

SOMNOMED LIMITED

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Appendix 4D and Half-Year Financial Report

31 December 2016

This half-year report is for the six months ended 31 December 2016. The previous corresponding period is the half-year ended 31 December 2015.

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

Results for announcement to the market

Revenues from sale of goods and services, net of discounts	Up	\$2,453,445 11.5%	to	\$23,786,511
Revenues from ordinary activities	Up	\$2,480,474 11.6%	to	\$23,855,885
Operating profit before corporate and business development expenses, non-cash items and income tax	Down	(\$70,945) (2.8%)	to	\$2,428,148
Profit/(loss) from ordinary activities after tax attributable to members	Down	(\$779,116)	to	(\$600,587)
Net profit/(loss) for the period attributable to members	Down	(\$779,116)	to	(\$600,587)
Dividends		Amount per security		Franked amount per security
Final dividend		- ¢		- ¢
Interim dividend		- ¢		- ¢
Record date for determining entitlements to the dividend		Not applicable		
Brief explanation of any of the figures reported above:				
Refer to comments in the attached Directors' Report.				
NTA Backing		31 December 2016		31 December 2015
Net tangible asset backing per share		40.07 cents		23.76 cents

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2016.

Directors

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

Peter Neustadt
Lee Ausburn
Robert Scherini

Review of Operations

The highlights of the first half of the financial year 2016/17 were the commencement of the operations of Renew Sleep Services, Inc. ("RSS") and the opening of its first treatment centres in the month of December. RSS will build a third distribution channel over the next few years complementing the distribution to SomnoMed's network of sleep dentists and the Managed Care channel, which contracts directly with insurers to treat their members suffering from obstructive sleep apnea.

Highlights of SomnoMed's core business during the six months' period were the continuing strong growth in Europe and a return to growth in SomnoMed's Australian business during the second quarter, after a weak start to the financial year. The US operation recorded slower than expected growth during the half year, having been affected by a reaction of some SomnoMed customers to the perceived channel conflict between their own sales and RSS. Better communication with these customers, a strong finish to the first half year period and initiatives in Managed Care allow SomnoMed to expect growth rates in North America to return to its 20%+ levels in the second half.

In the first half of the financial year 2016/17 SomnoMed's overall, global sales volume grew by 14.9% to 33,309 devices and group revenues reached \$23.8 million (+11.5%). SomnoMed generated an EBITDA of \$1.4m for the first half of the financial year, before accounting for the start-up and operating expenses linked to RSS. This represents an increase of 57% over the comparable period for the previous half year. After including the first half RSS' losses of \$963,000, the combined group EBITDA was \$465,000, resulting in the SomnoMed group generating a better than expected positive result overall for the first half of the financial year.

The start of RSS marked an important milestone in the history of SomnoMed. During the six months, a highly qualified executive team was recruited and based in Dallas. Locations for the first treatment centres were contracted and fitted out in Oklahoma City and Tulsa. Advertising campaigns were designed, head office and centre staff recruited and trained, leading up to a launch of the first two centres in December, ahead of plan. Whilst it is very early in this new exciting development, the response to the advertising was pleasing and first patients were treated in conjunction with certified sleep specialists and sleep dentists. Investment, start-up and operational expenses in these first outlets were below or on plan, confirming the model SomnoMed will adopt for the roll out of RSS centres across the US over the next 3 to 5 years. In line with SomnoMed's guidance, RSS expects to operate 5 centres by the end of this financial year and 15 by the end of June 2018. RSS centres will contribute to SomnoMed's North American sales during the second half and are expected to have a significant impact on the growth of device sales, revenues and operating profits from the next financial year onwards.

In the meantime, SomnoMed's core business continues its expansion. Sales of SomnoDent[®] units grew strongly in Europe. The 18% growth in sales volume in Europe was driven by a good performance in both mature and emerging markets. An increasing number of European countries, such as France, Belgium and Germany, have either adopted, announced or are in process of reviewing their reimbursement policies for COAT[™] in the light of low compliance rates and high cost of CPAP. This indicates that strong growth is likely to continue for some time in Europe.

