

# SOMNOMED LIMITED

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## Appendix 4D and Half-Year Financial Report

### 31 December 2019

This half-year report is for the six months ended 31 December 2019. The previous corresponding period is the half-year ended 31 December 2018.

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	4,441,695 15%	to	33,256,375
Revenues from ordinary activities	up	4,407,247 15%	to	33,259,568
Operating profit/(loss) before corporate and business development expenses, non-cash items and income tax	up	1,339,140 29%	to	5,880,157
Profit/(loss) from ordinary activities after tax attributable to members	up	13,198,534	to	766,430
Net profit/(loss) for the period attributable to members	up	13,198,534	to	766,430
<b>Dividends</b>		<b>Amount per security</b>		<b>Franked amount per security</b>
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>		<b>31 December 2019</b>		<b>31 December 2018</b>
Net tangible asset backing per share		6.94 cents*		18.08 cents

\*31 December 2019 affected by AASB16 implementation which adversely impacts NTA Backing calculation. It would be 17.51 cents excluding the impact of AASB16.

**DIRECTORS' REPORT**

Your directors submit the financial report of the consolidated entity consisting of SomnoMed Limited and the entities it controlled ("the consolidated entity") for the half-year ended 31 December 2019.

**Directors**

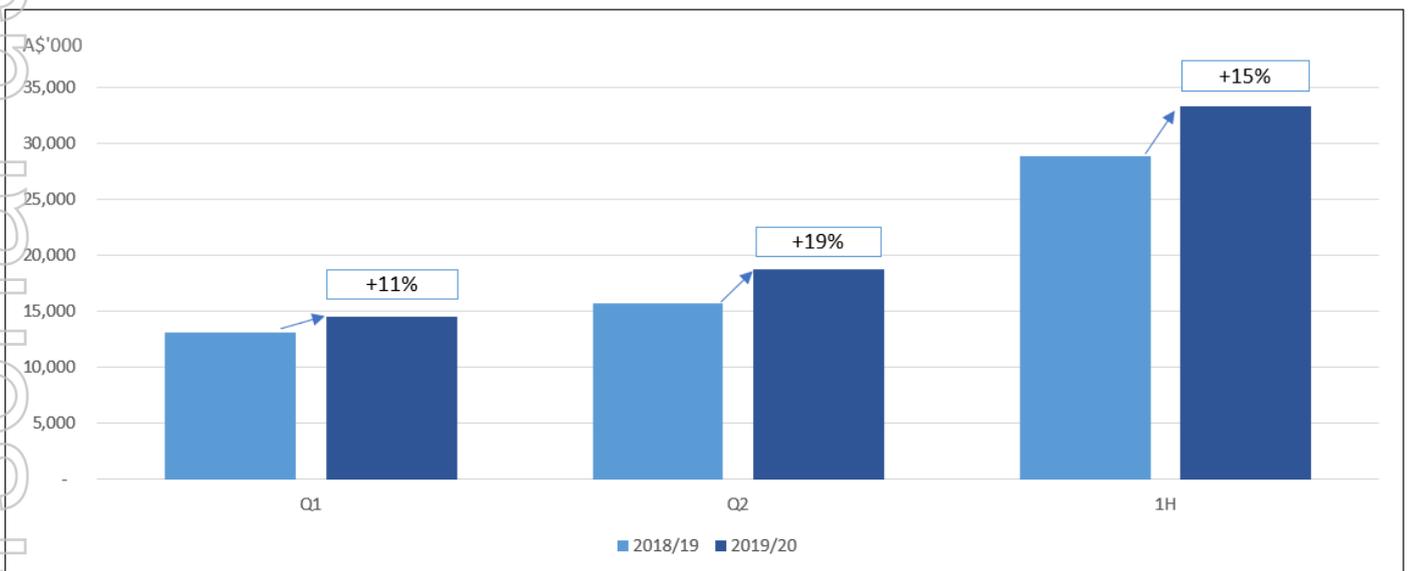
The names of directors who held office during or since the end of the half-year:

