

# SOMNOMED LIMITED

A B N 35 003 255 221

## AND CONTROLLED ENTITIES

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

31 December 2011

This half-year report is for the six months ended 31 December 2011. The previous corresponding period is the half-year ended 31 December 2010.

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 14.6%	871,353	to	6,846,919
Revenues from ordinary activities	Up 14.8%	892,371	to	6,917,504
Operating profit before corporate and business development expenses, non cash items and income tax	Increased by 0.7%	11,140	to	1,506,091
Profit/(loss) from ordinary activities after tax attributable to members	Decreased by	299,100	to	(3,682)
Net profit/(loss) for the period attributable to members	Decreased by	299,100	to	(3,682)
<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 2011		30 June 2011
Net tangible asset backing per share		13.6c		12.4c

# 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 2011.

### Directors

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

Peter Neustadt

Graham Hurst

Lee Ausburn (appointed 30 September 2011)

Robert Scherini (appointed 30 September 2011)

Paul Hopper (resigned 30 September 2011)

Commenting on the results in the first six months SomnoMed CEO Ralf Barschow said, "We are happy with the results achieved in the first half given a great deal of time and dollars were invested in the longer future of the company during this period. Much of the expenditure incurred during the half year will benefit the company in the years ahead."

SomnoMed has generated a positive EBITDA for the half year, despite the continuing investment and expenditure the company has made into new subsidiaries in both France and Germany and expenses relating to the acquisition of Goedegebuure Slaaptechniek B.V., as well as ongoing business developments within the medical arena and internal quality/regulatory systems.

The further investment made in SomnoMed's Philippine manufacturing operation during the half year helped the gross margin generated increase by 18% to \$4.515 million and affords SomnoMed not only complete quality and technical control but also control of manufacturing cost. The overall gross margin percentage improved to 66% (2010 – 64%). Total revenue grew by approximately 15% over the corresponding half year despite the strength of the Australian Dollar during the half year (23% with constant exchange rates).

Whilst the global market and demand for apnea treatments is growing steadily, it is also pleasing that the signs of acceptance and adaptation of the SomnoDent<sup>®</sup> therapy, as an extended third treatment option are now seen around the world. During the first half year the entire SomnoDent<sup>®</sup> line of products was registered and assigned a PDAC code 0486, which allows US Medicare registered dentists to receive reimbursement for the treatment of their Medicare covered patients. Further in Germany the first SomnoMed contract with an insurance company in that country was signed.

"These changes to health insurance will start to shape further reimbursement policies are again proof that medical oral appliances and the leading brand SomnoDent<sup>®</sup> are on its way to become a mainstream treatment method for obstructive sleep apnea," said Mr Barschow.

"We are looking forward to the second half where we will continue to focus on building strategic medical and dental distribution pathways, as well as building on our previous track record of operational and manufacturing excellence," said Mr. Barschow. "Our earlier announcement regarding the investment SomnoMed has made in the company Goedegebuure Slaaptechniek in Holland will continue to strengthen our position within the European market, with further growth anticipated from this acquisition."

### Auditor's Independence Declaration

The auditor's independence declaration for the half year ended 31<sup>st</sup> December 2011 is set out on page 14 of these half yearly accounts.

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



Peter Neustadt (Chairman)

Dated this 23rd February 2012

**CONSOLIDATED INCOME STATEMENT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

	<b>Economic Entity</b>	
	<b>31.12.11</b>	<b>31.12.10</b>
	\$	\$
Revenue from sale of goods and services, net of discounts	6,846,919	5,975,566
Cost of Sales	(2,332,143)	(2,150,078)
Gross Margin	<u>4,514,776</u>	<u>3,825,488</u>
Sales and Marketing expenses	(1,924,009)	(1,595,810)
Administrative expenses	<u>(1,084,676)</u>	<u>(734,727)</u>
<b>Operating profit before corporate, research and business development expenses, non cash items and income tax</b>	<b>1,506,091</b>	<b>1,494,951</b>
Corporate, research and business development expenses	(1,260,487)	(1,101,224)
Depreciation and amortization	(203,085)	(89,822)
Share and option expense	(42,940)	(60,000)
Revenue from investment activities	70,585	49,567
Share of profit of associated company	43,450	25,338
Unrealized foreign exchange loss	(55,004)	(122,907)
Realized gain on derivatives	-	9,311
Unrealized gain on derivatives	-	106,033
<b>Profit before income tax</b>	<b>58,610</b>	<b>311,247</b>
Income tax expense	<u>(62,292)</u>	<u>(15,829)</u>
<b>Profit/(loss) attributable to members of the parent entity</b>	<b><u>(3,682)</u></b>	<b><u>295,418</u></b>
Basic earnings per share (cents)	-	0.73
Diluted earnings per share (cents)	-	0.73

