



**SOMNOMED LIMITED**  
**ABN 35 003 255 221**  
**ASX Preliminary final report – 30 June 2012**

**Lodged with the ASX under Listing Rule 4.3A**

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**SomnoMed Limited**  
**Year ended 30 June 2012**  
**Results for Announcement to the Market**

				<b>2012</b>	<b>2011</b>
<b>Revenue</b> from ordinary activities	Increase by \$2,910,721	Increase by 23.5%	to	\$15,246,451	\$12,335,730
<b>Profit</b> from ordinary activities before tax attributable to members	Decrease by \$308,076	Decrease by 46.0%	to	\$359,844	\$667,920
<b>Profit</b> from ordinary activities after tax attributable to members	Decrease by \$214,857	Decrease by 29.0%	to	\$524,680	\$739,537
<b>Net Profit</b> for the period attributable to members	Decrease by \$214,857	Decrease by 29.0%	to	\$524,680	\$739,537

**Additional dividend/distribution information**

Details of dividends/distributions declared or paid during or subsequent to the year ended 30 June 2012 are as follows:

<b>Dividends/distributions</b>	Amount per security	Franked amount per security
Final dividend	Nil	Nil
Interim dividend	Nil	Nil

The Board has resolved that no dividend will be paid for the year ended 30 June 2012.

**Record date** for determining entitlements to the dividend 

N/A
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## **SomnoMed achieves milestones during 2012**

Stronger fourth quarter sales, represented by record sales in all regions, assisted SomnoMed in achieving an EBITDA of \$1,082,000 in FY 2011/12 (all financial information contained in this release are unaudited). Profit before tax was \$588,000 for the financial year 2011/12 with an after tax profit of \$700,000 following an income tax benefit of \$111,000.

Apnea unit sales have shown good growth over the previous period, especially in the second and third quarters, which generated total SomnoDent® unit sales for FY2011/12 of 30,878. This is 22% more than in the previous year, with fourth quarter sales coming in above 8,500 units for the first time. EBITDA in the second half of 2011/12 came in at \$794,000, reflecting an increase of 33% over the \$597,000 EBITDA achieved in the second half year of 2010/11.

Total sales revenues for the year were \$15.246 million, 24% higher than in the previous year, adversely affected by exchange rate movements. Revenue growth with constant exchange rates would have been 28.5%.

During the course of the 2011/12 financial year strong growth was recorded in Europe. As a result, the European share of our unit sales rose from 25% to over 27%, notwithstanding that North America with 61% represents the majority of our global sales, with APAC now representing around 12% of our global volume. Despite that, there was good growth in demand and higher sales were recorded in Australia towards the end of the financial year together with South East Asia, Israel and Japan.

The profitability was helped by the continuing improvements in the group gross margin, which rose from an average of 66% in the previous year to 68% in FY 2011/12 (gross margin from direct MAS sales was 70%). This positive result was driven by improvements in the productivity of our manufacturing, as well as much improved logistics costs. SomnoMed also continued to expand and develop its global marketing and distribution network throughout its sales regions. Sales & marketing expenses increased by 22% year on year and regional administration costs increased by 57% over the same period, primarily due to the cost of establishing regulatory departments in each of the United States, European and APAC regions. Further there was an increased sales team presence in all regions, together with improved infrastructure and operational capabilities within both the US and Europe. Operating profit before Corporate, R&D and Business Development expenses still rose to \$3.28 million after this expenditure.

Corporate, R&D and Business Development Expenses remained at \$2.3 million, which included \$465,000 for Research and Development. After receiving much delayed FDA approvals for the G2 as well as the diagnostic instrument SomnoMed MATRx, both products were displayed at the US Sleep Convention in Boston in June 2012, allowing a showcasing of the new technology in SomnoMed's broadening product line.

"SomnoMed is growing well. We are now employing over 160 people worldwide, adding staff every month in various countries around the world. After building the foundation of our business globally SomnoMed has now begun to expand the medical side of its operation, particularly in the US. This we believe will broaden and accelerate future growth. Indications are that the resistance to and non-compliance with the nightly use of CPAP is not abating. At the same time the acceptance of oral appliance therapy is gaining ground amongst medical specialists and SomnoDent® is the most patient friendly, proven medical alternative," commented the Executive Chairman Dr. Peter Neustadt.

"In order to enter the mainstream of the sleep disordered breathing market in the US, we have commenced building a medically educated and experienced team which we believe, together with other strategic activities planned or underway, will allow SomnoMed to strengthen its position in the medical device industry treating obstructive sleep apnea and other sleep disordered breathing conditions," said Dr Neustadt.