- Peter Neustadt
- Lee Ausburn
- Robert Scherini
- Hamish Corlett

**Review of operations**

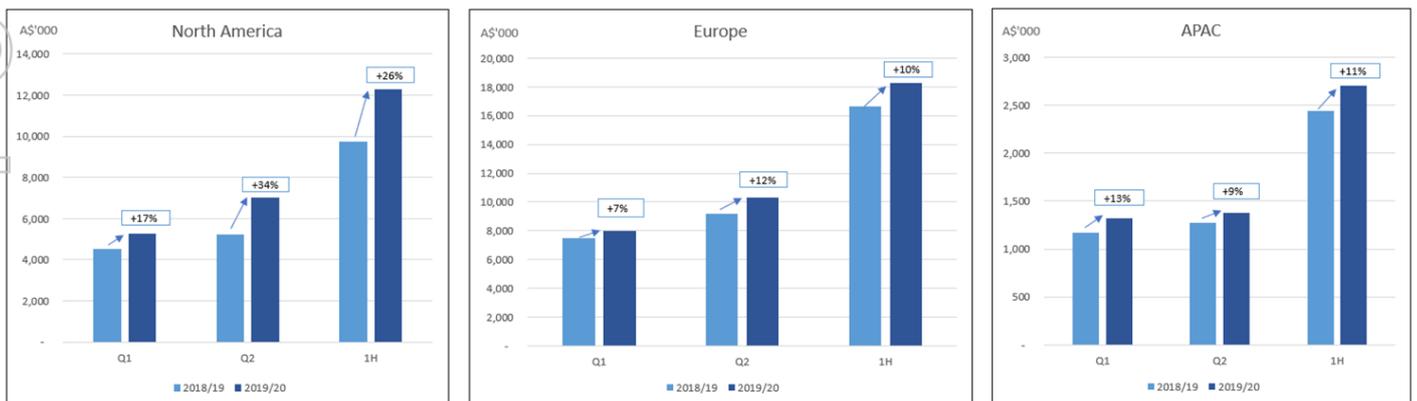
SomnoMed Limited generated a first half revenue growth of 15% from its core oral appliance business that treats Obstructive Sleep Apnea ("OSA") patients.

**SomnoMed core first half revenue growth by quarter**



Q2 results were significantly up on Q1 with core revenue growth of 19% over the prior year. Total revenues were \$33.25m for the first half, driven primarily by the accelerating growth rates seen in North America.

**SomnoMed core first half revenue growth by region by quarter**



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

In North America the revenue growth of 26% (20% in constant currency) for the half year is the result of an increased focus on our customers and their needs. The growth has been driven primarily by increased volumes received from the Company's current customer base, which is happy with both our product range and service. Q2 revenues were further boosted by the demand for the recently launched digitally produced SomnoDent<sup>®</sup> Avant appliance, which has been extremely well received.

Both quarters in the first half for North America posted strong revenue growth. The success of the SomnoDent<sup>®</sup> Avant is an indication that a well-designed and manufactured digital device, that also contains SomnoMed's proprietary soft lining material, not only adds to patient comfort but also significantly improves device retention and fit. The continued and focused efforts of the sales and marketing departments should allow the North American business to maintain strong growth for the foreseeable future. The ongoing trends in the acceptance of SomnoMed's clinically proven product range that is not only comfortable for patients, but is also effective, durable and backed by our service and manufacturing capacity commitment, sets the Company apart in the North American market.

The APAC region had a good first half with strong revenue growth, dominated by Australia. As a non-reimbursed OSA market, these results remain pleasing, while opportunities are currently being investigated within both South Korea and Japan to further develop the sales potential and market penetration.

Revenue growth of 10% was generated in Europe, with Q2 improving on the previous quarter's results and growing revenues by 12%. Within Europe, the emerging countries are growing in their acceptance of COAT<sup>™</sup> over the less compliant CPAP offering and the deeper adoption of the therapy, linked to stronger reimbursement, will mean that this region will continue to gain momentum. The growth prospects for Europe are positive. SomnoMed will maintain its investment in the sales and marketing efforts to gain greater acceptance of the COAT<sup>™</sup> therapy.

SomnoMed's core business generated an EBITDA\* of \$3 million for the first half as compared to the \$1.3 million in the prior year – a growth of 130%. Gross margin on MAS devices for the half year was 70.5% (2018 - 71%), following the launch of the SomnoDent<sup>®</sup> Avant and a slightly different product mix. The group's gross margin, which includes other income, was 58.5% (2018 - 59%).

Cash at the end of December 2019 was \$8.9m.