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

	<b>Economic Entity</b>	
	<b>31.12.11</b>	<b>31.12.10</b>
	\$	\$
Profit/(loss) for the period	(3,682)	295,418
Other comprehensive income:		
Foreign exchange translation difference for foreign operations	(16,353)	(426,476)
Other comprehensive income for the period	<u>(16,353)</u>	<u>(426,476)</u>
<b>Total comprehensive income/(loss) attributable to members of the parent entity</b>	<u><b>(20,035)</b></u>	<u><b>(131,058)</b></u>

The accompanying notes form part of this financial report.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Economic Entity	
	31.12.11	30.06.11
	\$	\$
<b>CURRENT ASSETS</b>		
Cash assets	3,261,432	3,948,718
Trade and other receivables	2,637,602	2,201,657
Inventory	229,813	177,350
<b>TOTAL CURRENT ASSETS</b>	6,128,847	6,327,725
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	1,145,784	1,140,456
Investment in associate company	128,154	84,704
Intangible assets	438,655	328,204
Deferred tax asset	831,040	850,791
Loans executive share purchases	500,600	-
<b>TOTAL NON-CURRENT ASSETS</b>	3,044,233	2,404,155
<b>TOTAL ASSETS</b>	9,173,080	8,731,880
<b>CURRENT LIABILITIES</b>		
Trade and other payables	1,970,954	2,201,822
Provisions	316,197	307,493
<b>TOTAL CURRENT LIABILITIES</b>	2,287,151	2,509,315
<b>NON CURRENT LIABILITIES</b>		
Trade and other payables	16,342	5,483
<b>TOTAL NON CURRENT LIABILITIES</b>	16,342	5,483
<b>TOTAL LIABILITIES</b>	2,303,494	2,514,798
<b>NET ASSETS</b>	<b>6,869,586</b>	<b>6,217,082</b>
<b>EQUITY</b>		
Issued capital	24,670,429	24,040,829
Reserves	853,761	821,175
Accumulated losses	(18,654,604)	(18,650,922)
<b>TOTAL EQUITY</b>	<b>6,869,586</b>	<b>6,217,082</b>

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

	<b>Economic Entity</b>	
	<b>31.12.11</b>	<b>31.12.10</b>
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	6,427,527	5,736,590
Payments to suppliers and employees	(7,093,715)	(6,421,484)
Grants/concessions received	163,927	107,724
Interest received	72,422	51,735
Income tax paid	(62,747)	-
Net cash inflow/(outflow) from operating activities	<u>(492,586)</u>	<u>(525,435)</u>
<b>CASH FLOWS FROM INVESTING/FINANCING ACTIVITIES</b>		
Proceeds from settlement of forward exchange	-	32,681
Proceeds from issue of shares	129,000	229,000
Payments for intangible assets	(136,838)	(49,440)
Payments for property, plant and equipment	(145,300)	(107,550)
Net cash inflow/(outflow) from investing/financing activities	<u>(153,138)</u>	<u>104,691</u>
<b>Net decrease in cash held</b>	<b>(645,724)</b>	<b>(420,744)</b>
Cash at 30 June 2011	3,948,718	4,293,676
Exchange rate adjustment	(41,564)	(122,907)
<b>Cash at 31 December 2011</b>	<b><u>3,261,430</u></b>	<b><u>3,750,025</u></b>

