

**SOMNOMED LIMITED**  
**A B N 35 003 255 221**  
**AND CONTROLLED ENTITIES**

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

**31 December 2012**

This half-year report is for the six months ended 31 December 2012. The previous corresponding period is the half-year ended 31 December 2011.

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 \$2,179,572 (31.8%)	to	\$9,026,491
Revenues from ordinary activities	Up \$2,168,197 (31.3%)	to	\$9,085,701
Operating profit before corporate and business development expenses, non cash items and income tax	Up \$767,997 (51%)	to	\$2,274,068
Profit/(loss) from ordinary activities after tax attributable to members	Up \$195,188	to	\$191,506
Net profit/(loss) for the period attributable to members	Up \$195,188	to	\$191,506
<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 2012		30 June 2012
Net tangible asset backing per share	15.1 cents		14.1 cents

# 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 2012.

### Directors

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

Peter Neustadt

Lee Ausburn

Robert Scherini

SomnoMed posted its results for the first half of the financial year 2012/13, showing strong revenue and unit sales growth, significantly enhanced profits and stable cash management. Once again SomnoMed was able to finance its expansion and acquisitions from its cash flow and maintained its cash position over the six months period. Group revenues exceeded \$9 million for the half year, growing by 32% year on year, SomnoDent® unit sales increased by 19% year on year and EBITDA was \$723,000, almost three times the amount recorded in the same period in the previous year. Whilst delivering this high growth in profits, the company was able to invest in the future, with expenditure relating to the acquisitions in France and Sweden and recruitment costs relating to the restructuring and expansion of our management team in the US. On a normalized basis EBITDA would have been in the order of 11%, instead of the reported 8% of revenues, confirming the growth in profitability connected to growing revenues.

Strong revenue growth was achieved despite adverse exchange rate movements and reflects the integration of the Dutch acquisition, as well as the growth in global sales achieved.

SomnoDent® sales grew strongly in all regions, reaching new records with total volume for the six months now at 17,182 units. Whilst sales in Europe (+26%) and in APAC (+13%) were above expectations, US sales increased by 16% in the half year and were behind expectations, despite record sales achieved by our third party licensees in the US and Canada.

US direct sales growth was affected by significant restructuring of our sales & marketing organisation aiming to upgrade the quality of our team and expanding the medical capabilities. The recruitment and restructuring program, together with a range of new initiatives and action programs, are now underway and are expected to generate higher growth in the second half of the financial year and especially in the following years. Under the new leadership of Dr. Kien Nguyen, President of SomnoMed North America, the upper management of SomnoMed North America has been reviewed and a number of new appointments have been made or are imminent. We believe this will allow SomnoMed North America to expand its position as the leading quality custom made oral appliance in the US and gain increasing support and referrals from medical specialists in the US.

The operating profit before corporate, business development and non-cash items was \$2.27 million for the six months to December 2012, up by 51% from the 2011 half year's operating result of \$1.5 million. Whilst delivering this increase the company was at the same time able to bolster and finance its investment in the future, incurring acquisition and legal costs relating to our French acquisition Orthosom and MAS Nordic, the investment in the wider European business footprint, investment in new product development and the restructuring of the US management team.

The gross margin generated increased by 32% to \$5.96 million, due to increased sales and a stable group gross margin percentage of 66%. The SomnoDent® gross margin percentage was maintained at around 70%.

## DIRECTORS' REPORT

Commenting on the results in the first six months of the fiscal year 2012/13 SomnoMed Executive Chairman Dr. Peter Neustadt said, "We are pleased with the results achieved in the first half, the strong growth in revenues and profits. Whilst our unit growth was running during the half year at the lower end of our expectations, our dental and new medical initiatives in the US will now begin to build the platform for our company's future growth and allow us to reach a higher level of growth in the second half and in the future. We are very confident that our strong executive team in the US under the new leadership of Dr. Kien Nguyen will achieve excellent results for SomnoMed in North America in the short, medium and long term future.

