

SOMNOMED LIMITED

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Appendix 4D and Half-Year Financial Report

31 December 2014

This half-year report is for the six months ended 31 December 2014. The previous corresponding period is the half-year ended 31 December 2013.

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

Results for announcement to the market

Revenues from sale of goods and services, net of discounts	Up \$2,266,371 (18.1%)	to \$14,819,277
Revenues from ordinary activities	Up \$2,330,888 (18.6%)	to \$14,896,307
Operating profit before corporate and business development expenses, non-cash items and income tax	Down \$481,077 (21.5%)	to \$1,754,470
Profit/(loss) from ordinary activities after tax attributable to members	Up \$220,411 (N/A)	to \$59,809
Net profit/(loss) for the period attributable to members	Up \$220,411 (N/A)	to \$59,809
Dividends	Amount per security	Franked amount per security
Final dividend	- ¢	- ¢
Interim dividend	- ¢	- ¢
Record date for determining entitlements to the dividend	Not applicable	
Brief explanation of any of the figures reported above:		
Refer to comments in the attached Directors' Report.		
NTA Backing	31 December 2014	31 December 2013
Net tangible asset backing per share	22.82 cents	13.67 cents

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2014.

Directors

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

Peter Neustadt
Lee Ausburn
Robert Scherini

Review of Operations

For the first half year period of the financial year 2014/15 sales of SomnoDent[®] devices grew by 21.1% compared to the same period in the previous year, generating \$14.8 million in revenues, 18% higher than in the corresponding period. Both volume and revenues were in line or above guidance. A strong growth in sales in the US (Q2 sales + 30.3%) contributed to the result but was also responsible for the higher growth in volume than in revenues, due to a lower average price in that region compared to other global regions.

The half year saw an expansion of the company's business globally and a continued growth drive as the first priority in all three global regions, in order to strengthen, defend and expand its position as the global leader in COAT[™], for many years to come. This involves building the infrastructure and expanding its sales, marketing and administrative functions, as well as those of its departments and programs educating physicians, managed care providers and insurers in the merits of COAT[™]. In addition to the expansion of sales forces, marketing departments and administrative and finance departments in all our regions, SomnoMed entered or prepared to enter seven new countries in Europe giving SomnoMed full coverage of the West European countries from January 2015 onwards.

North America returned to excellent growth during the course of the first half of the financial year 2014/15. Q1 volumes rose by 16.2% and Q2 by 30.3%. This is the direct result of operational changes which allowed SomnoMed North America to perform even better in its dominant position of the upper price segment and, at the same time, enter the mid-price segment. Good progress was made during the half year in Managed Care, with an additional contract concluded with a mid-size insurer.

During the first half in the USA three new products were launched, two of which are aimed to penetrate the mid-price market in the US, which had not previously been entered by SomnoMed, and pilot tests for SomnoMed Compliance Control were undertaken in six countries. As a result, global operating expenses in Sales & Marketing and Finance & Administration rose by \$1.87 million (+32%) to \$7.76 million.

Europe grew its sales in the first half by 18.8%, compared to the corresponding half year period in the previous year. Excellent growth was experienced in our emerging markets in Norway and Belgium. Sales in our European core markets were slower than expected in the second quarter, especially in December, as general demand in Holland, Germany, France and Sweden was subdued. Staff recruitment for new markets delayed the start of operations in the UK, Ireland and Italy. However, indications are that all new markets will start to contribute positively in the second half.

APAC produced a growth of 15.3% for the half year period and Japan grew by 31%, with increased resources allocated to that market. Good progress has been made throughout the half year in Korea with volumes building. The gross margin generated on SomnoDent[®] devices rose from 67.5% to 68.5%, reflecting lower unit costs, due to increasing volumes. Gross margin on total revenues, which includes seminars, billing revenues etc. came in at 64%, slightly below the margin generated in the corresponding period of 65%, due to increasing billing services revenue in the period.

Review of Operations (cont.)

Corporate expenses, which include global production control, product development and research were tightly controlled and amounted to \$1.35 million, 13% lower than in the previous half year period.