The North American business recorded growth of 15.5% over the same period last year. This is a transitional year for the North American market with establishment of RSS. The abovementioned perceived channel conflict shows signs of having stabilised, with the concept expected to broaden the public's knowledge about COAT[™] as an effective, comfortable and reimbursed treatment alternative leading to a higher adoption of COAT[™] and an increase in the patient flow across the board. It is expected RSS will increase the growth rate of our US business substantially from next financial year onwards and contribute to the overall increase in the adoption of COAT[™]. In the North American market the Company continued to invest in the Managed Care segment in the half year, with the first Kaiser treatment centre opened and another direct contract negotiated with a new insurer. The Managed Care segment should contribute to growth in the second half of the financial year, with the signing of additional direct contracts with insurers and further Kaiser treatment centres to open.

Review of Operations (cont.)

The APAC region is still dominated by Australia, where sales improved in the second quarter, as some practitioners returned to use predominantly SomnoDent[®] devices after unsuccessfully trying out an alternative device, which had been recently launched in the Australian market. The increase in demand observed in the latter stages of the first half is expected to contribute to solid growth in the second half of the year. Growth in both Japan and South Korea was subdued due to the lack of any reimbursement offered for COAT[™] in those countries.

SomnoMed entered the second half year again with a strong balance sheet. The Company has no third party loans and a cash position of \$16.7 million.

At the beginning of the second half of the financial year, strong growth rates are continuing within the core business, allowing the Company to look with great confidence into the future. In addition the RSS business will continue to open and operate further centres contributing to the volume and revenue growth of the Group during this period and will be instrumental in SomnoMed's growth for 2017/18 and beyond.

Principal Activity

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

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

Operating Results

The net loss before income tax expense for the half year ended 31 December 2016 was \$372,048 (2015: net profit of \$265,496). The net loss of the Consolidated Entity amounted to \$802,324 (2015: net profit of \$158,059).

Dividends Paid or Recommended

There is no dividend paid, declared or recommended.

Significant Changes in State of Affairs

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

After Balance Date Events

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

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

In January 2012 SomnoMed Limited entered into a contract to acquire the Dutch oral appliance distribution company Goedegebuure Staaptechniek 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 2014. Subsequent to reporting date, SomnoMed Limited made the final payment of \$208,873 (EUR 143,016) in January 2017 with 50% in cash and 50% in SomnoMed shares (27,938 shares at the price of \$3.74).

Future Developments

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

Auditor's Independence Declaration

The auditor's independence declaration for the half year ended 31st December 2016 is set out on page 19 of these half yearly accounts.

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

A handwritten signature in dark ink, appearing to read 'Peter Neustadt', is positioned above the printed name.

Peter Neustadt (Chairman)

Dated this 23rd February 2017

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General information

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

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

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

*Registered office and
principal place of business in Australia*

Level 3
20 Clarke Street
Crows Nest NSW 2065

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

The financial report was authorised for issue, in accordance with a resolution of directors, on 23 February 2017.

