

# SOMNOMED LIMITED

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## Appendix 4D and Half-Year Financial Report

31 December 2015

This half-year report is for the six months ended 31 December 2015. The previous corresponding period is the half-year ended 31 December 2014.

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 \$4,532,984 27.0%	to \$21,333,066
Revenues from ordinary activities	Up \$4,498,299 26.7%	to \$21,375,411
Operating profit before corporate and business development expenses, non-cash items and income tax	Up \$744,623 42.4%	to \$2,499,093
Profit/(loss) from ordinary activities after tax attributable to members	Up \$118,720 198.5%	to \$178,529
Net profit/(loss) for the period attributable to members	Up \$118,720 198.5%	to \$178,529
<b>Dividends</b>	Amount per security	Franked amount per security
Final dividend	- ¢	- ¢
Interim dividend	- ¢	- ¢
Record date for determining entitlements to the dividend	Not applicable	
Brief explanation of any of the figures reported above:	Refer to comments in the attached Directors' Report.	
<b>NTA Backing</b>	31 December 2015	31 December 2014
Net tangible asset backing per share	23.76 cents	22.82 cents

## **DIRECTORS' REPORT**

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2015.

### **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**

During the first half of the financial year 2015/16 SomnoMed continued its successful journey in offering an effective and highly compliant alternative treatment of obstructive sleep apnea to CPAP in 27 OECD countries around the globe.

During the half year period direct sales of SomnoDent<sup>®</sup> devices increased globally by 23.8% year on year, generating direct sales revenues of \$18.05 million - a lift of 30.3%. Non device revenues, including managed dental service fees, cleaning tablets and repair service fees amounted to \$3.29 million, bringing total revenues for the half year to December to \$21.33 million (+27%).

Sales of SomnoDent<sup>®</sup> units grew strongly in Europe and North America. The growth in direct sales volume in North America was 28.8%, in Europe 21.2% and in Asia-Pacific 11.2% for the half year period, compared to the previous corresponding half year. North American sales now represent 54.1% of global sales, Europe 35.9% and APAC 9.9%. Our global network of active specialised sleep dentist accounts has now reached 7,000 and keeps expanding.

Licensee sales now represent less than 10% of our North American sales and only 5% of our global sales. The high growth of direct sales demonstrates the increasing acceptance from medical specialist and insurers of COAT as an alternative medical treatment of their diagnosed obstructive sleep apnea patients. The Company sees this as a reflection of the trend seen over sometime in which the traditional sales of oral appliances through dental laboratories is increasingly being replaced by the sale of dedicated companies involved in COAT<sup>™</sup> to a limited number of specialised sleep dentists, who receive their patients through referrals from medical specialists.

US growth was driven by the success of the new signature device SomnoDent<sup>®</sup> Fusion and of the new mid-price devices SomnoDent<sup>®</sup> Herbst/ Herbst Advance and SomnoDent<sup>®</sup> Air/Air+. During the first half of the financial year 2015/16 new products introduced during 2014 accounted for 44% of all products sold in North America. The success of our new mid-price products changed the product mix and saw the average net sales price drop in the half year to the end of December 2015. However, despite this the Gross Margin generated from the global sales of MAS devices remained at 68.5%.

SomnoDent<sup>®</sup> Herbst Advance is a PDAC approved device which can be used by Medicare patients. Herbst devices are widely used in the US as the design is in the public domain. SomnoMed's Herbst Advance device has been patented and offers significant advantages over the traditional Herbst devices. It is increasingly being used by leading Medicare dentists and enjoys high growth. Given the size of the Herbst market, the Company believes that the growth in sales of SomnoDent<sup>®</sup> Herbst Advance will continue to deliver above average growth rates in the US.

SomnoMed North America keeps building its medical departments. The Managed Care department dealing directly with insurers is expected to be expanded significantly during the year 2016 and beyond.

