

# SOMNOMED LIMITED

A B N 35 003 255 221

## AND CONTROLLED ENTITIES

### Appendix 4D and Half-Year Financial Report

31 December 2010

This half-year report is for the six months ended 31 December 2010. The previous corresponding period is the half-year ended 31 December 2009.

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 ordinary activities	Up 19.6%	988,555	to	6,025,133
Operating profit before corporate and business development expenses, non cash items and income tax	Increased by 36.2%	396,980	to	1,494,951
Profit from ordinary activities after tax attributable to members	Decreased by 51.5%	313,969	to	295,418
Net profit for the period attributable to members	Decreased by 51.5%	313,969	to	295,418
<b>Dividends</b>		Amount per security		Franked amount per security
Final dividend		- ¢		- ¢
Interim dividend		- ¢		- ¢
Record date for determining entitlements to the dividend		Not applicable		
Brief explanation of any of the figures reported above: Refer to comments in the attached Directors' Report.				
<b>NTA Backing</b>		31 December 2010		30 June 2010
Net tangible asset backing per share		11.9¢		11.6¢

# SomnoMed Limited ABN 35 003 255 221 and Controlled Entities

## DIRECTORS' REPORT

Your directors submit the financial report of the economic entity for the half-year ended 31 December 2010.

### Directors

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

Peter Neustadt

Graham Hurst

Paul Hopper

### Review of Operations

SomnoMed Limited announced today its profit for the first half year to December 2010. The strong growth in revenues and improved gross margin enabled the company to generate profits as a whole and in each geographic area. The Company recorded a profit before income tax of \$311,247 for the six months to December 2010, compared to a profit of \$186,397 in the same period in the previous year.

The operating profit before corporate, business development and non-cash items was just under \$1.5 million for the six months to December 2010, a 36% improvement to the 2009 half year's operating result of \$1.1 million.

Sales in the first half of FY 2010/11 continued to grow, with volume increasing by 25% to 11,450 units from 9,140 units in the corresponding half year. Total revenue grew by approximately 20% over the corresponding half year 2009, despite the adverse exchange rate effects of both the US\$ and Euro during this period (29% with constant exchange rates).

As previously foreshadowed, Europe has emerged as the company's second most important sales region, with year on year volume growth of over 122% and a revenue increase in excess of 156%. Main growth areas during the reporting period were in Scandinavia and the Benelux countries.

In the United States, the company's largest market, the half year finished well, with a record number of units sold in December. This came after a softer than expected first quarter, mostly due to uncertainties created by the delays of the Medicare policy announcement and necessary internal restructuring, to strengthen the marketing and sales area.

The gross margin generated increased by 34% to \$3.825 million, due to increased sales and an improved gross margin percentage of 64% (2009 – 57%). The improvement in gross margin percentage is due to the company's investment in manufacturing, logistics and operations, which has allowed management to better control the manufacturing costs.

SomnoMed's balance sheet remains strong with cash of \$3.75 million (2009 \$3.3 million), tangible assets of approximately \$6.6 million and no debt.

At the beginning of 2011 the long awaited US Medicare DME policy was announced. It now defines specific oral appliance standards and treatment processes and clarifies the medical requirements for the doctor and patient. It is expected that many private health insurers, which cover about 200 million Americans, will see the CMS ruling as a precedent to accept the treatment for patients currently not covered, or allow oral appliance treatment as a first option for patients with mild and moderate conditions, before the use of CPAP. Whilst the implementation of these policies usually takes time, they will contribute to strong growth in demand for oral appliances in the future.

## DIRECTORS' REPORT

### REVIEW OF OPERATIONS (Continued)

Commenting on the results in the first six months and the current second half of financial year 2010/11 SomnoMed CEO Ralf Barschow said, "We are quite content with the results achieved in the first half – whilst our units growth was initially running behind our expectations, our new manufacturing laboratory performed excellently and overall financial control allowed us to continue building the basis for future growth and achieving profitability at the same time. The ability to achieve ongoing quarter over quarter growth is very satisfying and we are confident to deliver continuing growth in the current second half year, even though there are events which from time to time impact on our business in the short term, such as the terrible snow storms in the US in late January and February, which closed down our operation in Dallas for almost two weeks."

