES

At and throughout the financial year ended 30 June 2014, the parent company was SomnoMed Limited, which has adopted the accounting policies consistent with those of the Consolidated Entity.

Result of the parent entity	2014	2013
	\$	\$
Net profit*	4,617,511	1,291,006
Other comprehensive income/(loss)	-	-
Total comprehensive income	4,617,511	1,291,006
Financial position of the parent entity at year end		
Current assets	1,345,988	1,274,301
Total assets	16,017,582	11,000,998
Current liabilities	631,895	755,697
Total liabilities	631,895	755,697
Total equity of the parent entity comprising of:		
Issued capital	26,464,894	26,067,022
Share option reserve	1,796,461	1,671,458
Accumulated losses	(12,875,668)	(17,493,179)
Total Equity	15,385,687	10,245,301

Parent entity contingencies

There are no contingent liabilities or future commitments in respect to the Parent Entity.

* The parent company's profit of \$4.6 million in the current year was mainly due to reversal of impairment losses from intercompany loan with European subsidiaries.

SOMNOMED LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

32. PRIOR PERIOD ADJUSTMENT

In January 2012 SomnoMed entered into a contract to acquire the Dutch oral appliance distribution company Goedegebuure Slaaptechniek B.V, with an upfront payment of 50% and the subsequent 50% to be paid over a period of 5 years in four annual portions commencing in April 2014. The price for each of these 12.5% tranches is linked to the future net profits generated by this business in the Netherlands and is payable half in cash and half in shares in SomnoMed Limited.

In prior periods the fair value of contingent consideration in relation to the acquisition of the initial interest in Goedegebuure Slaaptechniek B.V. was not brought to account, due to the difficulty in accurately determining the value of the future consideration payable at the time of acquisition, that consideration being linked to the future profitability of the business acquired. Accordingly, the value of goodwill on acquisition of the investment and the estimated fair value of future consideration payable to the vendor were understated. These amounts have been adjusted in the current period. The line items affected by this change are disclosed below. Earnings per share in these years were not affected, as there was no profit and loss impact as a result of this adjustment.

	<i>Statement of financial position at the beginning of the earliest comparative period</i>			<i>Statement of financial position at the end of the earliest comparative period</i>		
	1 July 2012 as reported	Adjustment	1 July 2012 restated	30 June 2013 as reported	Adjustment	30 June 2013 restated
Extract						
Assets						
Current Assets	7,779,223	-	7,779,223	9,458,748	-	9,458,748
Goodwill	1,321,190	1,987,317	3,308,507	2,665,223	2,191,087	4,856,310
Total Non-Current Assets	4,218,888	1,987,317	6,206,205	6,652,240	2,191,087	8,843,327
Total Assets	11,998,111	1,987,317	13,985,428	16,110,988	2,191,087	18,302,075
Liabilities						
Current Liabilities	(3,379,730)	-	(3,379,730)	(4,399,417)	(382,485)	(4,781,902)
Contingent Consideration	-	(1,987,317)	(1,987,317)	-	(1,808,602)	(1,808,602)
Total Non-Current Liabilities	(12,034)	(1,987,317)	(1,999,351)	(138,849)	(1,808,602)	(1,947,451)
Total Liabilities	(3,391,764)	(1,987,317)	(5,379,081)	(4,538,266)	(2,191,087)	(6,729,353)
Net Assets	8,606,347	-	8,606,347	11,572,722	-	11,572,722
Non-controlling Interests	194,968	(224,886)	(29,918)	611,270	(440,380)	170,890
Accumulated Losses	(18,126,242)	224,886	(17,901,356)	(17,537,449)	440,380	(17,097,069)
Total Equity	8,606,347	-	8,606,347	11,572,722	-	11,572,722

In April 2014, the consideration relating to the acquisition of additional 12.5 percent interest in Goedegebuure Slaaptechniek B.V. was paid bringing its total interest as at 30 June 2014 to 62.5 percent.

*** Goodwill on consolidation is translated at closing exchange rates.***

SOMNOMED LIMITED
ACN 003255221
DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the Consolidated Entity's financial position as at 30 June 2014 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



Dr Peter Neustadt
Executive Chairman and CEO

29th September 2014

INDEPENDENT AUDITOR'S REPORT

To the members of SomnoMed Limited

Report on the Financial Report

We have audited the accompanying financial report of SomnoMed Limited, which comprises the consolidated statement of financial position as at 30 June 2014, 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 year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, 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 report.