**SomnoMed Limited**  
**Preliminary consolidated income statement**  
**For the year ended 30 June 2012**

	2012 \$	2011 \$
Sales revenue	15,246,451	12,335,730
Cost of sales	(4,888,898)	(4,159,333)
<b>Gross margin</b>	<b>10,357,553</b>	<b>8,176,397</b>
Sales and marketing expenses	(4,258,860)	(3,396,279)
Administrative expenses	(2,838,918)	(1,789,160)
Net foreign exchange gain on derivative	20,643	70,911
<b>Operating profit before corporate, research and development expenses, non cash items and income tax</b>	<b>3,280,418</b>	<b>3,061,869</b>
Corporate, research and development expenses	(2,355,989)	(2,303,125)
Other revenue and grants	82,376	177,097
Revenue from investment activities	124,289	93,670
Share and options expense	(85,880)	(122,600)
Depreciation and amortization	(441,565)	(220,819)
Share of profit of associated company	75,091	55,606
Unrealised foreign exchange loss	(89,904)	(73,778)
<b>Operating profit before income tax</b>	<b>588,836</b>	<b>667,920</b>
Income tax benefit attributable to operating profit	110,909	71,617
<b>Operating profit after tax</b>	<b>699,745</b>	<b>739,537</b>
Profit for the period is attributable to:		
Non-controlling interest	175,065	-
Owners of the parent	524,680	739,537
	699,745	739,537
Diluted earnings per share (cents per share)	1.27	1.8
Basic earnings per share (cents per share)	1.27	1.8

**SomnoMed Limited**  
**Preliminary Consolidated Statement of Comprehensive Income**  
**For the year ended 30 June 2012**

	2012	2011
	\$	\$
Profit for the period	699,745	739,537
Other comprehensive income:		
Foreign exchange translation difference for foreign operations	245,560	(629,693)
Other comprehensive income for the period	245,560	(629,693)
Total comprehensive income	<u>945,305</u>	<u>109,844</u>
<b>Total comprehensive income for the period is attributable to:</b>		
Non-controlling interest	175,065	-
Owners of the parent	770,240	109,844
	<u>945,305</u>	<u>109,844</u>

**SomnoMed Limited**  
**Preliminary consolidated balance sheet**  
**As at 30 June 2012**

	2012	2011
	\$	\$
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	3,537,587	3,948,718
Trade and other receivables	3,741,407	2,201,657
Inventory	500,229	177,350
<b>TOTAL CURRENT ASSETS</b>	<u>7,779,223</u>	<u>6,327,725</u>
<b>NON-CURRENT ASSETS</b>		
Trade and other receivables	313,400	-
Property, plant and equipment	1,068,831	1,140,456
Intangible assets	1,512,500	328,204
Investment in associate entity	159,795	84,704
Deferred tax asset	1,181,725	850,791
<b>TOTAL NON-CURRENT ASSETS</b>	<u>4,236,251</u>	<u>2,404,155</u>
<b>TOTAL ASSETS</b>	<u>12,015,474</u>	<u>8,731,880</u>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	2,449,438	2,201,822
Provisions	338,219	307,493
<b>TOTAL CURRENT LIABILITIES</b>	<u>2,787,657</u>	<u>2,509,315</u>
<b>NON CURRENT LIABILITIES</b>		
Trade and other payables	12,034	5,483
<b>TOTAL LIABILITIES</b>	<u>2,799,671</u>	<u>2,514,798</u>
<b>NET ASSETS</b>	<u>9,215,783</u>	<u>6,217,082</u>
<b>SHAREHOLDERS' EQUITY</b>		
Issued capital	25,700,829	24,040,829
Reserves	1,158,614	827,175
Accumulated losses	(18,126,241)	(18,650,922)
Parent interests	8,733,202	6,217,082
Non-controlling interests	482,581	-
<b>TOTAL EQUITY</b>	<u>9,215,783</u>	<u>6,217,082</u>

**SomnoMed Limited**  
**Preliminary consolidated statement of changes in equity**  
**For the year ended 30 June 2012**

	<b>Issued Capital</b>	<b>Share Option Reserve</b>	<b>Foreign Currency Translation Reserve</b>	<b>Accumulated Losses</b>	<b>Owners of parent</b>	<b>Non- controlling interest</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>		
Balance at 1 July 2010	23,706,829	1,374,796	(40,528)	(19,390,459)	5,650,638	-	5,650,638
Shares issued during the year	334,000	-	-	-	334,000	-	334,000
Share option reserve on recognition of remuneration options	-	122,600	-	-	122,600	-	122,600
Total other comprehensive income	-	-	(629,693)	-	(629,695)	-	(629,695)
Profit for the period	-	-	-	739,537	739,537	-	739,537
Balance at 30 June 2011	24,040,829	1,497,396	(670,221)	(18,650,922)	6,217,082	-	6,217,082
Shares issued during the year	1,660,000	-	-	-	1,660,000	-	1,660,000
Recognition of non-controlling interest	-	-	-	-	-	307,516	307,516
Share option reserve on recognition of remuneration options	-	85,879	-	-	85,879	-	85,879
Total other comprehensive income	-	-	245,560	-	245,560	-	245,560
Profit for the period	-	-	-	524,681	524,681	175,065	699,745
Balance at 30 June 2012	25,700,829	1,583,275	(424,661)	(18,126,241)	8,733,202	482,581	9,215,783