"It is pleasing that month over month, quarter over quarter our sales continue to increase and there are more frequent signs of acceptance and adaptation of oral appliance treatment around the world, such as the just recently announced US Medicare DME policy. These fundamental changes to health policies are proof that oral appliance treatment is on its way to become a mainstream treatment method for sleep disordered breathing," said Mr Barschow.

"We are very much looking forward to an exciting and prosperous future, given SomnoMed's position as the global leader in oral appliance therapy. We have much to be proud of, with our network of educated dentists, our track record of manufacturing excellence, product and materials quality, our global distribution, as well as the simple fact that our SomnoDent sleep apnea products are world leaders when it comes to clinically proven effectiveness, longevity and patient comfort," said Mr. Barschow.

As announced earlier, Mr. Barschow will transfer in March 2011 from SomnoMed's Sydney office to Dallas to take direct control of the US operation in addition to his function as Global CEO. This reflects the company's belief that the US, especially given the changes in reimbursement policies, will be the largest market for oral appliance treatment for many years to come.

### Auditor's Independence Declaration

The auditor's independence declaration for the half year ended 31<sup>st</sup> December 2010 is set out on page 15 of these half yearly accounts.

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



Peter Neustadt (Chairman)

Dated this 24th February 2011

**CONSOLIDATED INCOME STATEMENT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	<b>Economic Entity</b>	
	<b>31.12.10</b>	<b>31.12.09</b>
	\$	\$
Revenue from sale of goods and services, net of discounts	5,975,566	4,989,041
Cost of Sales	(2,150,078)	(2,142,299)
Gross Margin	<u>3,825,488</u>	<u>2,846,742</u>
Sales and Marketing expenses	(1,595,810)	(965,100)
Administrative expenses	<u>(734,727)</u>	<u>(783,671)</u>
<b>Operating profit before corporate and business development expenses, non cash items and income tax</b>	<b>1,494,951</b>	<b>1,097,971</b>
Corporate and business development expenses	(1,101,224)	(832,564)
Depreciation and amortization	(89,822)	(63,745)
Share and option expense	(60,000)	(43,939)
Revenue from investment activities	49,567	47,537
Share of profit of associated company	25,338	3,012
Realized gain on derivatives	9,311	-
Unrealized foreign exchange loss	(122,907)	(60,252)
Unrealized gain on derivatives	<u>106,033</u>	<u>38,377</u>
<b>Profit before income tax</b>	<b>311,247</b>	<b>186,397</b>
Income tax (expense)/benefit	<u>(15,829)</u>	<u>422,990</u>
<b>Profit attributable to members of the parent entity</b>	<b><u>295,418</u></b>	<b><u>609,387</u></b>
Basic earnings per share (cents)	0.73	1.59
Diluted earnings per share (cents)	0.73	1.59

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	<b>Economic Entity</b>	
	<b>31.12.10</b>	<b>31.12.09</b>
	\$	\$
Profit for the period	295,418	609,387
Other comprehensive income:		
Foreign exchange translation difference for foreign operations	(426,476)	(184,394)
Other comprehensive income for the period	<u>(426,476)</u>	<u>(184,554)</u>
<b>Total comprehensive income/(loss) attributable to members of the parent entity</b>	<u>(131,058)</u>	<u>424,993</u>

The accompanying notes form part of this financial report.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Economic Entity	
	31.12.10	30.06.10
	\$	\$
<b>CURRENT ASSETS</b>		
Cash assets	3,750,025	4,293,676
Trade and other receivables	1,796,633	1,529,345
Inventory	169,410	197,220
Forward exchange contracts	136,837	54,174
Deferred tax asset	31,569	-
<b>TOTAL CURRENT ASSETS</b>	<b>5,884,474</b>	<b>6,074,415</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	685,632	641,924
Investment in associate company	54,436	29,098
Intangible assets	255,134	231,674
Deferred tax asset	706,369	856,701
<b>TOTAL NON-CURRENT ASSETS</b>	<b>1,701,571</b>	<b>1,759,397</b>
<b>TOTAL ASSETS</b>	<b>7,586,045</b>	<b>7,833,812</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	1,496,134	1,872,625
Provisions	273,614	308,834
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,769,748</b>	<b>2,181,459</b>
<b>NON CURRENT LIABILITIES</b>		
Trade and other payables	7,718	1,715
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>7,718</b>	<b>1,715</b>
<b>TOTAL LIABILITIES</b>	<b>1,777,466</b>	<b>2,183,174</b>
<b>NET ASSETS</b>	<b>5,808,579</b>	<b>5,650,638</b>
<b>EQUITY</b>		
Issued capital	23,935,829	23,706,829
Reserves	967,792	1,334,268
Accumulated losses	(19,095,042)	(19,390,459)
<b>TOTAL EQUITY</b>	<b>5,808,579</b>	<b>5,650,638</b>