Opinion

In our opinion:

- (a) the financial report of SomnoMed Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 15 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of SomnoMed Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership



Grant Saxon
Partner

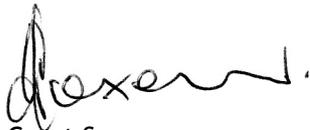
Sydney, 29 September 2014

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

As lead auditor of SomnoMed Limited for the year ended 30 June 2014, 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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



Grant Saxon
Partner

BDO East Coast Partnership

Sydney, 29 September 2014

ADDITIONAL INFORMATION

1. Shareholding

a. Distribution of Shareholders	Shareholders	Shares
Category (size of Holding)		
1-1,000	456	150,313
1,001-5,000	438	1,241,891
5,001-10,000	161	1,257,010
10,001-100,000	284	7,807,260
100,001 and over	51	38,894,292
	1,390	49,350,766

b. The number of shareholdings held in less than marketable parcels is 249

c. The names of the substantial shareholders listed in the holding company's register as at 19 September 2014 are:

Shareholder	Number of Ordinary Shares	Percentage
Dottie Investments Pty Ltd	4,302,779	8.719
TDM Asset Management Pty Ltd & Associates	3,980,160	8.065
Belgove Pty Limited & P Neustadt Holdings Pty Limited	3,502,023	7.096
National Nominees Ltd as Custodian for Australian Ethical Smaller Companies Trust	2,916,321	5.909
Golden Words Pty Ltd and Mr Trevor Kennedy & Mrs Christina Kennedy & Mr Daniel Kennedy <Golden Eggs Super Fund A/C>	2,827,599	5.723

d. Voting Rights

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

e. 20 Largest Shareholders — Ordinary Shares as at 19 September 2014

Name	No. of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. National Nominees Limited	7,180,573	14.550
2. Dottie Investments Pty Ltd	4,302,779	8.719
3. UBS Wealth Management Australia Nominees Pty Ltd	4,006,142	8.118
4. Belgove Pty Limited	3,371,023	6.831
5. HSBC Custody Nominees (Australia) Limited	2,362,428	4.787
6. Golden Words Pty Ltd	2,119,836	4.295
7. Ginga Pty Ltd	1,227,370	2.487
8. Trinity Management Pty Ltd	1,117,000	2.263
9. R E M Medical Pty Ltd <Cocoon Super Fund A/C>	1,017,031	2.061
10. Ms Georgia Quick & Mr Rodney Victor Palmisano <EST Late R G Palmisano A/C>	990,000	2.006
11. J P Morgan Nominees Australia Limited	891,185	1.806
12. Timbina Pty Ltd <Timbina Super A/C>	861,737	1.746
13. Citicorp Nominees Pty Ltd	859,965	1.743
14. Mr Trevor Kennedy & Mrs Christina Kennedy & Mr Daniel Kennedy <Golden Eggs Super Fund A/C>	707,763	1.434
15. Mr Neil Robert Verdall-Austin	610,000	1.236
16. Carnethy Evergreen Pty Ltd <Carnethy Evergreen Fund A/C>	500,160	1.013
17. Orthosom	464,395	0.941
18. RBC Investor Services Australia Nominees Pty Ltd <Bkcust A/C>	400,000	0.811
19. Tunend Pty Ltd	382,000	0.774
20. Mrs Cynthia Anne Batchelor	380,482	0.771
	33,751,869	68.392

CORPORATE DIRECTORY

Registered Office

Level 3
20 Clarke St Crows Nest 2065
Telephone: (02) 9467 0400

Directors

Peter Neustadt	Executive Chairman and CEO
Lee Ausburn	Non-executive Director
Robert Scherini	Non-executive Director

Chief Financial Officer

Neil Verdal-Austin

Company Secretary

Terence Flitcroft

Patent Attorneys

Spruson & Ferguson

Banker

Westpac Banking Corporation

Auditors

BDO East Cost Partnership

Share Registry

Boardroom Pty Limited
SYDNEY NSW 2000
(GPO Box 3993 Sydney NSW 2001)
Telephone (02) 9290 9600
Facsimile (02) 9279 0664
www.boardroomlimited.com.au

Company Website

www.somnomed.com.au