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

Economic Entity	Issued Capital	Share Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
<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>
<b>Balance at 1<sup>st</sup> July 2011</b>	<b>24,040,829</b>	<b>1,497,396</b>	<b>(670,221)</b>	<b>(18,650,922)</b>	<b>6,217,082</b>
Loss attributable to members of parent entity	-	-	-	(3,682)	(3,682)
Total other comprehensive income	-	-	(16,353)	-	(16,353)
Shares issued during period	629,600	-	-	-	629,600
Share option reserve on recognition of remuneration options	-	42,939	-	-	42,939
<b>Balance at 31<sup>st</sup> December 2011</b>	<b>24,670,429</b>	<b>1,540,335</b>	<b>(686,574)</b>	<b>(18,654,604)</b>	<b>6,869,586</b>

The accompanying notes form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE  
HALF-YEAR ENDED 31 DECEMBER 2011**

**NOTE 1: BASIS OF PREPARATION**

These general purpose financial statements for the interim half-year reporting period ended 31 December 2011 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 2011, 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.

	<b>Economic Entity</b>	
	<b>31.12.11</b>	<b>31.12.10</b>
	\$	\$
<b>NOTE 2: REVENUE</b>		
Operating activities		
Revenue from sale of goods and services, net of discounts	6,846,919	5,975,566
Interest received	70,585	49,567
<b>TOTAL REVENUE</b>	<b><u>6,917,504</u></b>	<b><u>6,025,133</u></b>

**NOTE 3: PROFIT/(LOSS) FOR THE HALF YEAR**

Profit/(loss) for the half year is after charging:

Employee benefits expense	2,655,831	1,989,189
Depreciation	177,105	63,842
Amortisation of intellectual property	25,980	25,980
Operating lease rentals	220,107	211,938
Auditors' remuneration	63,485	57,195

**NOTE 4: DIVIDENDS**

No dividends were paid during or subsequent to the half year ended 31<sup>st</sup> December 2011.

**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 2011.

In January 2012 the Company entered into an agreement to acquire the Dutch oral appliance distribution company Goedegebuure Slaaptechniek B.V. ("GS"). The consideration for the first 50% of the capital of GS was one million Euro, of which 250,000 Euro was paid in cash and the balance by way of issue of 805,664 shares in SomnoMed Limited issued at A\$1.28 per share. The remaining 50% of GS will be acquired by Somnomed over a period of 5 years in four equal annual portions commencing in April 2014. The price for these 12.5% tranches will be linked to the net profits generated by GS's business in the Netherland and will be payable half in cash and half in shares in SomnoMed Limited.



## **NOTE 6: SEGMENT INFORMATION**

### **Segment Information**

An operating segment is a component of the Economic 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 Economic 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 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>2011</b>	\$	\$	\$	\$	\$
<b>External sales revenue</b>	<b>1,153,759</b>	<b>4,288,813</b>	<b>1,404,347</b>	-	<b>6,846,919</b>
<b>Segment net profit before tax</b>	<b>54,128</b>	<b>1,069,751</b>	<b>123,648</b>		<b>1,247,527</b>
Unallocated expense items					(1,259,502)
Interest received					70,585
<b>Profit before tax</b>					<b>58,610</b>
Income tax expense					(62,292)
<b>(Loss) after tax</b>					<b>(3,682)</b>

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>

### NOTE 7: DISCONTINUING OPERATIONS

No operations were discontinued during the half-year ended 31<sup>st</sup> December 2011.

### 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 \$43,450 (2010 – \$25,338).

### NOTE 9: CONTINGENT LIABILITIES

At 31<sup>st</sup> December 2011 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, except as noted in Note 5.

### NOTE 11: SHARE CAPITAL

As at 31<sup>st</sup> December 2011 there was a total of 41,212,756 shares on issue (2010 – 40,317,756). In January 2012 a further 805,664 shares were issued as part consideration for the acquisition of Goedegebuure Slaaptechniek B.V.

## DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 3 to 10 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 2011 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 23rd February 2012



**STIRLING INTERNATIONAL**  
CHARTERED ACCOUNTANTS

**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 consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of changes in equity and the consolidated cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies, other selected explanatory notes and the directors' declaration.

**Directors' Responsibility for the Half-Year Financial Report**

The directors of the consolidated entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such 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 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 2011 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 2011 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

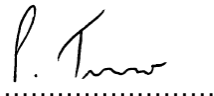
Sydney, NSW 24<sup>th</sup> day of February 2012

**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 2011 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

24<sup>th</sup> February 2012

283-285 Clarence Street Sydney 2000