Strong growth rates are continuing within the core business to date in the second half of the financial year. This, together with our sales activities in the US and very positive movements in many countries in Europe and also Australia, allow the Company to look with great confidence into the future. The digital manufacturing platform is now well entrenched in the organization's manufacturing processes, with further additions to this planned for 2020 allowing SomnoMed to deliver ongoing and consistent revenue growth. The Company's vision is to be "Treatment Focused and Technology Driven". The Company will continue to embark on programs that will bring that vision to reality.

The Company maintains the guidance for FY20 of revenues between \$67-\$69 million and EBITDA\* between \$6.3 - \$6.7 million.

\*EBITDA as adjusted does not include share and option expense and unrealised foreign exchange gain/(loss)

### **Principal Activity**

The principal activity of the Consolidated Entity during the half year was the commercialisation of the SomnoDent<sup>®</sup> MAS for sleep related disorders.

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 after income tax expense for the half year ended 31 December 2019 was \$766,430 (December 2018: net loss of \$12,432,104). This net profit includes a loss from discontinued operation of Renew Sleep Solutions (RSS) of \$49,207 (December 2018: net loss of \$12,389,661).

**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 2019 is set out on page 21 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 2020

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## General information

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

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

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

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<sup>th</sup> February 2020.

**SomnoMed Limited**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**For the half-year ended 31<sup>st</sup> December 2019**

	Note	31.12.19 \$	31.12.18 \$
<b>Continuing operations</b>			
Revenue from sale of goods and services, net of discounts	2	33,256,375	28,814,680
Cost of sales		(13,798,627)	(11,796,913)
Gross margin		19,457,748	17,017,767
Sales and marketing expenses		(8,485,988)	(7,407,552)
Administrative expenses		(5,091,603)	(5,069,198)
Operating profit before corporate, research and business development expenses, non-cash items and income tax		5,880,157	4,541,017
Corporate, research and business development expenses		(2,872,481)	(3,227,520)
Depreciation and amortisation		(1,348,888)	(727,040)
Share and option expense		(206,641)	(546,139)
Interest income	2	3,193	37,641
Interest expense		(193,380)	(41,283)
Unrealised foreign exchange gain		18,696	30,629
<b>Profit before income tax expense</b>		<b>1,280,656</b>	<b>67,305</b>
Income tax expense		(465,019)	(109,748)
<b>Profit/(loss) after income tax expense for the half-year from continuing operations</b>		<b>815,637</b>	<b>(42,443)</b>
<b>Discontinued operation</b>			
Loss from discontinued operation	8	(49,207)	(12,389,661)
<b>Net profit/(loss) for the Group</b>		<b>766,430</b>	<b>(12,432,104)</b>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation difference for foreign operations		(27,152)	717,235
Other comprehensive income for the half-year, net of tax		(27,152)	717,235
Total comprehensive income for the half-year		739,278	(11,714,869)
Profit/(loss) for the half-year is attributable to:			
Owners of SomnoMed Limited		766,430	(12,432,104)
		766,430	(12,432,104)
Total comprehensive income for the half-year is attributable to:			
Owners of SomnoMed Limited		739,278	(11,714,869)
		739,278	(11,714,869)
<b>Earnings per share</b>			
Basic earnings per share (cents)		1.31	(21.39)
Diluted earnings per share (cents)		1.23	(21.39)
<b>Earnings per share – continuing operations</b>			
Basic earnings per share (cents)		1.39	(0.07)
Diluted earnings per share (cents)		1.31	(0.07)
<b>Earnings per share – discontinued operation</b>			
Basic earnings per share (cents)		(0.08)	(21.32)
Diluted earnings per share (cents)		(0.08)	(21.32)