SomnoMed Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 31st December 2016

	Note	31.12.16 \$	31.12.15 \$
Revenue from sale of goods and services, net of discounts	2	23,786,511	21,333,066
Cost of sales		(10,078,000)	(9,061,536)
Gross margin		<u>13,708,511</u>	<u>12,271,530</u>
Sales and marketing expenses		(5,763,978)	(5,696,238)
Administrative expenses		<u>(5,516,385)</u>	<u>(4,076,199)</u>
Operating profit before corporate, research and business development expenses, non-cash items and income tax		2,428,148	2,499,093
Corporate, research and business development expenses		(1,963,441)	(1,591,379)
Depreciation and amortization		(571,519)	(463,263)
Share and option expense		(276,761)	(170,064)
Revenue from investment activities		69,374	34,494
(Loss)/gain on disposal of fixed assets		(6,059)	7,851
Net fair value loss on contingent consideration payable	4	(32,708)	-
Unrealised foreign exchange loss		(1,857)	(47,303)
Interest expense		<u>(17,225)</u>	<u>(3,933)</u>
(Loss)/profit before income tax expense		(372,048)	265,496
Income tax expense		(430,276)	(107,437)
(Loss)/profit after income tax expense for the half year		(802,324)	158,059
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation difference for foreign operations		(8,502)	322,713
Other comprehensive income for the half-year, net of tax		<u>(8,502)</u>	<u>322,713</u>
Total comprehensive income for the half-year		<u>(810,826)</u>	<u>480,772</u>
Profit/(loss) for the half-year is attributable to:			
Owners of SomnoMed Limited		(600,587)	178,529
Non-controlling interest		(201,737)	(20,470)
		<u>(802,324)</u>	<u>158,059</u>
Total comprehensive income for the half-year is attributable to:			
Owners of SomnoMed Limited		(609,089)	501,242
Non-controlling interest		(201,737)	(20,470)
		<u>(810,826)</u>	<u>480,772</u>
Basic earnings per share (cents)		(1.13)	0.37
Diluted earnings per share (cents)		(1.13)	0.35

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

SomnoMed Limited
Consolidated Statement of Financial Position
As at 31st December 2016

	Note	31.12.16 \$	30.06.16 \$
ASSETS			
Current Assets			
Cash and cash equivalents		16,712,880	17,632,252
Trade and other receivables		9,411,122	7,847,165
Inventories		1,800,465	1,690,632
Total Current Assets		<u>27,924,467</u>	<u>27,170,049</u>
Non-Current Assets			
Trade and other receivables		23,148	-
Property, plant and equipment		3,846,631	3,572,965
Intangible assets	8	6,445,936	6,621,921
Deferred tax asset		3,775,884	3,062,237
Total Non-Current Assets		<u>14,091,599</u>	<u>13,257,123</u>
Total Assets		<u>42,016,066</u>	<u>40,427,172</u>
LIABILITIES			
Current Liabilities			
Trade and other payables		6,964,926	6,085,053
Provisions		1,030,297	936,820
Current tax liability		398,276	375,759
Contingent consideration payable	4	208,873	179,695
Total Current Liabilities		<u>8,602,372</u>	<u>7,577,327</u>
Non-Current Liabilities			
Trade and other payables		15,149	-
Provisions		158,485	161,217
Total Non-Current Liabilities		<u>173,634</u>	<u>161,217</u>
Total Liabilities		<u>8,776,006</u>	<u>7,738,544</u>
Net Assets		<u>33,240,060</u>	<u>32,688,628</u>
EQUITY			
Issued capital	5	45,637,713	44,552,216
Reserves		4,639,800	4,371,541
Accumulated losses		(16,396,239)	(15,795,652)
Equity attributable to owners of SomnoMed Limited		<u>33,881,274</u>	<u>33,128,105</u>
Non-controlling interests		(641,214)	(439,477)
Total Equity		<u>33,240,060</u>	<u>32,688,628</u>

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

SomnoMed Limited
Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2016

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non- controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2016	44,552,216	4,371,541	(15,795,652)	33,128,105	(439,477)	32,688,628
Profit/(loss) after income tax expense for the half-year	-	-	(600,587)	(600,587)	(201,737)	(802,324)
Other comprehensive income for the half-year, net of tax	-	(8,502)	-	(8,502)	-	(8,502)
Total comprehensive income for the half-year	-	(8,502)	(600,587)	(609,089)	(201,737)	(810,826)
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued during the period	1,136,383	-	-	1,136,383	-	1,136,383
Share issuance costs	(50,886)	-	-	(50,886)	-	(50,886)
Share option reserve on recognition of remuneration options	-	276,761	-	276,761	-	276,761
Balance at 31 December 2016	45,637,713	4,639,800	(16,396,239)	33,881,274	(641,214)	33,240,060