## **Review of Operations (cont.)**

Europe's growth continued to accelerate during the 2015 year. Whilst volume growth in the first quarter of the financial year 2015/16 was 18.3%, the second quarter grew by 23.4% achieving a growth for the half year of 21.2% compared to same period in the previous year. Core markets in Europe grew by 16.6% but new markets entered by the Company in the last two years have grown by 56.7%. A number of countries in Europe have fully accepted COAT™ as an effective, highly compliant and less expensive treatment for OSA and usage is moving towards a 50/50 split between CPAP and COAT™. A number of countries are currently reviewing their reimbursement policies for the treatment of OSA and in particular for the inclusion of COAT™. Europe is heavily dominated by the very large public health insurers, who are increasingly irritated with the low acceptance and compliance of CPAP by diagnosed patients and then high cost associated with the ongoing cost of CPAP. This has created a fertile ground for the acceptance of and ongoing significant growth for COAT™.

During the half year period the results of a three year study on the cardiovascular impact of CPAP and COAT™, in which ResMed and SomnoMed participated, were published by Charité Berlin, a large teaching hospital and leading university sleep centre in Germany. The cross over study showed equal results for COAT™ and CPAP and raised significant interest from medical specialists and insurers.

Central and Western Europe are now fully covered by SomnoMed's own distribution channels. Logistics and after-sales services are provided by 11 laboratories of which 3 are owned by SomnoMed and 8 are contracted. The Company is currently investigating countries in the Eastern part of Europe as potential markets for future expansion.

The APAC region is still dominated by Australia, which is a non-reimbursed OSA market. Growth in Australia is limited because of the strong relationships between medical specialists and CPAP providers. Growth in Australia/New Zealand was 10.4% in the half year to December 2015. SomnoMed entered the Korean and Japanese markets with its own operations in the last few years and they continue to expand. Korean sales of SomnoDent devices grew by 15.9% in the half year period and in Japan sales increased by 18.8%. Both countries offer SomnoMed significant growth opportunities in the future. Other countries in Asia are being investigated.

The Compliance Control System DentiTrac™ has been introduced in a number of markets around the world and is being adopted by leading specialists and key hospitals. First results, using the CPAP definition of compliance (minimum 4 hours per night on 21 nights per month), are indicating a compliance rate for SomnoDent® of close to 95%. Using an "all night/every night" compliance measurement, SomnoDent® achieved a rate of over 84%. Both rates are comparing very favourably to CPAP.

SomnoMed generated an EBITDA of \$908,000 (as adjusted) in the first half of the financial year 2015/16. This represents an increase of 124.2% over the comparable period of the previous half year. The gross margin on MAS devices was 68.5%, same as in the comparable previous half year period, whilst the group gross margin, which includes other income, rose from 56.6% to 57.5%.

The main factor restraining the growth in earnings to an increase of only 124.2% in the first half of the financial year was the lower margin generated from mid-price products in the US, with mid-price products being new in our product line and yet to benefit from economies of scale and lower component supply prices. Whilst our gross margin on signature devices sold directly in the US is over 72%, the gross margin on mid-price products was just over 52%.

The introduction of digital data transmission replacing the shipment of physical models is now underway. By the end of the financial year all service laboratories will have equipment installed and be fully digitally connected with our manufacturing plant. This will result in a further improvement of our gross margin in the second half of the financial year and in the future.

Two acquisitions were completed during the first half of the financial year. In July 2015 the Company acquired the remaining 50% of SMH Biomaterial AG in Switzerland held by a third party, which gave SomnoMed 100% ownership of the producer of its proprietary SMH BFlex material and its SomTab cleaning product. In November 2015 the Company acquired the business of Strong Dental in Canada. Strong Dental is the producer and distributor of the well-known specialised SUAD devices, which are especially suited for OSA patients who are heavy teeth grinders. Integration of Strong Dental in the operation of SomnoMed Canada is progressing well.

### **Review of Operations (cont.)**

At the beginning of the second half of the financial year, strong growth rates are continuing in the US and Europe. This, together with our activities in the medical channels in the US, increased referrals from medical specialists adopting DentiTrac™ compliance control, ongoing success in gaining new accounts in the US with SomnoDent® Herbst Advance, and very positive movements in a number of countries in Europe, allow the Company to look with great confidence into the future.

### **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 profit before income tax expense for the half year ended 31 December 2015 was \$265,496 (2014: \$77,817). The net profit of the Consolidated Entity amounted to \$158,059 (2014: \$45,127 loss).