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

**SomnoMed Limited**  
**Consolidated Statement of Financial Position**  
**As at 31<sup>st</sup> December 2019**

<b>ASSETS</b>	<b>Note</b>	<b>31.12.19</b>	<b>30.06.19</b>
		<b>\$</b>	<b>\$</b>
<b>Current Assets</b>			
Cash and cash equivalents		8,897,005	7,697,054
Trade and other receivables		11,338,171	10,557,582
Inventories		2,279,352	1,903,341
Lease receivables		210,586	-
<b>Total Current Assets</b>		<b>22,725,114</b>	<b>20,157,977</b>
<b>Non-Current Assets</b>			
Trade and other receivables		90,011	141,208
Property, plant and equipment		3,928,240	3,248,077
Intangible assets	6	7,525,842	7,773,666
Deferred tax asset		3,202,695	3,429,858
Right-of-use assets	9	5,002,871	-
Lease receivables		234,885	-
<b>Total Non-Current Assets</b>		<b>19,984,544</b>	<b>14,592,809</b>
<b>Total Assets</b>		<b>42,709,658</b>	<b>34,750,786</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		9,463,937	8,105,273
Borrowings	7	3,355,163	3,008,016
Lease liabilities	10	2,007,679	228,280
Provisions		1,864,252	3,751,888
Current tax liability		305,447	952,727
<b>Total Current Liabilities</b>		<b>16,996,478</b>	<b>16,046,184</b>
<b>Non-Current Liabilities</b>			
Trade and other payables		37,537	56,111
Lease liabilities	10	5,106,979	359,081
Provisions		477,189	469,485
<b>Total Non-Current Liabilities</b>		<b>5,621,705</b>	<b>884,677</b>
<b>Total Liabilities</b>		<b>22,618,183</b>	<b>16,930,861</b>
<b>Net Assets</b>		<b>20,091,475</b>	<b>17,819,925</b>
<b>EQUITY</b>			
Issued capital	4	59,007,574	57,681,947
Reserves		7,864,835	7,685,346
Accumulated losses		(46,780,934)	(47,547,368)
<b>Total Equity</b>		<b>20,091,475</b>	<b>17,819,925</b>

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 2019**

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non- controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2019	57,681,947	7,685,346	(47,547,368)	17,819,925	-	17,819,925
Profit after income tax expense for the half-year	-	-	766,430	766,430	-	766,430
Other comprehensive income for the half-year, net of tax	-	(27,152)	-	(27,152)	-	(27,152)
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>(27,152)</b>	<b>766,430</b>	<b>739,278</b>	<b>-</b>	<b>739,278</b>
<i>Transactions with owners in their capacity as owners:</i>						
Share option reserve on recognition of remuneration options	-	206,641	-	206,641	-	206,641
Shares issued during the period*	1,353,127	-	-	1,353,127	-	1,353,127
Share issuance costs	(27,500)	-	-	(27,500)	-	(27,500)
Capital reserve adjustment	-	-	4	4	-	4
<b>Balance at 31 December 2019</b>	<b>59,007,574</b>	<b>7,864,835</b>	<b>(46,780,934)</b>	<b>20,091,475</b>	<b>-</b>	<b>20,091,475</b>

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non- controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2018	57,743,645	6,134,830	(27,759,081)	36,119,394	(3,350,620)	32,768,774
Loss after income tax expense for the half-year	-	-	(12,432,104)	(12,432,104)	-	(12,432,104)
Other comprehensive income for the half-year, net of tax	-	717,235	-	717,235	-	717,235
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>717,235</b>	<b>(12,432,104)</b>	<b>(11,714,869)</b>	<b>-</b>	<b>(11,714,869)</b>
<i>Transactions with owners in their capacity as owners:</i>						
Share option reserve on recognition of remuneration options	-	546,139	-	546,139	-	546,139
Share issuance costs	(51,785)	-	-	(51,785)	-	(51,785)
Acquisition of NCI (Note 6)	-	-	(3,350,620)	(3,350,620)	(3,350,620)	-
Capital reserve adjustment	-	27,929	-	27,929	-	27,929
<b>Balance at 31 December 2018</b>	<b>57,691,860</b>	<b>7,426,133</b>	<b>(43,541,805)</b>	<b>21,576,188</b>	<b>-</b>	<b>21,576,188</b>

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

\* 'Share issued during the period' amount of \$1,353,127 corresponds to receipts of monies from the Employee Share Trust for previously issued shares.

**SomnoMed Limited**  
**Consolidated Statement of Cash Flows**  
**For the half-year ended 31 December 2019**

	<b>31.12.19</b>	<b>31.12.18</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of GST)	32,182,455	31,296,806
Payments to suppliers and employees (inclusive of GST)*	(30,038,986)	(35,107,185)
Interest received	3,121	30,966
Interest paid	(188,854)	(67,969)
Income tax paid	(828,542)	(457,296)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	1,129,194	(4,304,677)
<b>Cash flows from investing activities</b>		
Payments for intangible assets	(68,398)	(32,000)
Payments for property, plant and equipment	(1,187,647)	(463,910)
Proceeds from disposal of assets	46,657	31,039
Proceeds from term deposits	309,000	-
Acquisition of subsidiary	-	(47,786)
	<hr/>	<hr/>
Net cash outflow from investing activities	(900,388)	(512,658)
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	387,472	-
Payment of finance lease*	(754,073)	(180,271)
Proceeds from issue of shares	1,353,127	-
	<hr/>	<hr/>
Net cash inflow/(outflow) from financing activities	986,526	(180,271)
	<hr/>	<hr/>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,215,332</b>	<b>(4,997,607)</b>
Cash at beginning of period	7,697,054	13,383,389
Effects of exchange rate adjustment on cash and cash equivalents	(15,381)	127,617
	<hr/>	<hr/>
<b>Cash at end of period</b>	<b>8,897,005</b>	<b>8,513,399</b>