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non- controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2015	33,705,941	3,566,396	(15,932,383)	21,339,954	168,028	21,507,982
Profit/(loss) after income tax expense for the half-year	-	-	178,529	178,529	(20,470)	158,059
Other comprehensive income for the half-year, net of tax	-	322,713	-	322,713	-	322,713
Total comprehensive income for the half-year	-	322,713	178,529	501,242	(20,470)	480,772
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued during the period	556,074	-	-	556,074	-	556,074
Share option reserve on recognition of remuneration options	-	170,064	-	170,064	-	170,064
Acquisition of non-controlling interests	-	-	-	-	(509,685)	(509,685)
Balance at 31 December 2015	34,262,015	4,059,173	(15,753,854)	22,567,334	(362,127)	22,205,207

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

SomnoMed Limited
Consolidated Statement of Cash Flows
For the half-year ended 31 December 2016

	31.12.16	31.12.15
	\$	\$
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	22,559,255	20,817,419
Payments to suppliers and employees (inclusive of GST)	(22,733,922)	(19,828,082)
Interest received	69,374	34,428
Interest paid	(17,249)	(3,933)
Income tax paid	(820,634)	(150,860)
	<hr/>	<hr/>
Net cash (outflow)/inflow from operating activities	(943,176)	868,972
Cash flows from investing activities		
Acquisition of subsidiary	-	(519,275)
Acquisition of a business	-	(478,494)
Deferred consideration payments associated with acquisition of a business	-	(100,629)
Payments for intangible assets	(209,779)	(70,813)
Payments for property, plant and equipment	(922,363)	(925,237)
	<hr/>	<hr/>
Net cash outflow from investing activities	(1,132,142)	(2,094,448)
Cash flows from financing activities		
Proceeds from issue of shares	1,085,497	204,450
	<hr/>	<hr/>
Net cash inflow from financing activities	1,085,497	204,450
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(989,821)	(1,021,026)
Cash at beginning of period	17,632,252	8,305,556
Effects of exchange rate changes on cash and cash equivalents	70,449	139,031
	<hr/>	<hr/>
Cash at end of period	16,712,880	7,423,561
	<hr/>	<hr/>

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

SomnoMed Limited
Notes to the financial statements
31 December 2016

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

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

	Consolidated	
Note 2. Revenue	31.12.16	31.12.15
	\$	\$
Operating activities		
Revenue from sale of goods and services, net of discounts	23,786,511	21,333,066
Interest received	69,374	34,494
Other revenue	-	7,851
Total Revenue	<u>23,855,885</u>	<u>21,375,411</u>

Note 3. Dividends

No dividends were paid during or subsequent to the half year ended 31st December 2016.

Note 4. 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 (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobvious inputs)

	Level 3	Total
31 December 2016		
Financial liabilities		
- Contingent consideration payable	208,873	208,873
30 June 2016		
Financial liabilities		
- Contingent consideration payable	179,695	179,695

Valuation techniques for fair value measurements categorised within 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 current fair value of contingent consideration payable (\$208,873) in relation to the Goedegebuure Slaaptechniek B.V. acquisition is based on the actual amount paid in January 2017 for the remaining 12.5% acquisition of the business.

Contingent consideration payable

	31 December 2016	30 June 2016
	\$	\$
Balance at beginning of reporting period	179,695	1,059,575
Additional payable recognised	32,708	-
Amount paid	-	(453,642)
Net fair value gain	-	(436,508)
Foreign currency translation difference	(3,530)	10,270
Balance at end of reporting period	<u>208,873</u>	<u>179,695</u>