### **Dividends Paid or Recommended**

There is no dividend paid, declared or recommended.

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

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

### **After Balance Date Events**

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

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

### **Future Developments**

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

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

The auditor's independence declaration for the half year ended 31<sup>st</sup> December 2015 is set out on page 20 of these half yearly accounts.

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



Peter Neustadt (Chairman)  
Dated this 18<sup>th</sup> February 2016

## Contents

	<b>Page</b>
Financial report	
Consolidated statement of profit or loss and other comprehensive income	6
Consolidated statement of financial position	7
Consolidated statement of changes in equity	8
Consolidated statement of cash flows	9
Notes to the financial statements	10
Directors' Declaration	17
Independent auditor's review report to the members of SomnoMed Limited	18
Auditor's declaration of independence	20

## 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 18 February 2016.

**SomnoMed Limited**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**For the half-year ended 31<sup>st</sup> December 2015**

	<b>Note</b>	<b>31.12.15</b> \$	<b>31.12.14</b> \$ Restated*
Revenue from sale of goods and services, net of discounts	2	21,333,066	16,800,082
Cost of sales		(9,061,536)	(7,283,908)
Gross margin		<u>12,271,530</u>	<u>9,516,174</u>
Sales and marketing expenses		(5,696,238)	(4,652,712)
Administrative expenses		<u>(4,076,199)</u>	<u>(3,108,992)</u>
Operating profit before corporate, research and business development expenses, non-cash items and income tax		2,499,093	1,754,470
Corporate, research and business development expenses		(1,591,379)	(1,349,152)
Depreciation and amortization		(463,263)	(289,344)
Share and option expense		(170,064)	(74,125)
Revenue from investment activities		34,494	77,030
Other revenue		7,851	-
Unrealized foreign exchange gain/(loss)		(47,303)	(34,458)
Interest expense		<u>(3,933)</u>	<u>(6,604)</u>
<b>Profit before income tax expense</b>		<b>265,496</b>	<b>77,817</b>
Income tax expense		(107,437)	(122,944)
<b>Profit/(loss) after income tax expense for the half year</b>		<b><u>158,059</u></b>	<b><u>(45,127)</u></b>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation difference for foreign operations		322,713	741,842
Other comprehensive income for the half-year, net of tax		<u>322,713</u>	<u>741,842</u>
Total comprehensive income for the half-year		<u>480,772</u>	<u>696,715</u>
Profit/(loss) for the half-year is attributable to:			
Owners of SomnoMed Limited		178,529	59,809
Non-controlling interest		(20,470)	(104,936)
		<u>158,059</u>	<u>(45,127)</u>
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		(20,470)	(104,936)
Owners of SomnoMed Limited		501,242	801,651
		<u>480,772</u>	<u>696,715</u>
Basic earnings per share (cents)		0.37	0.13
Diluted earnings per share (cents)		0.35	0.12

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

\* Refer Note 10.

**SomnoMed Limited**  
**Consolidated Statement of Financial Position**  
**As at 31<sup>st</sup> December 2015**

	Note	31.12.15 \$	30.06.15 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		7,423,561	8,305,556
Trade and other receivables		7,819,635	7,179,634
Inventory		1,590,691	1,292,930
<b>Total Current Assets</b>		<u>16,833,887</u>	<u>16,778,120</u>
<b>Non-Current Assets</b>			
Property, plant and equipment		3,031,230	2,104,721
Intangible assets	11	6,622,094	5,881,225
Deferred tax asset		3,119,932	2,986,551
<b>Total Non-Current Assets</b>		<u>12,773,256</u>	<u>10,972,497</u>
<b>Total Assets</b>		<u>29,607,143</u>	<u>27,750,617</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		5,205,377	3,882,030
Provisions		936,711	803,068
Current tax provision		257,047	304,364
Contingent consideration payable		297,841	481,625
<b>Total Current Liabilities</b>		<u>6,696,976</u>	<u>5,471,087</u>
<b>Non-Current Liabilities</b>			
Trade and other payables		-	86,976
Provisions		109,279	106,622
Contingent consideration payable		595,681	577,950
<b>Total Non-Current Liabilities</b>		<u>704,960</u>	<u>771,548</u>
<b>Total Liabilities</b>		<u>7,401,936</u>	<u>6,242,635</u>
<b>Net Assets</b>		<u>22,205,207</u>	<u>21,507,982</u>
<b>EQUITY</b>			
Issued capital	8	34,262,015	33,705,941
Reserves		4,059,173	3,566,396
Accumulated losses		(15,753,854)	(15,932,383)
<b>Equity attributable to owners of SomnoMed Limited</b>		<u>22,567,334</u>	<u>21,339,954</u>
Non-controlling interests		(362,127)	168,028
<b>Total Equity</b>		<u>22,205,207</u>	<u>21,507,982</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 2015**