**SomnoMed Limited**  
**Preliminary consolidated cash flow statement**  
**For the year ended 30 June 2012**

	2012 \$	2011 \$
<b>Cash flows from operating activities</b>		
Receipts from customers	14,267,454	11,524,564
Grants received	200,376	166,821
Payments to suppliers and employees	(14,235,936)	(11,593,125)
Interest received	115,318	88,322
Tax paid	(57,430)	-
Net cash inflow from operating activities	<u>289,782</u>	<u>172,682</u>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiary, net of cash acquired	(300,577)	-
Payments for intangible assets	(211,669)	(148,649)
Proceeds from settlement of forward exchange contract	-	188,465
Payments for property, plant and equipment	(270,170)	(481,507)
Net cash outflow from investing activities	<u>(782,416)</u>	<u>(441,691)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	144,000	334,000
Proceeds from lease facility	10,145	-
Net cash inflow from financing activities	<u>154,145</u>	<u>334,000</u>
Net increase/(decrease) in cash held	(338,489)	64,991
Cash at beginning of the financial year	3,948,718	4,293,676
Exchange rate adjustment	(72,642)	(409,949)
Cash at the end of the financial year	<u>3,537,587</u>	<u>3,948,718</u>

The cash balances at 30 June 2011 and 30 June 2012 are represented by cash at bank and money market securities.

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

Operating Profit after income tax	699,745	739,537
Share and Option expense	85,880	122,600
Share of associate company profit	(75,091)	(55,606)
Depreciation and amortization	441,565	220,819
Net exchange differences	69,260	2,867
Change in operating assets and liabilities		
(Increase)/Decrease in inventories	(308,828)	(16,067)
(Increase)/Decrease in receivables	(977,685)	(951,956)
Increase/(Decrease) in creditors & other payables	509,350	308,940
Increase/(Decrease) in provisions	193,447	(3,532)
Increase/(Decrease) in deferred tax assets	(347,861)	(194,390)
Net Cash inflow from operating activities	<u>289,782</u>	<u>172,682</u>

# **SomnoMed Limited**

## **Notes to the preliminary consolidated financial statements**

### **for the year ended 30 June 2012**

#### **1. REPORTING ENTITY**

SomnoMed Limited is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2012 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. 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.

#### **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.

##### **b. Income Recognition**

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

**SomnoMed Limited**  
**Notes to the preliminary consolidated financial statements**  
**for the year ended 30 June 2012**

*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, including government grants, 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 income statement.

*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.

**SomnoMed Limited**  
**Notes to the preliminary consolidated financial statements**  
**for the year ended 30 June 2012**

**f. Financial Instruments**

*Derivative financial instruments*

The Consolidated Entity holds 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 income statement when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value with changes in fair value accounted for in the income statement.

***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 income statement, 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 rates and respective product populations. The provision is determined on a discounted cash flow basis. Warranty periods on MAS devices are for up to two years.

*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 income statement over the life of the lease.

**SomnoMed Limited**  
**Notes to the preliminary consolidated financial statements**  
**for the year ended 30 June 2012**

*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 income statement 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

**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 income statement 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 income statement. 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 preliminary consolidated financial statements**  
**for the year ended 30 June 2012**

*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 income statement 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 income statement 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.

**SomnoMed Limited**  
**Notes to the preliminary consolidated financial statements**  
**for the year ended 30 June 2012**

**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.

*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 income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement 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 income statement using the effective interest method.

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**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 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.

**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. Accounting judgment and estimates**

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 judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in the following areas:

- Intangible assets, Provisions, Employee benefits and Financial instruments

**s. 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.

**t. Presentation of Financial Statements**

The Consolidated Entity applies revised AASB 101 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, The Consolidated Entity presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. This presentation has been applied in this Financial Report at and for the year ended 30 June 2012.

**u. New standards and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2012 reporting period. 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 2014 consolidated financial statements and could change the classification and measurement of financial assets. The Consolidated Entity does not plan to adopt this standard early and the extent of the impact has not been determined.

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**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.

*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.

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*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 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 PHP.

Over 84% (2011-85%) of the Consolidated Entity's revenues and over 75%(2011-95%) 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**  
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**5. Events occurring after reporting 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.

**6. Associates and Joint Venture entities**

The company has a 50% interest in SMH Biomaterial AG. The results for the year include 50% of the profit of SMH Biomaterial AG \$75,091 (2011-\$55,606).