Earnings before interest, tax, depreciation and amortisation (EBITDA*) came in at \$405,000, compared to \$681,000 generated in the corresponding period in the previous year, reflecting the cost of expansion of our operations in the three global regions. The profits in the first half were directly linked to this expansion, as previously indicated, and are in line with the lower end of the range of EBITDA expected for the year.

For the second half of the financial year 2014/15 the expected increase in unit volumes to 30,000 (+30.5% on corresponding period in the previous financial year) and revenues of \$18 million (+35% on corresponding period in the previous financial year) are unchanged. If achieved, it will lift the full year revenue growth rate to over 26%. The fall in the Australian dollar, which only occurred towards the end of the first half year, contributed minimally to the revenues in the first half year period but could see the revenue guidelines exceeded if this trend is maintained.

EBITDA for the financial year of 2014/15 is expected to rise fourfold or more in the second half, exceeding \$1.6 million, and generating an EBITDA of over \$2.0 million for the year. Profits in the second half will be an indicator of the likely profit growth to be expected in the future, after absorbing higher cost levels in the first half.

SomnoMed had a cash position of \$8.9 million at the end of December 2014. In anticipation of future growth, SomnoMed expanded its plant in Manila during the first half of the financial year 2014/15 and invested in the introduction of digital production processes, which should lead to shorter production turnaround times and cost savings in the future. Following its completion in December the plant is now capable of doubling its production to more than 120,000 units per annum.

* EBITDA as adjusted does not include share & option and foreign exchange expense.

Principal Activity

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

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

Operating Results

The net profit before income tax expense for the half year ended 31 December 2014 was \$77,817 (2013: \$370,291). The net loss of the Consolidated Entity amounted to \$45,127 (2013: \$8,603 profit)

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 31st December 2014 is set out on page 17 of these half yearly accounts.

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



Peter Neustadt (Chairman)

Dated this 18th February 2015

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General information

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

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

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

*Registered office and
principal place of business in Australia*

Level 3
20 Clarke Street
Crows Nest NSW 2065

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

The financial report was authorised for issue, in accordance with a resolution of directors, on 18 February 2015.

SomnoMed Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 31st December 2014

	31.12.14	31.12.13
	\$	\$
Revenue from sale of goods and services, net of discounts	14,819,277	12,552,906
Cost of Sales	(5,303,103)	(4,424,031)
Gross Margin	9,516,174	8,128,875
Sales and Marketing expenses	(4,652,712)	(3,484,967)
Administrative expenses	(3,108,992)	(2,408,361)
Operating profit before corporate, research and business development expenses, non-cash items and income tax	1,754,470	2,235,547
Corporate, research and business development expenses	(1,349,152)	(1,554,781)
Depreciation and amortization	(289,344)	(285,122)
Share and option expense	(74,125)	(44,094)
Revenue from investment activities	77,030	12,513
Unrealized foreign exchange gain/(loss)	(34,458)	6,228
Interest expense	(6,604)	-
Profit before income tax expense	77,817	370,291
Income tax expense	(122,944)	(361,688)
Profit/(loss) after income tax expense for the half year	(45,127)	8,603
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Foreign exchange translation difference for foreign operations	741,842	110,595
Other comprehensive income for the half-year, net of tax	741,842	110,595
Total comprehensive income for the half-year	696,715	119,198
Profit/(loss) for the half-year is attributable to:		
Non-controlling interest	(104,936)	169,205
Owners of SomnoMed Limited	59,809	(160,602)
	(45,127)	8,603
Total comprehensive income for the half-year is attributable to:		
Non-controlling interest	(104,936)	169,205
Owners of SomnoMed Limited	801,651	(50,007)
	696,715	119,198
Basic earnings per share (cents)	1.71	(0.37)
Diluted earnings per share (cents)	1.62	(0.37)

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

SomnoMed Limited
Consolidated Statement of Financial Position
As at 31st December 2014