	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
	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non- controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2014	26,464,894	2,402,924	(16,529,607)	12,338,211	231,491	12,569,702
Profit/(loss) after income tax expense for the half-year	-	-	59,809	59,809	(104,936)	(45,127)
Other comprehensive income for the half-year, net of tax	-	741,842	-	741,842	-	741,842
Total comprehensive income for the half-year	-	741,842	59,809	801,651	(104,936)	696,715
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued during the period	7,142,853	-	-	7,142,853	-	7,142,853
Share option reserve on recognition of remuneration options	-	74,125	-	74,125	-	74,125
Balance at 31 December 2014	33,607,747	3,218,891	(16,469,798)	20,356,840	126,555	20,483,395

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 2015**

	<b>Note</b>	<b>31.12.15</b> \$	<b>31.12.14</b> \$ Restated*
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		20,817,419	16,477,076
Payments to suppliers and employees (inclusive of GST)		(19,828,082)	(16,869,101)
Interest received		34,428	76,860
Interest paid		(3,933)	(6,604)
Income tax paid		(150,860)	(59,112)
		<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities		868,972	(380,881)
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary	4	(519,275)	-
Acquisition of a business	4	(478,494)	-
Deferred consideration payments associated with acquisition of a business	4	(100,629)	(96,270)
Payments for intangible assets		(70,813)	(57,195)
Payments for property, plant and equipment		(925,237)	(575,161)
		<hr/>	<hr/>
Net cash outflow from investing activities		(2,094,448)	(728,626)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		204,450	7,046,583
		<hr/>	<hr/>
Net cash inflow from financing activities		204,450	7,046,583
		<hr/>	<hr/>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,021,026)</b>	<b>5,937,076</b>
Cash at beginning of period		8,305,556	2,944,888
Effects of exchange rate changes on cash and cash equivalents		139,031	70,325
<b>Cash at end of period</b>		<b>7,423,561</b>	<b>8,952,289</b>
		<hr/>	<hr/>

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

\* Refer Note 10.

**SomnoMed Limited**  
**Notes to the financial statements**  
**31 December 2015**

**Note 1. Significant accounting policies**

These general purpose financial statements for the interim half-year reporting period ended 31 December 2015 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 2015 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.

	<b>Consolidated</b>	
<b>Note 2. Revenue</b>	<b>31.12.15</b>	<b>31.12.14</b>
	<b>\$</b>	<b>\$</b>
Operating activities		
Revenue from sale of goods and services, net of discounts	21,333,066	16,800,082
Interest received	34,494	77,030
Other revenue	7,851	-
<b>Total Revenue</b>	<u>21,375,411</u>	<u>16,877,112</u>

**Note 3. Dividends**

No dividends were paid during or subsequent to the half year ended 31<sup>st</sup> December 2015.

**Note 4. Acquisitions**

**Acquisition of Strong Dental Inc**

SomnoMed Canada Inc., a fully owned subsidiary of SomnoMed Limited, acquired the entire business of Strong Dental in Canada effective at 2 November 2015. Strong Dental is a technical dental laboratory producing and distributing oral appliances into Canada and USA. The purchase was satisfied by way of a cash payment of 445,000 Canadian dollars (A\$478,494).

The consolidated entity has provisionally recognised the fair values of the identifiable assets and liabilities of Strong Dental Inc based on best information available as of the reporting date.