SomnoMed Limited
Notes to the financial statements
31 December 2016

Note 5. Share capital	31.12.16	30.06.16
	\$	\$
Issued and fully paid ordinary shares		
57,439,481 (30 June 2016: 56,712,981) ordinary shares		
Balance of issued capital at the beginning of year	51,282,286	38,101,311
Shares issued during period:		
- 112,694 pursuant to acquisition of subsidiary at \$2.676 on 31 July 2015	-	301,569
- 37,779 pursuant to acquisition of subsidiary at \$2.51 on 31 July 2015	-	94,899
- 838,000 pursuant to issue of shares at \$2.40 on 13 October 2015	-	2,011,200
- 18,125 pursuant to exercise of options at 87 cents on 30 October 2015	-	43,500
- 18,125 pursuant to exercise of options at 87 cents on 30 October 2015	-	43,500
- 45,313 pursuant to exercise of options at 87 cents on 30 October 2015	-	108,750
- 10,000 pursuant to exercise of options at 87 cents on 30 October 2015	-	8,700
- 50,000 pursuant to exercise of options at 87 cents on 30 October 2015	-	43,500
- 200,000 pursuant to exercise of options at 92 cents on 30 October 2015	-	184,000
- 40,000 pursuant to issue of shares at \$2.40 on 6 November 2015	-	96,000
- 12,454 pursuant to acquisition of subsidiary at \$2.6065 on 14 January 2016	-	32,461
- 50,159 pursuant to acquisition of subsidiary at \$2.5737 on 28 April 2016	-	129,094
- 1,613,983 pursuant to issue of shares at \$2.50 on 16 May 2016	-	4,034,958
- 2,587,312 pursuant to issue of shares at \$2.50 on 16 May 2016	-	6,468,280
- 200,000 pursuant to exercise of options at \$1.23 on 25 August 2016	246,000	-
- 526,500 pursuant to issue of shares at \$3.44 on 31 October 2016	1,811,160	-
Less issue costs	(50,886)	(419,436)
Balance of issued capital at end of year	53,288,560	51,282,286
Less shares issued but not recorded in accounts		
- 25,000 shares issued at 60 cents	-	(15,000)
- 125,000 shares issued at 80 cents	-	(100,000)
- 150,000 shares issued at 79 cents	-	(118,500)
- 150,000 shares issued at \$1.24	-	(186,000)
- 182,500 shares issued at 58 cents	-	(105,850)
- 60,000 shares issued at 99 cents	-	(59,400)
- 942,000 shares issued at \$1.18	-	(1,111,560)
- 125,000 shares issued at \$1.03	-	(128,750)
- 40,000 shares issued at \$1.37	-	(54,800)
- 1,139,000 shares issued at \$2.09	-	(2,380,510)
- 50,000 shares issued at \$2.70	-	(135,000)
- 838,000 shares issued at \$2.40	-	(2,011,200)
- 40,000 shares issued at \$2.40	-	(96,000)
- 50,000 shares issued at \$0.87	-	(43,500)
- 200,000 shares issued at \$0.92	-	(184,000)
- 913,667 shares issued at \$1.18	(1,078,127)	-
- 125,000 shares issued at \$1.03	(128,750)	-
- 15,000 shares issued at \$1.37	(20,550)	-
- 1,134,000 shares issued at \$2.09	(2,370,060)	-
- 50,000 shares issued at \$2.70	(135,000)	-
- 838,000 shares issued at \$2.40	(2,011,200)	-
- 40,000 shares issued at \$2.40	(96,000)	-
- 526,500 shares issued at \$3.44	(1,811,160)	-
Total advances to executives to acquire shares in the Company	(7,650,847)	(6,730,070)
Issued share capital recorded in the Company accounts	45,637,713	44,552,216

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 31 December 2016 there were 5,217,167 (30 June 2016: 4,816,500) unissued ordinary shares for which options were outstanding (including 3,642,167 (30 June 2016: 4,116,500) issued ordinary shares which are treated as options in these accounts).

Note 6. Segment Information

Segment Information

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

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

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

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

Unallocated items

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

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

Information about reportable segments

Geographical location:	Asia Pacific	North America	Europe	Total
2016	\$	\$	\$	\$
External sales revenue	2,069,359	10,351,996	11,365,156	23,786,511
Segment net profit before tax	87,249	567,933	1,332,750	1,987,932
Unallocated expense items				(2,412,129)
Interest received				69,374
Interest paid				(17,225)
Loss before tax				(372,048)
Income tax expense				(430,276)
Loss after tax				(802,324)