	31.12.14	30.06.14
	\$	\$
ASSETS		
Current Assets		
Cash	8,952,289	2,944,888
Trade and other receivables	6,508,363	5,495,228
Inventory	1,211,863	964,984
Total Current Assets	<u>16,672,515</u>	<u>9,405,100</u>
Non-Current Assets		
Property, plant and equipment	1,764,096	1,250,524
Intangible assets	6,181,157	6,092,389
Deferred tax asset	2,703,460	2,394,617
Total Non-Current Assets	<u>10,648,713</u>	<u>9,737,530</u>
Total Assets	<u>27,321,228</u>	<u>19,142,630</u>
LIABILITIES		
Current Liabilities		
Trade and other payables	3,599,738	3,324,963
Provisions	719,926	603,220
Current tax provision	254,659	222,452
Contingent consideration payable	597,444	585,475
Total Current Liabilities	<u>5,171,767</u>	<u>4,736,110</u>
Non-Current Liabilities		
Trade and other payables	117,398	131,795
Provisions	67,406	59,856
Contingent consideration payable	1,481,262	1,645,167
Total Non-Current Liabilities	<u>1,666,066</u>	<u>1,836,818</u>
Total Liabilities	<u>6,837,833</u>	<u>6,572,928</u>
Net Assets	<u>20,483,395</u>	<u>12,569,702</u>
EQUITY		
Issued capital	33,607,747	26,464,894
Reserves	3,218,891	2,402,924
Accumulated losses	(16,469,798)	(16,529,607)
Equity attributable to owners of SomnoMed Limited	<u>20,356,840</u>	<u>12,338,211</u>
Non-controlling interests	126,555	231,491
Total Equity	<u>20,483,395</u>	<u>12,569,702</u>

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

SomnoMed Limited
Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2014

	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non- controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2013	26,067,022	2,431,879	(17,097,069)	11,401,832	170,890	11,572,722
Acquisition of subsidiary	-	53,062	184,576	237,638	299,370	537,008
Profit/(loss) after income tax expense for the half-year	-	-	(160,602)	(160,602)	169,205	8,603
Other comprehensive income for the half-year, net of tax	-	110,595	-	110,595	-	110,595
Total comprehensive income for the half-year	-	110,595	(160,602)	(50,007)	169,205	119,198
Movement of other reserve	-	25,216	(25,216)	-	-	-
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued during the period	197,826	-	-	197,826	-	197,826
Share option reserve on recognition of remuneration options	-	44,091	-	44,091	-	44,091
Balance at 31 December 2013	26,264,848	2,664,843	(17,098,311)	11,831,380	639,465	12,470,845
	Issued Capital	Reserves	Accumulated Losses	Owners of parent	Non- controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2014	26,464,894	2,402,924	(16,529,607)	12,338,211	231,491	12,569,702
Profit/(loss) after income tax expense for the half-year	-	-	59,809	59,809	(104,936)	(45,127)
Other comprehensive income for the half-year, net of tax	-	741,842	-	741,842	-	741,842
Total comprehensive income for the half-year	-	741,842	59,809	801,651	(104,936)	696,715
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued during the period	7,142,853	-	-	7,142,853	-	7,142,853
Share option reserve on recognition of remuneration options	-	74,125	-	74,125	-	74,125
Balance at 31 December 2014	33,607,747	3,218,891	(16,469,798)	20,356,840	126,555	20,483,395

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

SomnoMed Limited
Consolidated Statement of Cash Flows
For the half-year ended 31 December 2014

	31.12.14	31.12.13
	\$	\$
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	14,496,271	12,259,546
Payments to suppliers and employees (inclusive of GST)	(14,888,296)	(12,715,923)
Interest received	76,860	12,816
Interest paid	(6,604)	-
Income tax paid	(59,112)	(2,753)
	<hr/>	<hr/>
Net cash outflow from operating activities	(380,881)	(446,314)
Cash flows from investing activities		
Acquisition of subsidiary (net cash acquired)	-	203,073
Deferred consideration payments associated with acquisition of a business	(96,270)	-
Payments for intangible assets	(57,195)	(75,000)
Payments for property, plant and equipment	(575,161)	(94,568)
	<hr/>	<hr/>
Net cash inflow/(outflow) from investing activities	(728,626)	33,505
Cash flows from financing activities		
Proceeds from issue of shares	7,046,583	4,350
	<hr/>	<hr/>
Net cash inflow from financing activities	7,046,583	4,350
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	5,937,076	(408,459)
Cash at beginning of period	2,944,888	4,221,299
Effects of exchange rate changes on cash and cash equivalents	70,325	151,220
Cash at end of period	8,952,289	3,964,060
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The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

SomnoMed Limited
Notes to the financial statements
31 December 2014

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2014 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 2014 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New, revised or amending Accounting Standards and Interpretations adopted

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

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

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

AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities
The consolidated entity has applied AASB 2012-3 from 1 July 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement.

AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets
The consolidated entity has applied AASB 2013-3 from 1 July 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed.

AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)
The consolidated entity has applied Parts A to C of AASB 2014-1 from 1 July 2014. These amendments affect the following standards: AASB 2 'Share-based Payment': clarifies the definition of 'vesting condition' by separately defining a 'performance condition' and a 'service condition' and amends the definition of 'market condition'; AASB 3 'Business Combinations': clarifies that contingent consideration in a business combination is subsequently measured at fair value with changes in fair value recognised in profit or loss irrespective of whether the contingent consideration is within the scope of AASB 9; AASB 8 'Operating Segments': amended to require disclosures of judgements made in applying the aggregation criteria and clarifies that a reconciliation of the total reportable segment assets to the entity's assets is required only if segment assets are reported regularly to the chief operating decision maker; AASB 13 'Fair Value Measurement': clarifies that the portfolio exemption applies to the valuation of contracts within the scope of AASB 9 and AASB 139; AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets': clarifies that on revaluation, restatement of accumulated depreciation will not necessarily be in the same proportion to the change in the gross carrying value of the asset; AASB 124 'Related Party Disclosures': extends the definition of 'related party' to include a management entity that provides KMP services to the entity or its parent and requires disclosure of the fees paid to the management entity; AASB 140 'Investment Property': clarifies that the acquisition of an investment property may constitute a business combination.

SomnoMed Limited
Notes to the financial statements
31 December 2014

	Consolidated	
Note 2. Revenue	31.12.14	31.12.13
	\$	\$
Operating activities		
Revenue from sale of goods and services, net of discounts	14,819,277	12,552,906
Interest received	77,030	12,513
Total Revenue	14,896,307	12,565,419

Note 3. Dividends

No dividends were paid during or subsequent to the half year ended 31st December 2014.

Note 4. Acquisition of Non-Controlling Interest

On 4th December 2014, SomonoMed Limited increased its shareholding in SomnoMed France to 92.9% following the acquisition of an additional 27.9% of SomnoMed France's capital, by the conversion into equity of advances totalling \$883,392 previously made to that company.

Note 5. Contingent liabilities and commitments

As at 31 December 2014 no contingent liabilities or capital commitments existed, other than pursuant to acquiring the MAS Nordic business in January 2013 and subject to the performance of SomnoMed's business in the Nordic region, additional SomnoMed shares to the value of approximately A\$30,000 may be issued over the next year as part of this acquisition.

Note 6. Fair value hierarchy

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

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

	Level 2	Level 3	Total
31 December 2014			
Financial liabilities			
- Contingent consideration payable	-	2,078,706	2,078,706
30 June 2014			
Financial liabilities			
- Contingent consideration payable	-	2,230,642	2,230,642