"It is also reassuring for our strategy and vision for SomnoMed's future that signs of a growing acceptance and adaptation of oral appliance treatment can be seen around the world and are, once again, supported by recent clinical research proving the efficacy of SomnoDent® in treating all levels of severity in sleep disordered breathing patients. The publication of the Randomized Controlled Clinical Trial of Health Outcomes of CPAP vs Oral Appliance Treatment for Obstructive Sleep Apnea in the American Journal of Respiratory and Critical Care Medicine this month, which compared SomnoDent MAS and Resmed's CPAP in an Australian Federal Government funded cross over study of over three years, concluded that the outcome of treatment of both treatment methods was equally successful after taking a range of factors into consideration. This is a benchmark study involving our SomnoDent® devices. It is particularly important that the most prestigious journal in respiratory medicine published this study and thus presents these results to medical specialists on a global basis," said Dr. Neustadt.

"We are very pleased with the strength of the company's current earnings run rate, which demonstrates SomnoMed's potential to generate significant earnings in line with other medical device companies, once revenues have grown to the levels we expect to see within the next three years. We are looking forward to the second half where we will be focusing on building on the initial launch success of our new G2, new strategic sales pathways, as well as developing the medical initiative in the US, while continuing on our previous track record of manufacturing excellence, product and materials quality and our global distribution," said Dr. Neustadt.

SomnoMed's balance sheet remains strong with cash of \$3.535 million (2011- \$3.261 million) and no debt.

### **Auditor's Independence Declaration**

The auditor's independence declaration for the half year ended 31<sup>st</sup> December 2012 is set out on page 17 of these half yearly accounts.

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



Dr. Peter Neustadt

Executive Chairman

Dated this 26<sup>th</sup> February 2013

**CONSOLIDATED INCOME STATEMENT  
FOR HALF-YEAR ENDED 31 DECEMBER 2012**

	<b>Economic Entity</b>	
	<b>31.12.12</b>	<b>31.12.11</b>
	\$	\$
Revenue from sale of goods and services, net of discounts	9,026,491	6,846,919
Cost of Sales	(3,063,952)	(2,332,143)
Gross Margin	<u>5,962,539</u>	<u>4,514,776</u>
Sales and Marketing expenses	(2,088,786)	(1,924,009)
Administrative expenses	<u>(1,599,685)</u>	<u>(1,084,676)</u>
<b>Operating profit before corporate, research and business development expenses, non cash items and income tax</b>	<b>2,274,068</b>	<b>1,506,091</b>
Corporate, research and business development expenses	(1,551,248)	(1,260,487)
Depreciation and amortization	(229,916)	(203,085)
Share and option expense	(107,712)	(42,940)
Revenue from investment activities	59,210	70,585
Share of profit of associated company	35,107	43,450
Unrealized foreign exchange loss	(47,336)	(55,004)
Realized gain on derivatives	6,899	-
Unrealized loss on derivatives	<u>(27,038)</u>	<u>-</u>
<b>Profit before income tax</b>	<b>412,034</b>	<b>58,610</b>
Income tax expense	(131,252)	(62,292)
<b>Profit/(loss) for the period</b>	<b><u>280,782</u></b>	<b><u>(3,682)</u></b>
Profit for the period is attributable to:		
Non-controlling interest	89,276	-
Owners of the parent	191,506	(3,682)
	<u>280,782</u>	<u>(3,682)</u>
Basic earnings per share (cents)	0.45	-
Diluted earnings per share (cents)	0.45	-

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

	<b>Economic Entity</b>	
	<b>31.12.12</b>	<b>31.12.11</b>
	\$	\$
Profit/(loss) for the period	280,782	(3,682)
Other comprehensive income:		
<b>Items may be reclassified subsequently to profit or loss</b>		
Foreign exchange translation difference for foreign operations	166,731	(16,353)
Other comprehensive income for the period	<u>166,731</u>	<u>(16,353)</u>
<b>Total comprehensive income/(loss) for the period</b>	<u>447,516</u>	<u>(20,035)</u>
Total comprehensive income attributable to:		
Non-controlling interest	89,276	-
Owners of the parent	358,240	(20,035)
	<u>447,516</u>	<u>(20,035)</u>

The accompanying notes form part of this financial report.