\* As a consequence of the application of AASB16, cash payments for the principal portion of leases are now included under 'Cash flows from financing activities' (prior year under 'Cash flows from operating activities'). The impact for the half year ended 31<sup>st</sup> December is 2019 is a decrease on 'Cash flows from financing activities' of \$466,616 with a respective increase for the same amount on 'Cash flows from operating activities'.

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

**Note 1. Significant accounting policies**

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 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 2019 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

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

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

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

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

*AASB 16 Leases*

The consolidated entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The consolidated entity has adopted AASB 16 'Leases' from 1 July 2019, using the Modified Retrospective Method #1, for which a restatement of comparatives for the statement of financial position as at 30 June 2019 is not applicable.

In terms of practical expedients, the company has elected to apply practical expedients #1 ('apply a single discount rate to a portfolio of leases with reasonably similar characteristics'), #3 ('not recognise leases whose terms end within 12 months of the date of initial application (use short-term lease accounting)) and #5 ('use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease'). In addition, the company has also elected the practical expedient to make no adjustment on transition for leases for which the underlying asset is of low value (a low value item includes assets whose value, when new, is less than an amount determined by management to equate to USD \$5,000 (approximately \$ 7,000 - \$ 7,500) or where management concluded that the item is a small item, such as office furniture, telephones and other low-value equipment).

As at 1<sup>st</sup> July 2019, the impact of the application of AASB 16 can be detailed below:

	<b>01.07.2019</b>
	<b>\$</b>
Lease receivables	545,190
Movement in provisions	1,240,243
Right-of-use assets	5,159,978
Lease liabilities	<u>6,945,411</u>

**Note 1. Significant accounting policies (continued)**

As the company adopted the Modified Retrospective Method #1, right of use asset for the discontinued business (RSS) has been adjusted at the initial application on 1<sup>st</sup> July 2019 by \$1,240,243 (practical expedient AASB 16.C10(b)). The amount of \$1,240,243 had been previously recognised at 30<sup>th</sup> June 2019 as provisions for onerous leases for the discontinued operation.

As of 31<sup>st</sup> December 2019, an additional depreciation expense has been recognised on the Consolidated Statement of Profit or Loss of \$584,047 for the continuing operations as a consequence of implementation of AASB 16. In terms of interest expense, as of 31<sup>st</sup> December 2019 an additional expense of \$129,306 has been recognised for the continuing operations and \$50,496 for the discontinued operation (RSS) as a consequence of implementation of AASB 16.

**Discount rates**

As described above, the company has decided to adopt the practical expedient #1 ('apply a single discount rate to a portfolio of leases with reasonably similar characteristics').

The approach to determine the incremental borrowing rate has been to consider the risk-free borrowing rate on each of the different regions which we operate and consider additional factors such as lease guarantees, existing financing facility, and refinancing rates. In addition, an additional risk-factor of 0.5% was considered for vehicles and for equipment. Discount rates are detailed below:

Europe: Land and buildings between 3.00% and 4.00%; Equipment and vehicles between 3.50% and 4.50%.

North America: Land and buildings between 4.50% and 6.00%; Equipment and vehicles between 5.00% and 6.50%.

Asia-Pacific: Land and buildings between 4.00% and 8.25%; Equipment and vehicles between 4.50% and 8.75%.

**Right-of-use assets**

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

**Lease liabilities**

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

**SomnoMed Limited**  
**Notes to the financial statements**  
**31 December 2019**

	<b>Consolidated</b>	
	<b>31.12.19</b>	<b>31.12.18</b>
	<b>\$</b>	<b>\$</b>
<b>Note 2. Revenue and other income</b>		
Operating activities		
Revenue from sale of goods and services, net of discounts	33,256,375	28,814,680
Interest income	3,193	37,641
<b>Total Revenue and other income</b>	<u>33,259,568</u>	<u>28,852,321</u>

**Note 3. Dividends**

No dividends were paid during or subsequent to the half-year ended 31<sup>st</sup> December 2019.