Geographical location:	Asia Pacific	North America	Europe	Total
2015	\$	\$	\$	\$
External sales revenue	1,960,572	9,485,675	9,886,819	21,333,066
Segment net profit before tax	137,066	949,623	1,104,630	2,191,319
Unallocated expense items				(1,956,384)
Interest received				34,494
Interest paid				(3,933)
Profit before tax				265,496
Income tax expense				(107,437)
Profit after tax				158,059

Note 7. Non-controlling interests

Reconciliation	31.12.16	30.06.16
	\$	\$
Balance at beginning of reporting period	(439,477)	168,028
Acquisition	-	(509,685)
Loss after income tax	(201,737)	(97,820)
Balance at end of reporting period	<u>(641,214)</u>	<u>(439,477)</u>
NCI breakdown by entity		
SomnoMed France	(402,550)	(378,610)
RSS*	(238,664)	(60,867)
Balance at end of reporting period	<u>(641,214)</u>	<u>(439,477)</u>

*Renew Sleep Solutions, Inc., previously known as Sleep Centres America, Inc.

Note 8. Intangible assets

Patents and trademarks – at cost	922,348	911,459
Accumulated amortisation	(662,498)	(642,975)
	<u>259,850</u>	<u>268,484</u>
Product development expenditure capitalised	462,944	462,944
Accumulated amortisation	(404,070)	(347,038)
	<u>58,874</u>	<u>115,906</u>
Goodwill	6,127,212	6,237,531
	<u>6,445,936</u>	<u>6,621,921</u>

Movements in patents and trademarks

Balance at beginning of reporting period	268,484	156,314
Additions	14,778	160,538
Amortisation expense	(21,329)	(48,958)
Foreign currency translation difference	(2,083)	590
Balance at end of reporting period	<u>259,850</u>	<u>268,484</u>

Movements in product development expenditure capitalised

Balance at beginning of reporting period	115,906	248,297
Additions	-	15,616
Amortisation expense	(57,032)	(98,164)
Impairment	-	(49,843)
Balance at end of reporting period	<u>58,874</u>	<u>115,906</u>

SomnoMed Limited
Notes to the financial statements
31 December 2016

Note 8. Intangible assets (continued) **31.12.16** **30.06.16**
\$ \$

Movements in goodwill

Balance at beginning of reporting period	6,237,531	5,476,614
Goodwill arising on the acquisition of Strong Dental, Inc.	-	295,256
Goodwill arising on the acquisition of 50% holding in SMH Biomaterial AG	-	311,159
Foreign currency translation difference	(110,319)	154,502
Balance at end of reporting period	6,127,212	6,237,531

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.

Asia Pacific Segment	486,159	486,159
European Segment	5,358,915	5,466,296
North American Segment	282,138	285,076
	6,127,212	6,237,531

Note 9. Events subsequent to reporting date

Since the end of the financial period, the directors have not become aware of any matter that has significantly affected or may significantly affect the operations of the Company in subsequent financial periods other than as set out below:

In January 2012 SomnoMed Limited entered into a contract to acquire the Dutch oral appliance distribution company Goedegebuure Staaptechniek 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 2014. Subsequent to reporting date, SomnoMed Limited made the final payment of \$208,873 (EUR 143,016) in January 2017 with 50% in cash and 50% in SomnoMed shares (27,938 shares at the price of \$3.74).

SomnoMed Limited
Declaration by Directors

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Peter Neustadt
Chairman

23 February 2017
Sydney

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of SomnoMed Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of SomnoMed Limited, which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of SomnoMed Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

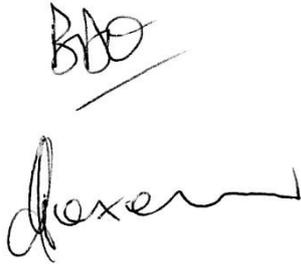
In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of SomnoMed Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

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

- (i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

BDO East Coast Partnership



Grant Saxon
Partner

Sydney, 23 February 2017

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

As lead auditor for the review of SomnoMed Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

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

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



Grant Saxon
Partner

BDO East Coast Partnership

Sydney, 23 February 2017