**7. Contingent liabilities**

At 30<sup>th</sup> June 2012 no contingent liabilities existed.

**8. Other significant information**

N/A.

**9. Foreign Accounting standards**

N/A.

**10. NTA Backing**

	<b>2012</b>	<b>2011</b>
Net tangible asset backing per ordinary share	15.52 cents	12.4 cents

**11. Profit per Share**

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

	<b>2012</b>	<b>2011</b>
Net profit used in calculating basic and diluted earnings per share	\$524,680	\$739,537
Basic and diluted profit per share (cents per share)	1.27	1.8
Weighted average number of shares used in the calculation of diluted earnings per share	41,184,334	40,609,847
Weighted average number of shares used in the calculation of basic earnings per share	41,381,209	40,144,057
Shares on issue at year end	42,018,420	40,467,756
Number of options on issue at year end – each option is exercisable at between 58 cents and \$1.58 per share and converts to one ordinary share	1,350,000	1,542,500

Adjustment has been made to the weighted average number of shares used in calculating diluted earnings per share for the options on issue that have an exercise price below the average market price for the year.

**SomnoMed Limited**  
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**12. Subsidiary Company acquired during the year**

Effective 1st January 2012, the Group acquired 50% of the issued capital of the Dutch oral appliance distribution company Goedegebuure Slaaptechniek B.V. for a total consideration of \$1,391,569. The remaining 50% of GS will be acquired by SomnoMed over a period of 5 years in four equal annual portions commencing in April 2014. The price for these 12.5% tranches will be linked to the net profits generated by Goedegebuure Slaaptechniek B.V.'s business in the Netherlands and will be payable by way of cash and shares in SomnoMed Limited.

- a) The purchase was satisfied by the issue of 805,664 ordinary shares at an issue price of \$1.28 each and cash of \$320,513.

	\$
<b>Purchase consideration</b>	
Cash paid to vendors	320,513
Working capital paid	39,806
Issue of 805,664 ordinary shares at an issue price of \$1.28 each	1,031,250
Total purchase consideration	<u>1,391,569</u>
Non-controlling interest	<u>327,250</u>
	1,718,819
Fair value of net identifiable assets	<u>(654,501)</u>
Goodwill	<u>1,064,318</u>

- b) Assets and liabilities acquired

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

	Acquiree's carrying amount \$	Fair value \$
Cash and cash equivalents	49,445	49,445
Receivables	853,676	853,676
Inventory and sundry assets	127,389	127,389
Payables and provisions	<u>(376,009)</u>	<u>(376,009)</u>
Net identifiable assets	<u>654,501</u>	<u>654,501</u>
50% Net identifiable assets acquired	<u>327,250</u>	<u>327,250</u>

**13. Segment Operations**

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 Economic 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 Economic Entity is managed primarily on the basis 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 disordered breathing, which is the only business segment.

**SomnoMed Limited**  
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**13. Segment Operations (continued)**

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

*Accounting policies adopted*

Unless stated otherwise, all amounts reported to the Board of Directors as the chief 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 Economic 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 and other income;
- corporate, research and development expenses;
- income tax expense; and
- amortisation of intangible assets.

**Information about reportable segments**

<b>Geographic location:</b>	<b>Asia Pacific</b>	<b>USA</b>	<b>Europe</b>	<b>Total</b>
<b>2012</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>External sales revenue</b>	<b>2,432,183</b>	<b>8,859,987</b>	<b>3,954,280</b>	<b>15,246,451</b>
<b>Segment net profit before tax</b>	<b>585,884</b>	<b>1,837,820</b>	<b>446,465</b>	<b>2,870,169</b>
Unallocated expense items				(2,405,622)
<b>Interest received</b>				<b>124,289</b>
<b>Profit before tax</b>				<b>588,836</b>
Income tax benefit				110,909
<b>Profit after tax</b>				<b>699,745</b>

<b>Geographic location:</b>	<b>Asia Pacific</b>	<b>USA</b>	<b>Europe</b>	<b>Total</b>
<b>2011</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>External sales revenue</b>	<b>1,935,640</b>	<b>7,924,227</b>	<b>2,475,864</b>	<b>12,335,730</b>
<b>Segment net profit before tax</b>	<b>267,343</b>	<b>2,228,831</b>	<b>325,925</b>	<b>2,822,099</b>
Unallocated expense items				(2,247,849)
<b>Interest received</b>				<b>93,670</b>
<b>Profit before tax</b>				<b>667,920</b>
Income tax benefit				71,617
<b>Profit after tax</b>				<b>739,537</b>

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**Audit**

This report is based on accounts which are in the process of being audited.

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review. -Nil

Description of dispute or qualification if the accounts have been audited or subjected to review -Nil



Sign here: ..... Date: 31st August 2012  
(Director)

Print name: P Neustadt