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	<b>Economic Entity</b>	
	<b>31.12.10</b>	<b>31.12.09</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	5,736,590	4,919,914
Payments to suppliers and employees	(6,421,484)	(5,217,128)
Grants/concessions received	107,724	-
Interest received	51,735	47,537
Net cash inflow/(outflow) from operating activities	(525,435)	(249,677)
<b>CASH FLOWS FROM INVESTING/FINANCING ACTIVITIES</b>		
Proceeds from settlement of forward exchange	32,681	-
Proceeds from issue of shares	229,000	-
Payments for intellectual property	(49,440)	-
Payments for property, plant and equipment	(107,550)	(401,310)
Net cash inflow/(outflow) from investing/financing activities	104,691	(401,310)
<b>Net decrease in cash held</b>	<b>(420,744)</b>	<b>(650,987)</b>
Cash at 30 June 2010	4,293,676	4,008,934
Exchange rate adjustment	(122,907)	(60,252)
<b>Cash at 31 December 2010</b>	<b>3,750,025</b>	<b>3,297,695</b>

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

Economic Entity	Issued Capital	Share Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
<b>Balance at 1<sup>st</sup> July 2009</b>	<b>23,270,829</b>	<b>1,286,919</b>	<b>(47,899)</b>	<b>(20,176,603)</b>	<b>4,333,246</b>
Profit/(loss) attributable to members of parent entity	-	-	-	609,387	609,387
Total other comprehensive income	-	-	(184,394)	-	(184,394)
Share option reserve on recognition of remuneration options	-	43,939	-	-	43,939
<b>Balance at 31<sup>st</sup> December 2009</b>	<b>23,270,829</b>	<b>1,330,858</b>	<b>(232,293)</b>	<b>(19,567,216)</b>	<b>4,802,178</b>
<b>Balance at 1<sup>st</sup> July 2010</b>	<b>23,706,829</b>	<b>1,374,796</b>	<b>(40,528)</b>	<b>(19,390,459)</b>	<b>5,650,638</b>
Profit attributable to members of parent entity	-	-	-	295,418	295,418
Total other comprehensive income	-	-	(426,476)	-	(426,476)
Shares issued during period	229,000	-	-	-	229,000
Share option reserve on recognition of remuneration options	-	60,000	-	-	60,000
<b>Balance at 31<sup>st</sup> December 2010</b>	<b>23,935,829</b>	<b>1,434,796</b>	<b>(467,004)</b>	<b>(19,095,042)</b>	<b>5,808,579</b>



**NOTES TO THE FINANCIAL STATEMENTS FOR THE  
HALF-YEAR ENDED 31 DECEMBER 2010**

**NOTE 1: BASIS OF PREPARATION**

These general purpose financial statements for the interim half-year reporting period ended 31 December 2010 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standards including AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of SomnoMed Ltd and its controlled entities (the Economic Entity). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Economic Entity. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Economic Entity for the year ended 30 June 2010, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

*Operating Segments*

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the group's chief operating decision maker which, for the Economic Entity, is the Board of Directors. In this regard, such information is provided using different measures to those used in preparing the Statement of Comprehensive Income and Statement of Financial Position. Reconciliations of such management information to the statutory information contained in the interim financial report have been included.

	<b>Economic Entity</b>	
	<b>31.12.10</b>	<b>31.12.09</b>
<b>NOTE 2: REVENUE</b>	<b>\$</b>	<b>\$</b>
Operating activities		
Revenue from sale of goods and services, net of discounts	5,975,566	4,989,041
Interest received	49,567	47,537
<b>TOTAL REVENUE</b>	<b>6,025,133</b>	<b>5,036,578</b>

	<b>31.12.10</b>	<b>31.12.09</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 3: PROFIT/(LOSS) FOR THE HALF YEAR</b>		
Profit for the half year is after charging:		
Employee Benefits expense	1,989,189	1,541,211
Depreciation	63,842	37,765
Amortisation of Intellectual Property	25,980	25,980
Operating lease rentals	211,938	118,562
Auditors' remuneration	57,195	58,619

**NOTE 4: DIVIDENDS**

No dividends were paid during or subsequent to the half year ended 31<sup>st</sup> December 2010.