**SomnoMed Limited**  
**Notes to the financial statements**  
**31 December 2015**

**Note 4. Acquisitions (continued)**  
**Acquisition of Strong Dental Inc (continued)**

<b>Purchase Consideration</b>	<b>CAD</b>	<b>AUD</b>
Total consideration paid in cash	445,000	478,494
Less: Fair value of net identifiable assets	170,412	183,238
<b>Goodwill (at date of acquisition)</b>	<b>274,588</b>	<b>295,256</b>

The goodwill which arose on acquisition of Strong Dental included manufacturing knowledge and market knowledge.

**Net Identifiable Assets acquired**

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

	<b>CAD</b>	<b>AUD</b>
Inventory	65,578	70,514
Property, plant and equipment	360,022	387,120
Total assets acquired	425,600	457,634
Less: other payables	255,188	274,396
Net identifiable assets acquired	170,412	183,238

The acquiree's carrying amounts equal to fair values.

**Acquisition of OrthoSleep 19 GmbH**

As part of the acquisition agreement entered in July 2013 between SomnoMed Limited and OrthoSleep 19 GmbH SomnoMed paid A\$100,629 (EUR66,666) and issued SomnoMed Limited shares to the value of A\$94,825 (EUR66,666) in July 2015 for the 3<sup>rd</sup> and the final tranche of this acquisition.

**Acquisition of Non-Controlling Interests**

SomnoMed Limited reached an agreement with the remaining shareholder in its subsidiary SMH Biomaterial AG, Mr. Konrad Hofmann, to acquire the outstanding 50% holding in the company on 31st July 2015. The purchase price for the 50% holding in SMH Biomaterial AG amounts to 540,000 EUR (A\$820,844). SomnoMed Limited paid 340,000 EUR (A\$519,275) in cash and 200,000 EUR (A\$301,569) in SomnoMed Limited shares, which were issued at the weighted average market price of the shares during the three months prior to completion.

<b>Purchase Consideration</b>	<b>EUR</b>	<b>AUD</b>
Cash paid to vendors	340,000	519,275
Issue of shares in Somnomed Limited	200,000	301,569
Total consideration paid	540,000	820,844
Less: non-controlling interests	348,854	509,685
Goodwill (at date of acquisition)	191,146	311,159

**Note 5. Contingent liabilities and commitments**

- a) As at 31 December 2015 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 A\$32,461 was issued in January 2016.
- b) SomnoMed Inc. has received an assessment for sales tax due in relation to the sales of MAS devices in the State of California. The amount assessed is for sales made for the period up until 30 June 2015 is US\$698,148 (excluding penalties and interest). This assessment is based on the classification of the SomnoDent® MAS device as a "medical oxygen delivery system." SomnoMed and its advisors do not believe this classification is correct and are disputing the assessment.

**Note 6. 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 3	Total
<b>31 December 2015</b>		
<b>Financial liabilities</b>		
- Contingent consideration payable*	893,522	893,522
<b>30 June 2015</b>		
<b>Financial liabilities</b>		
- Contingent consideration payable	1,059,575	1,059,575

\* The balance at 31 December 2015 relates to the acquisition of Goedegebuure Slaaptechniek B.V. only.

*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 fair value of contingent consideration payable in relation to the Goedegebuure Slaaptechniek B.V. acquisition is based on an assessment of budgets and forecasts resulting in the fair value for the remaining 25% acquisition of the business. Contingent consideration in relation to the Orthosleep 19 acquisition related only to the June 2015 year end was assessed using actual and budgeted sales volumes and profits.