<b>Note 4. Share capital</b>	<b>31.12.19</b>	<b>30.06.19</b>
	<b>\$</b>	<b>\$</b>
Issued and fully paid ordinary shares		
62,804,168 (30 June 2019: 62,804,168) ordinary shares	68,444,806	67,439,109
Balance of issued capital at the beginning of year		
Shares issued during period:		
- 200,000 pursuant to issue of shares at \$1.67 on 19 November 2018	-	334,000
- 398,500 pursuant to issue of shares at \$1.87 on 19 November 2018	-	745,195
Less issue costs	(27,500)	(73,498)
Balance of issued capital at end of period	<u>68,417,306</u>	<u>68,444,806</u>
Less shares issued but nil recorded in accounts		
- 357,667 shares (June 2019: 880,334) issued at \$1.18	(422,047)	(1,038,794)
- 0 shares (June 2019: 15,000) issued at \$1.37	-	(20,550)
- 802,335 shares (June 2019: 1,119,000) issued at \$2.09	(1,676,880)	(2,338,710)
- 50,000 shares (June 2019: 50,000) issued at \$2.70	(135,000)	(135,000)
- 845,500 shares (June 2019: 868,000) issued at \$2.40	(2,029,200)	(2,083,200)
- 526,500 shares (June 2019: 526,500) issued at \$3.44	(1,811,160)	(1,811,160)
- 625,000 shares (June 2019: 625,000) issued at \$3.61	(2,256,250)	(2,256,250)
- 200,000 shares (June 2019: 200,000) issued at \$1.67	(334,000)	(334,000)
- 398,500 shares (June 2019: 398,500) issued at \$1.87	(745,195)	(745,195)
Total advances to executives to acquire shares in the Company*	<u>(9,409,732)</u>	<u>(10,762,859)</u>
Issued share capital recorded in the Company accounts	<u>59,007,574</u>	<u>57,681,947</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 2019 there were 3,805,502 (30 June 2019: 5,257,334) unissued ordinary shares for which options were outstanding (all 3,805,502 issued ordinary shares are treated as options in these accounts (30 June 2019: 4,682,334)).

\* The reduction on 'Total advances to executives to acquire shares in the Company' of \$1,353,127 corresponds to receipt of monies from the Employee Share Trust for previously issued shares. This amount is reflected on the Consolidated Statement of Changes in Equity under 'Shares issued during the period'.

## Note 5. 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.

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

#### Accounting policies adopted

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

#### Unallocated items

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

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

#### Information about reportable segments

Geographical location:	North America	Europe	Asia Pacific	SomnoMed Core	RSS	Group
2019	\$	\$	\$	\$	\$	\$
<b>External sales revenue</b>	<b>12,292,981</b>	<b>18,258,027</b>	<b>2,705,367</b>	<b>33,256,375</b>	-	<b>33,256,375</b>
<b>Segment net profit before tax</b>	<b>1,875,949</b>	<b>3,407,846</b>	<b>596,362</b>	<b>5,880,157</b>	-	<b>5,880,157</b>
Unallocated expense items	(1,477)	(46,936)	(3,012,013)	(3,060,426)	-	(3,060,426)
Depreciation and amortisation	(280,686)	(407,304)	(660,898)	(1,348,888)	(456)	(1,349,344)
Asset impairment	-	-	-	-	-	-
Interest income	-	72	3,121	3,193	1,745	4,938
Interest expense	(88,831)	(75,826)	(28,723)	(193,380)	(50,496)	(243,876)
<b>Profit/(loss) before tax</b>	<b>1,504,954</b>	<b>2,877,853</b>	<b>(3,102,151)</b>	<b>1,280,656</b>	<b>(49,207)</b>	<b>1,231,449</b>
Income tax expense	(241,170)	(218,466)	(5,383)	(465,019)	-	(465,019)
<b>Profit/(loss) after tax</b>	<b>1,263,784</b>	<b>2,659,387</b>	<b>(3,107,534)</b>	<b>815,637</b>	<b>(49,207)</b>	<b>766,430</b>