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2012

	Economic Entity	
	31.12.12	30.06.12
	\$	\$
<b>CURRENT ASSETS</b>		
Cash assets	3,535,079	3,537,587
Trade and other receivables	3,830,265	3,741,407
Inventory	811,153	500,229
<b>TOTAL CURRENT ASSETS</b>	8,176,497	7,779,223
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	988,586	1,068,831
Investment in associate company	194,902	159,795
Intangible assets	2,375,006	1,808,536
Deferred tax asset	1,124,360	1,181,726
<b>TOTAL NON-CURRENT ASSETS</b>	4,682,854	4,218,888
<b>TOTAL ASSETS</b>	12,859,351	11,998,111
<b>CURRENT LIABILITIES</b>		
Trade and other payables	2,579,886	3,041,511
Provisions	265,121	338,219
<b>TOTAL CURRENT LIABILITIES</b>	2,845,007	3,379,730
<b>NON CURRENT LIABILITIES</b>		
Trade and other payables	13,936	12,034
<b>TOTAL NON CURRENT LIABILITIES</b>	13,936	12,034
<b>TOTAL LIABILITIES</b>	2,858,943	3,391,764
<b>NET ASSETS</b>	<b>10,004,408</b>	<b>8,606,347</b>
<b>EQUITY</b>		
Issued capital	25,919,529	25,387,429
Reserves	1,424,635	1,150,192
Accumulated losses	(17,934,736)	(18,126,242)
Parent interests	9,409,428	8,411,379
Non-controlling interests	590,980	194,968
<b>TOTAL EQUITY</b>	<b>10,004,408</b>	<b>8,606,347</b>

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

	<b>Economic Entity</b>	
	<b>31.12.12</b>	<b>31.12.11</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	8,735,369	6,427,527
Payments to suppliers and employees	(8,980,335)	(7,093,715)
Grants/concessions received	-	163,927
Interest received	55,800	72,422
Income tax paid	(8,697)	(62,747)
Net cash inflow/(outflow) from operating activities	(197,863)	(492,586)
<b>CASH FLOWS FROM INVESTING/FINANCING ACTIVITIES</b>		
Proceeds from settlement of forward exchange	27,544	-
Proceeds from issue of shares	540,754	129,000
Acquisition of subsidiary	(372,554)	-
Payments for intangible assets	(26,186)	(136,838)
Payments for property, plant and equipment	(51,327)	(145,300)
Net cash inflow/(outflow) from investing/financing activities	118,231	(153,138)
<b>Net decrease in cash held</b>	<b>(79,632)</b>	<b>(645,724)</b>
Cash at 30 June 2012	3,537,587	3,948,718
Exchange rate adjustment	77,124	(41,564)
<b>Cash at 31 December 2012</b>	<b>3,535,079</b>	<b>3,261,430</b>

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2012**

	Issued Capital	Share Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Owners of parent	Non- controlling interest	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1 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>	-	<b>6,217,082</b>
Share option reserve on recognition of remuneration options	-	42,939	-	-	42,939	-	42,939
Shares issued during the period	629,600	-	-	-	629,600	-	629,600
Total other comprehensive income	-	-	(16,353)	-	(16,353)	-	(16,353)
Loss for period	-	-	-	(3,682)	(3,682)	-	(3,682)
<b>Balance at 31 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>	-	<b>6,869,586</b>
<b>Balance at 1 July 2012</b>	<b>25,387,429</b>	<b>1,583,275</b>	<b>(433,083)</b>	<b>(18,126,242)</b>	<b>8,411,379</b>	<b>194,968</b>	<b>8,606,347</b>
Shares issued during the period	532,100	-	-	-	532,100	-	532,100
Share option reserve on recognition of remuneration options	-	107,712	-	-	107,712	-	107,712
Recognition of non-controlling interest	-	-	-	-	-	306,736	306,736
Total other comprehensive income	-	-	166,731	-	166,731	-	166,731
Profit for the period	-	-	-	191,506	191,506	89,276	280,782
<b>Balance at 31 December 2012</b>	<b>25,919,529</b>	<b>1,690,987</b>	<b>(266,352)</b>	<b>(17,934,736)</b>	<b>9,409,428</b>	<b>590,980</b>	<b>10,004,408</b>

The accompanying notes form part of these financial statements.