**NOTE 5: ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND RESTRUCTURINGS**

No subsidiaries were acquired or disposed of during the half year ended 31<sup>st</sup> December 2010.

## NOTE 6: SEGMENT INFORMATION

### Segment Information

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 of 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.

### 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 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 income;
- corporate and business development expenses;
- income tax expense; and
- amortisation of intangible assets.

### Information about reportable segments

Geographical location:	Asia Pacific	USA	Europe	Eliminations	Total
<b>2010</b>	\$	\$	\$	\$	\$
<b>External sales revenue</b>	<b>976,639</b>	<b>3,904,162</b>	<b>1,094,765</b>	-	<b>5,975,566</b>
<b>Segment net profit before tax</b>	<b>69,427</b>	<b>1,279,707</b>	<b>110,993</b>	-	<b>1,460,128</b>
Unallocated expense items					(1,198,448)
Interest received					49,567
<b>Profit before tax</b>					<b>311,247</b>
Income tax expense					(15,829)
<b>Profit after tax</b>					<b>295,418</b>

Geographical location:	Asia Pacific	USA	Europe	Eliminations	Total
<b>2009</b>	\$	\$	\$	\$	\$
<b>External sales revenue</b>	<b>969,083</b>	<b>3,517,334</b>	<b>502,624</b>	-	<b>4,989,041</b>
<b>Segment net profit/(loss) before tax</b>	<b>144,227</b>	<b>1,018,260</b>	<b>(102,280)</b>	-	<b>1,060,207</b>
Unallocated expense items					(921,347)
Interest received					47,537
<b>Profit before tax</b>					<b>186,397</b>
Income tax benefit					422,990
<b>Profit after tax</b>					<b>609,387</b>

**NOTE 7: DISCONTINUING OPERATIONS**

No operations were discontinued during the half-year ended 31<sup>st</sup> December 2010.

**NOTE 8: INVESTMENTS IN ASSOCIATED COMPANY**

SomnoMed Limited owns 50% of SMH Biometrical AG, a company incorporated in Switzerland. SomnoMed Limited has equity accounted for its share of the associate's profit in the current period. The half yearly result includes 50% of the profit of SMH Biomaterial AG being \$25,338 (2009 – \$3,012).

**NOTE 9: CONTINGENT LIABILITIES**

As 31<sup>st</sup> December 2010 no contingent liabilities existed.

**NOTE 10: 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.

**NOTE 11: SHARE CAPITAL**

As at 31<sup>st</sup> December 2010 there is a total of 40,317,756 shares on issue.

## **DIRECTORS' DECLARATION**

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 4 to 11 are in accordance with the Corporations Acts 2001, including:
  - a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - b. giving a true and fair view of the economic entity's financial position as at 31 December 2010 and of its performance for the half year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Peter Neustadt (Chairman)

Dated 24<sup>th</sup> February 2011

**INDEPENDENT AUDITOR'S REVIEW REPORT  
TO THE MEMBERS OF SOMNOMED LIMITED**

We have reviewed the accompanying half-year financial report of SomnoMed Limited and Controlled Entities (the consolidated entity) which comprises the statement of financial position as at 31 December 2010, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

**Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**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 an Interim 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 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 2010 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 and Controlled Entities, 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*, provided to the directors of SomnoMed Limited and Controlled Entities would be in the same terms if provided to the directors as at the date 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 and Controlled Entities 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 2010 and of its performance and its cash flow for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

## **STIRLING INTERNATIONAL**

Chartered Accountants



P Turner

Partner


Sydney, NSW 24th day of February 2011

**LEAD AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF SOMNOMED LIMITED**

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2010 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Stirling International  
Chartered Accountants

  
.....

**Peter Turner**

Partner

24th February 2011

St James Centre 111 Elizabeth St Sydney 2000