Geographical location:	North America	Europe	Asia Pacific	SomnoMed Core	RSS	Group
2018	\$	\$	\$	\$	\$	\$
<b>External sales revenue</b>	<b>9,734,590</b>	<b>16,637,510</b>	<b>2,442,580</b>	<b>28,814,680</b>	<b>3,905,128</b>	<b>32,719,808</b>
<b>Segment net profit/(loss) before tax</b>	<b>1,386,006</b>	<b>2,909,463</b>	<b>245,548</b>	<b>4,541,017</b>	<b>(6,966,065)</b>	<b>(2,425,048)</b>
Unallocated expense items	-	-	(3,743,030)	(3,743,030)	(3,096,966)	(6,839,996)
Depreciation and amortisation	(118,446)	(115,336)	(493,258)	(727,040)	(318,564)	(1,045,604)
Asset impairment	-	-	-	-	(1,883,928)	(1,883,928)
Interest income	-	70	37,571	37,641	3,467	41,108
Interest expense	(608)	-	(40,675)	(41,283)	(127,605)	(168,888)
<b>Profit/(loss) before tax</b>	<b>1,266,953</b>	<b>2,794,197</b>	<b>(3,993,845)</b>	<b>67,305</b>	<b>(12,389,661)</b>	<b>(12,322,356)</b>
Income tax expense	134,676	(228,817)	(15,607)	(109,748)	-	(109,748)
<b>Profit/(loss) after tax</b>	<b>1,401,629</b>	<b>2,565,380</b>	<b>(4,009,452)</b>	<b>(42,443)</b>	<b>(12,389,661)</b>	<b>(12,432,104)</b>

31.12.19                      30.06.19  
\$    \$

**Note 6. Intangible assets**

Patents and trademarks – at cost	1,548,487	1,485,825
Accumulated amortisation	(985,355)	(912,105)
	<u>563,132</u>	<u>573,720</u>
Product development expenditure capitalised	571,650	571,649
Accumulated amortisation	(462,945)	(461,623)
	<u>108,705</u>	<u>110,026</u>
Software	1,029,688	1,024,688
Accumulated amortisation	(512,344)	(341,563)
	<u>517,344</u>	<u>683,125</u>
Goodwill	6,336,661	6,406,795
	<u>7,525,842</u>	<u>7,773,666</u>

**Movements in patents and trademarks**

Balance at beginning of reporting period	573,720	447,665
Additions	63,399	237,682
Amortisation expense	(70,548)	(119,945)
Foreign currency translation difference	(3,439)	8,318
Balance at end of reporting period	<u>563,132</u>	<u>573,720</u>

**Movements in product development expenditure capitalised**

Balance at beginning of reporting period	110,026	37,306
Additions	-	108,705
Amortisation expense	(1,321)	(35,985)
Balance at end of reporting period	<u>108,705</u>	<u>110,026</u>

**SomnoMed Limited**  
**Notes to the financial statements**  
**31 December 2019**

<b>Note 6. Intangible assets (continued)</b>	<b>31.12.19</b>	<b>30.06.19</b>
	<b>\$</b>	<b>\$</b>
<b>Movements in software</b>		
Balance at beginning of reporting period	683,125	919,691
Additions	5,000	104,997
Amortisation expense	(170,781)	(341,563)
Balance at end of reporting period	<u>517,344</u>	<u>683,125</u>
<b>Movements in goodwill</b>		
Balance at beginning of reporting period	6,406,795	6,375,297
Impairment of goodwill SomnoMed Korea (refer below)	-	(135,000)
Foreign currency translation difference	(70,134)	166,498
Balance at end of reporting period	<u>6,336,661</u>	<u>6,406,795</u>

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

During the 2019 financial year, management undertook a review for indicators of impairment and determined that the goodwill (A\$135,000) in relation to South Korea should be fully impaired.

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

European Segment	6,187,278	6,258,095
North American Segment	149,383	148,700
	<u>6,336,661</u>	<u>6,406,795</u>

<b>Note 7. Borrowings</b>	<b>31.12.19</b>	<b>30.06.19</b>
	<b>\$</b>	<b>\$</b>
Current borrowings	3,355,163	3,008,016
	<u>3,355,163</u>	<u>3,008,016</u>

**HSBC credit facility**

In June 2019, SomnoMed Netherlands B.V. established a €3.0 million (A\$4.8 million) unsecured credit facility with HSBC, of which €2.1 million (A\$3.4 million) was utilised as at 31 December 2019. The interest rate payable under this facility as at 31 December 2019 was equivalent to the Main Refinancing Operations rate published by the European Central Bank ("ECB") (provided that, if such interest rate is less than zero, it shall be deemed to be zero), increased with the applicable margin of 2.75% per annum. This facility has been guaranteed by SomnoMed Limited, SomnoMed Inc. and Goedegebuure Slaaptechniek B.V. The facility has no fixed term but under certain conditions the facility must be repaid within 30 business banking days. It is a condition of the facility that the consolidated net leverage ratio may not exceed 2.5, of which 2.5 is to be measured on the parental consolidated level.