## **NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

### **NOTE 1: SIGNIFICANT ACCOUNTING POLICIES**

#### **Statement of compliance**

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

#### **Basis of preparation**

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2012 annual financial report for the financial year ended 30 June 2012, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

### **NOTE 2: CHANGES IN ACCOUNTING POLICIES**

#### **Presentation of transactions recognised in other comprehensive income**

From 1 July 2012 the Consolidated Entity applied amendments to AASB 134 Interim Financial Reporting outlined in AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income. The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and require the Consolidated Entity to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss.

#### **Other changes in accounting policy**

The financial report has been prepared on the basis of a retrospective application of a change in accounting policy relating to advances to executives to acquire shares in the Company. In the previous period all loans relating to the acquisition of shares in the Company were recognised as financial assets and shares issued were recognised at the date of issue in the share capital of the Company, as the accounting standards were not prescriptive in this area.

The Directors believe a more appropriate treatment going forward is to record the shares in the accounts of the Company only when the cash has been received for these shares and accordingly, no financial asset is recognised upon issue of the shares. There may from time to time be employee share based payment expenses recognised upon the issue of the shares.

The new accounting policy was adopted during the period under review and has been applied retrospectively. Management judges that the change in policy will result in the financial report providing more relevant and no less reliable information given the non-recourse nature of the advances and the likelihood that the quantum of advances may increase over time.

The impact of the change in accounting policy on the Consolidated Balance Sheet, although immaterial is that the non-current receivables, non-current assets, total assets and net assets were reduced by \$313,400 as at 30 June 2012. Issued capital, parent interests and total equity were also reduced by \$313,400 as at 30 June 2012. There is no impact on the Consolidated Income Statement, Consolidated Statement of Comprehensive Income or Consolidated Cash Flow Statement or on the basic and diluted earnings per share.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE  
HALF-YEAR ENDED 31 DECEMBER 2012**

	<b>Economic Entity</b>	
	<b>31.12.12</b>	<b>31.12.11</b>
<b>NOTE 3: REVENUE</b>	<b>\$</b>	<b>\$</b>
Operating activities		
Revenue from sale of goods and services, net of discounts	9,026,491	6,846,919
Interest received	59,210	70,585
<b>TOTAL REVENUE</b>	<b>9,085,701</b>	<b>6,917,504</b>

	<b>Economic Entity</b>	
	<b>31.12.12</b>	<b>31.12.11</b>
<b>NOTE 4: PROFIT/(LOSS) FOR THE HALF YEAR</b>	<b>\$</b>	<b>\$</b>
Profit/(loss) for the half year is after charging:		
Employee benefits expense	3,393,015	2,655,831
Depreciation	173,931	177,105
Amortisation of intellectual property	55,982	25,980
Operating lease rentals	279,200	220,107
Auditors' remuneration	73,298	63,485

**NOTE 5: DIVIDENDS**

No dividends were paid during or subsequent to the half year ended 31<sup>st</sup> December 2012.

**NOTE 6: ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND RESTRUCTURINGS**

**Subsidiary Company acquired during the year**

SomnoMed acquired the Orthosom business in France on 30<sup>th</sup> November 2012.

**Purchase consideration**

- (i) The purchase was satisfied by the issue of 35% of the shares in SomnoMed France and cash.

	<b>\$</b>
Cash paid to vendors	372,554
Issue of shares in SomnoMed France	266,740
Total purchase consideration	<u>639,294</u>
Fair value of net identifiable assets	(90,214)
Goodwill (at date of acquisition)	<u>549,081</u>

Goodwill arose on acquisition of Orthosom because the acquisition included customer relations and market knowledge, which could not be recognized separately from goodwill.

- (ii) Assets and liabilities acquired

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

Inventory	45,017
Property, plant and equipment	45,196
100% net identifiable assets acquired	<u>90,214</u>

- (iii) Revenue and Net loss after tax of SomnoMed France included in the consolidated revenue and results since the acquisition date amounted to \$30,166 and (\$22,132) respectively.