Note 7. Events subsequent to reporting date

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

SomnoMed Limited
Notes to the financial statements
31 December 2014

Note 8. Share capital

	31.12.14	30.06.14
	\$	\$
Issued and fully paid ordinary shares		
50,819,766 (June 2014 - 44,856,380) ordinary shares		
Balance of issued capital at the beginning of year	28,457,504	26,620,972
Shares issued during period:		
- 99,157 pursuant to issue of shares at 94.27 cents on 17 July 2013	-	93,475
- 60,000 pursuant to exercise of options on 4 October 2013	-	59,400
- 1,017,000 pursuant to issue of shares at \$1.18 on 13 November 2013	-	1,200,060
- 125,000 pursuant to exercise of options \$1.03 on 13 November 2013	-	128,750
- 40,000 pursuant to exercise of options at \$1.37 on 13 November 2013	-	54,800
- 94,580 pursuant to acquisition of subsidiary at \$1.05731 on 13 November 2013	-	100,000
- 132,804 pursuant to acquisition of subsidiary at \$1.506335 on 5 May 2014	-	200,047
- 64,386 pursuant to acquisition of subsidiary at \$1.49715 on 21 July 2014	96,579	-
- 3,430,000 issue of shares at \$1.50 on 8 August 2014	5,145,000	-
- 1,000,000 issue of shares at \$1.50 on 22 August 2014	1,500,000	-
- 1,139,000 issue of shares at \$2.09 on 21 October 2014	2,380,510	-
- 270,000 issue of shares at \$1.50 on 3 December 2014	405,000	-
- 60,000 exercise of options at \$0.87 on 19 December 2014	52,200	-
Less cost of issuing capital	(168,676)	-
Balance of issued capital at end of year	<u>37,868,117</u>	<u>28,457,504</u>
Less shares issued but not recorded in accounts		
- 25,000 shares issued at 60 cents	(15,000)	(15,000)
- 125,000 shares issued at 80 cents	(100,000)	(100,000)
- 165,000 shares issued at 79 cents	-	(130,350)
- 160,000 shares issued at \$1.24	-	(198,400)
- 182,500 shares issued at 58 cents	(105,850)	(105,850)
- 60,000 shares issued at 99 cents	(59,400)	(59,400)
- 1,017,000 shares issued at \$1.18	-	(1,200,060)
- 125,000 shares issued at \$1.03	(128,750)	(128,750)
- 40,000 shares issued at \$1.37	(54,800)	(54,800)
- 150,000 shares issued at 79 cents	(118,500)	-
- 150,000 shares issued at \$1.24	(186,000)	-
- 942,000 shares issued at \$1.18	(1,111,560)	-
- 1,139,000 shares issued at \$2.09	(2,380,510)	-
Total advances to executives to acquire shares in the Company	<u>(4,260,370)</u>	<u>(1,992,610)</u>
Issued share capital recorded in the Company accounts	<u>33,607,747</u>	<u>26,464,894</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 2014 there were 3,908,500 (30 June 2014: 2,704,500) unissued ordinary shares for which options were outstanding (including 2,938,500 (30 June 2014: 1,899,500) issued ordinary shares which are treated as options in these accounts).

SomnoMed Limited
Notes to the financial statements
31 December 2014

Note 9. Segment Information

Segment Information

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

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

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

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

Unallocated items

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

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

Information about reportable segments

Geographical location:	Asia Pacific	USA	Europe	Total
2014	\$	\$	\$	\$
External sales revenue	1,691,341	7,052,725	6,075,211	14,819,277
Segment net profit before tax	296,032	837,474	356,407	1,489,913
Unallocated expense items				(1,482,522)
Interest received				77,030
Interest paid				(6,604)
Profit before tax				77,817
Income tax expense				(122,944)
Loss after tax				(45,127)

Geographical location:	Asia Pacific	USA	Europe	Total
2013	\$	\$	\$	\$
External sales revenue	1,487,412	5,368,674	5,696,820	12,552,906
Segment net profit before tax	280,594	745,914	883,247	1,909,755
Unallocated expense items				(1,551,977)
Interest received				12,513
Profit before tax				370,291
Income tax expense				(361,688)
Profit after tax				8,603

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 2014 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 February 2015
Sydney

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of SomnoMed Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of SomnoMed Limited, which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of SomnoMed Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

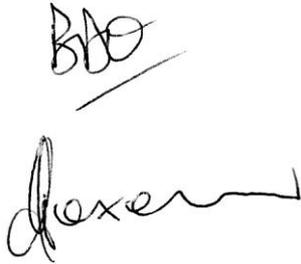
In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of SomnoMed Limited, would be in the same terms if given to the directors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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

BDO East Coast Partnership



Grant Saxon
Partner

Sydney, 18 February 2015

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

As lead auditor for the review of SomnoMed Limited for the half-year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been:

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

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



Grant Saxon
Partner

BDO East Coast Partnership

Sydney, 18 February 2015