**Contingent consideration payable**

	31 December 2015	30 June 2015
	AUD	AUD
Balance at beginning of period	1,059,577	2,230,642
Amount paid	(100,629)	(371,010)
Net fair value gain	-	(782,483)
Foreign currency translation difference	(65,426)	(17,572)
Balance at end of period	893,522	1,059,577

**Note 7. Events subsequent to reporting date**

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

**SomnoMed Limited**  
**Notes to the financial statements**  
**31 December 2015**

<b>Note 8. Share capital</b>	<b>31.12.15</b>	<b>30.06.15</b>
	<b>\$</b>	<b>\$</b>
Issued and fully paid ordinary shares		
52,449,073 (30 June 2015: 50,935,600) ordinary shares		
Balance of issued capital at the beginning of year	38,101,311	28,457,504
Shares issued during period:		
- 64,386 pursuant to exercise of options at \$1.49715 on 21 July 2014	-	96,396
- 3,430,000 pursuant to placement at \$1.50 on 8 August 2014	-	5,145,000
- 1,000,000 pursuant to share purchase plan at \$1.50 on 22 August 2014	-	1,500,000
- 1,139,000 pursuant to issue of shares at \$2.09 on 21 October 2014	-	2,380,510
- 270,000 pursuant to placement at \$1.50 on 3 December 2014	-	405,000
- 60,000 pursuant to exercise of options at 87 cents on 19 December 2014	-	52,200
- 50,000 pursuant to issue of shares at \$2.70 on 23 January 2015	-	135,000
- 35,000 pursuant to exercise of options at 87 cents on 24 February 2015	-	30,450
- 30,834 pursuant to issue of shares at \$2.89 on 6 May 2015	-	89,110
- 112,694 pursuant to issue of shares at \$2.676 on 31 July 2015	301,569	-
- 37,779 pursuant to issue of shares at \$2.51 on 31 July 2015	94,825	-
- 285,000 pursuant to exercise of options at 87 cents on 30 October 2015	247,950	-
- 200,000 pursuant to exercise of options at 92 cents on 30 October 2015	184,000	-
- 838,000 pursuant to issue of shares at \$2.40 on 31 October 2015	2,011,200	-
- 40,000 pursuant to issue of shares at \$2.40 on 6 November 2015	96,000	-
Less issue costs	(44,770)	(189,859)
Balance of issued capital at end of year	40,992,085	38,101,311
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)
- 150,000 (2014:165,000) shares issued at 79 cents	(118,500)	(118,500)
- 150,000 (2014:160,000) shares issued at \$1.24	(186,000)	(186,000)
- 182,500 shares issued at 58 cents	(105,850)	(105,850)
- 60,000 shares issued at 99 cents	(59,400)	(59,400)
- 942,000 (2014:1,017,000) shares issued at \$1.18	(1,111,560)	(1,111,560)
- 125,000 shares issued at \$1.03	(128,750)	(128,750)
- 40,000 shares issued at \$1.37	(54,800)	(54,800)
- 1,139,000 shares issued at \$2.09	(2,380,510)	(2,380,510)
- 50,000 shares issued at \$2.70	(135,000)	(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 87 cents	(43,500)	-
- 200,000 shares issued at 92 cents	(184,000)	-
Total advances to executives to acquire shares in the Company	(6,730,070)	(4,395,370)
Issued share capital recorded in the Company accounts	<u>34,262,015</u>	<u>33,705,941</u>

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 2015 there were 5,301,500 (30 June 2015: 3,923,500) unissued ordinary shares for which options were outstanding (including 4,116,500 (30 June 2015: 2,988,500) issued ordinary shares which are treated as options in these accounts).

**Note 9. 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

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

<b>Geographical location:</b>	<b>Asia Pacific</b>	<b>North America</b>	<b>Europe</b>	<b>Total</b>
<b>2014</b>	\$	\$	\$	\$
<b>External sales revenue</b>	<b>1,691,341</b>	<b>7,052,725</b>	<b>8,056,016*</b>	<b>16,800,082*</b>
<b>Segment net profit before tax</b>	<b>296,032</b>	<b>837,474</b>	<b>356,407</b>	<b>1,489,913</b>
Unallocated expense items				(1,482,522)
Interest received				77,030
Interest paid				(6,604)
<b>Profit before tax</b>				<b>77,817</b>
Income tax expense				(122,944)
<b>Loss after tax</b>				<b>(45,127)</b>

\* Restated. Refer Note 10

**Note 10. Prior period adjustment**

**Revenue recognition**

As a result of its medical initiative, insurers are requesting SomnoMed to provide the services for a full treatment process of a patient, whereby medical insurers fully outsource this treatment to SomnoMed. In such cases SomnoMed receives revenue in addition to that received from the sale of MAS devices and incurs additional expenditure in generating that revenue. SomnoMed has historically recognized such revenue on a net basis only and not on the full proceeds received from the insurer. Given the changing nature of the business and after reviewing the relevant contracts, the Directors believe a more appropriate treatment is to record the gross amount received from the insurance company as sales revenue and to reflect this under managed care revenues, with the associated costs of providing these services treated as cost of goods sold.