The consolidated profit for the group would not be materially different had the results of Orthosom been consolidated from 1 July 2012.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE  
HALF-YEAR ENDED 31 DECEMBER 2012**

**NOTE 7: SHARE CAPITAL**

	<b>Economic Entity</b>	
	<b>31.12.12</b>	<b>30.06.12</b>
Issued and fully paid ordinary shares	\$	\$
43,112,815 shares on issue (2011– 41,212,756)		
Issued Capital	26,473,479	25,700,829
Less shares issued but not recorded in accounts due to revised accounting policy:		
25,000 shares issued at 60 cents	(15,000)	(15,000)
125,000 shares issued at 80 cents	(100,000)	(100,000)
160,000 shares issued at \$1.24	(198,400)	(198,400)
165,000 shares issued at 79 cents	(130,350)	-
190,000 shares issued at 58 cents	(110,200)	-
	(553,950)	(313,400)
Share capital recorded in Company accounts	25,919,529	25,387,429

In January 2013 a further 175,024 shares were issued in conjunction with the acquisition of the MAS Nordic business.

**NOTE 8: 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.

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 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.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE  
HALF-YEAR ENDED 31 DECEMBER 2012**

**NOTE 8: SEGMENT INFORMATION (continued)**

**Information about reportable segments**

<b>Geographical location:</b>	<b>Asia Pacific</b>	<b>USA</b>	<b>Europe</b>	<b>Total</b>
<b>2012</b>	\$	\$	\$	\$
<b>External sales revenue</b>	<b>1,313,990</b>	<b>4,725,074</b>	<b>2,987,427</b>	<b>9,026,491</b>
<b>Segment net profit before tax</b>	<b>261,632</b>	<b>1,437,903</b>	<b>370,598</b>	<b>2,070,133</b>
Unallocated expense items				(1,717,309)
Interest received				59,210
<b>Profit before tax</b>				<b>412,034</b>
Income tax expense				(131,252)
<b>Profit after tax</b>				<b>280,782</b>

<b>Geographical location:</b>	<b>Asia Pacific</b>	<b>USA</b>	<b>Europe</b>	<b>Total</b>
<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>Profit/(loss) after tax</b>				<b>(3,682)</b>

**NOTE 9: GOODWILL**

**31.12.12**      **31.12.11**  
\$                      \$

**Gross Carrying Amount**

Balance beginning of period	1,321,190	-
Additional amount recognised from business combination during the period (refer Note 6*)	586,094	-
Balance at end of period	1,907,284	-

**Accumulated impairment losses**

Balance beginning of period	-	-
Additional amount recognised from business combination during the period	-	-
Balance at end of period	-	-

**Net book value**

Balance beginning of period	1,321,190	-
Balance at end of period	1,907,284	-

\* Goodwill on consolidation is translated at 31<sup>st</sup> December 2012 closing exchange rate, which differs to the goodwill calculation in note 6 as that calculation used the exchange rate on the date of acquisition.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE  
HALF-YEAR ENDED 31 DECEMBER 2012**

**NOTE 10: DISCONTINUING OPERATIONS**

No operations were discontinued during the half-year ended 31<sup>st</sup> December 2012.

**NOTE 11: 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 \$35,107 (2011 – \$43,450).

**NOTE 12: CONTINGENT LIABILITIES**

At 31<sup>st</sup> December 2012 no contingent liabilities or capital commitments existed other than the remaining 50% of the Dutch oral appliance distribution company Goedegebuure Slaaptechniek B.V 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 future net profits generated by this business in the Netherlands and will be payable half in cash and half in shares in SomnoMed Limited.

In December 2012 an agreement was entered into to acquire the MAS Nordic business on 3<sup>rd</sup> January 2013. Consideration of approximately A\$430,000 was payable for this acquisition and subject to the performance of SomnoMed's business in the Nordic region, additional SomnoMed shares to the value of approximately A\$86,000 may be issued over the next three years as part of this acquisition.

**NOTE 13: 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 12.

## DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 4 to 13 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 2012 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 26<sup>th</sup> February 2013



**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 balance sheet as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows 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 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 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 2012 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 given to the directors as at the time of this auditor's report.

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## **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 2012 and of its performance 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 26<sup>th</sup> day of February 2013




**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 2012 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

  
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**Peter Turner**

Partner

26<sup>th</sup> February 2013

285 Clarence St Sydney 2000