**Note 8. Discontinued operation**

Renew Sleep Solutions, Inc. ("RSS") ceased operations and all centres were closed by 31<sup>st</sup> December 2018.

	31.12.19 \$	31.12.18 \$
<b>Results of discontinued operation</b>		
Revenue	-	3,905,128
Expenses*	(49,207)	(11,382,904)
<b>Results from operating activities</b>	<b>(49,207)</b>	<b>(7,477,776)</b>
Income tax expense	-	-
<b>Results from operating activities, net of tax</b>	<b>(49,207)</b>	<b>(7,477,776)</b>
Asset impairment	-	(1,883,928)
Provision for lease costs	-	(1,928,449)
Provision for severance payments, legal and other costs	-	(1,099,508)
<b>Loss for the half year</b>	<b>(49,207)</b>	<b>(12,389,661)</b>

\* The total expenses of \$49,207 is attributed to interest expenses as a result of implementation of AASB 16

**Cash flows from discontinued operation**

Net cash outflow from operating activities	(230,915)	(6,016,348)
Net cash inflow/(outflow) from investing activities	46,657	(123,735)
Net cash outflow from financing activities	(435,980)	(85,565)
<b>Net cash outflow for the half year</b>	<b>(620,238)</b>	<b>(6,225,649)</b>

**Carrying amount of assets and liabilities**

Total Assets	1,080,474	1,446,332
Total Liabilities	(2,881,898)	(3,178,458)
<b>Net Assets</b>	<b>(1,801,424)</b>	<b>(1,732,126)</b>

**SomnoMed Limited**  
**Notes to the financial statements**  
**31 December 2019**

<b>Note 9. Right-of-use assets</b>	<b>31.12.19</b>	<b>30.06.19</b>
	<b>\$</b>	<b>\$</b>
Right-of-use assets - non-current	5,002,871	-
	<b>5,002,871</b>	<b>-</b>
Land and buildings - right-of-use	4,727,990	-
Less: Accumulated depreciation	(417,402)	-
	<b>4,310,588</b>	<b>-</b>
Plant and equipment - right-of-use	173,210	-
Less: Accumulated depreciation	(22,860)	-
	<b>150,350</b>	<b>-</b>
Vehicles - right-of-use	672,390	-
Less: Accumulated depreciation	(130,458)	-
	<b>541,932</b>	<b>-</b>
	<b>5,002,871</b>	<b>-</b>

The consolidated entity leases land and buildings for its offices and laboratories under agreements of between one to eleven years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The consolidated entity leases office equipment under agreements of between two and five years and vehicles under agreements of between two and five years.

**Note 10. Lease liabilities**

	<b>31.12.19</b>	<b>30.06.19</b>
	<b>\$</b>	<b>\$</b>
Lease liability - current	2,007,679	228,280
Lease liability - non-current	5,106,979	359,081
	<b>7,114,658</b>	<b>587,361</b>

**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 2019 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



Peter Neustadt  
Chairman

18<sup>th</sup> February 2020  
Sydney

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of SomnoMed Limited

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the half-year financial report of SomnoMed Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, 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 then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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 the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

#### 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 Group's financial position as at 31 December 2019 and its financial 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 the Group, 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 the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO East Coast Partnership

A handwritten version of the BDO logo in black ink, with the letters 'BDO' in a cursive, slightly slanted font.

A handwritten signature in black ink, appearing to read 'Tim Aman', written in a cursive style.

Tim Aman  
Partner

Sydney, 18 February 2020

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**DECLARATION OF INDEPENDENCE BY TIM AMAN TO THE DIRECTORS OF SOMNOMED LIMITED**

As lead auditor for the review of SomnoMed Limited for the half-year ended 31 December 2019, 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.



Tim Aman  
Partner

**BDO East Coast Partnership**

Sydney, 18 February 2020