The gross accounting treatment has been applied during the current year. The directors believe this treatment will result in providing more relevant and reliable financial reporting, given the changing nature of the company's business. Prior period revenues and expenses have been adjusted and restated to be consistent with the current year's revenue recognition treatment based on the terms of the contracts with insurers.

The impact of the change on the consolidated financial information for the half year ended 31 December 2014 is disclosed below. Earnings per share were not affected as there was no net profit or loss impact as a result of this adjustment.

This adjustment was initially identified and reported in the 30 June 2015 accounts and has been replicated here for December 2014 comparative purposes only.

	<b>Consolidated</b>		
<b>Statement of profit or loss and other comprehensive income</b>	<b>2014</b>		<b>2014</b>
<b>For the half year ended 31 December</b>	<b>as reported</b>	<b>Adjustment</b>	<b>restated</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Extract			
Sales revenue	14,819,277	1,980,805	16,800,082
Cost of sales	(5,303,103)	(1,980,805)	(7,283,908)
<b>Statement of cash flows</b>			
Extract			
Receipts from customers (inclusive of GST)	14,496,271	1,980,805	16,477,076
Payments to suppliers and employees (inclusive of GST)	(14,888,296)	(1,980,805)	(16,869,101)

**SomnoMed Limited**  
**Notes to the financial statements**  
**31 December 2015**

<b>Note 11. Intangible assets</b>	<b>31.12.15</b>	<b>30.06.15</b>
	<b>\$</b>	<b>\$</b>
Patents and trademarks – at cost	813,244	748,911
Accumulated amortisation	(619,508)	(592,597)
	<u>193,736</u>	<u>156,314</u>
Product development expenditure capitalised	503,649	497,169
Accumulated amortisation	(297,953)	(248,872)
	<u>205,696</u>	<u>248,297</u>
Goodwill	6,222,662	5,476,614
	<u>6,622,094</u>	<u>5,881,225</u>
<b>Movements in patents and trademarks</b>		
Balance at beginning of year	156,314	90,014
Additions	64,333	118,969
Amortisation expense	(26,911)	(52,669)
Balance at end of year	<u>193,736</u>	<u>156,314</u>
<b>Movements in product development expenditure capitalised</b>		
Balance at beginning of year	248,297	312,396
Additions	6,480	33,104
Amortisation expense	(49,081)	(97,203)
Balance at end of year	<u>205,696</u>	<u>248,297</u>
<b>Movements in goodwill</b>		
Balance at beginning of year	5,476,614	5,689,979
Goodwill arising on acquisition of SMH Biomaterial AG (Note 4)	311,159	-
Goodwill arising on acquisition of Strong Dental (Note 4)	295,256	-
Impairment of goodwill (SomnoMed France)	-	(187,068)
Foreign currency translation difference	139,633	(26,297)
Balance at end of year	<u>6,222,662</u>	<u>5,476,614</u>

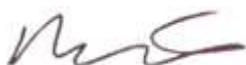
**SomnoMed Limited**  
**Declaration by Directors**

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 2015 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



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Peter Neustadt  
Chairman

18<sup>th</sup> February 2016  
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 2015, 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 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of SomnoMed Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### Independence

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

## Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

**BDO East Coast Partnership**

A handwritten signature of the BDO logo, consisting of the letters 'BDO' in a stylized, cursive font.A handwritten signature in black ink, which appears to read 'Grant Saxon'.

**Grant Saxon**  
**Partner**

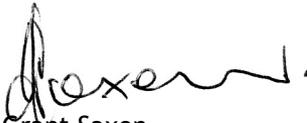
Sydney, 18 February 2016

## 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 2015, 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, 18 February 2016