SOMNOMED LIMITED
ABN 35 003 255 221
ASX Preliminary final report – 30 June 2013

Lodged with the ASX under Listing Rule 4.3A

Contents

SomnoMed Limited
Year ended 30 June 2013
Results for Announcement to the Market

				2013	2012
Revenue from ordinary activities	Increase by $3,242,420	Increase by 21.3%	to	$18,488,871	$15,246,451
Profit from ordinary activities after tax attributable to members	Increase by $64,113	Increase by 12.2%	to	$588,793	$524,680
Net Profit for the period attributable to members	Increase by $64,113	Increase by 12.2%	to	$588,793	$524,680
Profit from ordinary activities before tax attributable to members	Decrease by $233,760	Decrease by 65.0%	to	$126,084	$359,844

Additional dividend/distribution information

Details of dividends/distributions declared or paid during or subsequent to the year ended 30 June 2013 are as follows:

Dividends/distributions	Amount per security	Franked amount per security
Final dividend	Nil	Nil
Interim dividend	Nil	Nil

The Board has resolved that no dividend will be paid for the year ended 30 June 2013.

Record date for determining entitlements to the dividend | N/A |

SomnoMed posts strong growth and builds solid foundations during 2013

SomnoMed Limited finished the financial year 2012/13 with total revenues of $18.49 million, a growth of 21.3% above the previous year.

EBITDA for the year came to $830,000, which includes the investments made during the year in the recruitment of executives and staff and the build-up of the US medical departments, restructuring of the US dental sales and customer service departments and the expenses relating to the acquisition of European businesses. Taking these investments of approximately $1.47m into account, the underlying EBITDA for 2012/13 was in the order of $2.3m or 12% of group revenue.

Seasonally stronger fourth quarter sales, with record sales in all regions, assisted SomnoMed in achieving full year unit sales of 35,841 and a growth of 16% over the prior year. Apnea unit sales have shown good growth over the previous period, especially in the fourth quarter, where sales above 10,000 units were achieved for the first time in a quarter.

The outstanding performer for the year was Europe – unit sales grew by 32.0% year over year and accelerated to a growth of 35.7% in the fourth quarter. As expected the share of SomnoMed's European market is growing, driven by the growing acceptance and reimbursement listings of oral appliance therapy in a number of countries. These developments are expected to continue to drive European growth in the future.

Good growth in demand and higher sales were recorded in Australia towards the end of the financial year, together with a solid performance in Japan and South East Asia.

Restructuring of our US dental sales and customer service departments affected unit sales throughout 2012/13. Improvements were recorded during the latter part of the year which will positively affect the performance of the US business in 2013/14.

"The establishment of medical departments, the recruitment of experienced medical device executives and staff and the development of medical education and sales programs dominated activities in the US operation throughout most of the financial year. These investments have created the foundation for a business in the US which will see SomnoMed not only as the leader of oral appliance therapy in the dental community but more importantly as a medically accepted alternative to the dominant CPAP therapy," said Dr. Peter Neustadt, Executive Chairman of SomnoMed.

The group gross margin was 66% (direct MAS gross margin was 69%) in line with the previous year despite being affected by additional production and service cost relating to the restructuring of the US customer service operation and the high production cost inherited from the acquired laboratory of SomnoMed's new French subsidiary.

SomnoMed continued to expand and develop its global marketing and distribution network throughout its sales regions and as of June 2013 had more than 4,500 active accounts in SomnoMed's Preferred Dental Network globally. Sales & marketing expenses increased by 30% year on year and regional administration costs increased by 22% over the same period, primarily due to the consolidation and costs involved in the establishment of medical departments, Chief Medical Officer and Medical Advisory Board in the US. Also reflected in these increases are the expansion of the European operation through the acquisition of complimentary or vertically integrated businesses in Sweden and France and the expansion of marketing and sales forces in a number of countries as well as the direct entry into the markets of Belgium, Norway and Denmark.

Despite the magnitude of activities carried out during the year, Corporate, R&D and Business Development Expenses were kept to $2.46 million, an increase of only 4% above the previous year.

During the year SomnoDent® G2 was launched globally and enjoys good and growing acceptance; FDA approval for the new SomnoDent® Herbst was received and introduced to the market at the US exhibitions in Baltimore in June this year; a compliance recording device, DentiTrac®, was contracted, received FDA approval and is in process of being introduced to the markets in the new financial year; clinical research projects were funded and/or completed at major hospitals in Sydney, Antwerp and Berlin; clinical research projects are planned at leading universities in the US. The MATRx diagnostic system was launched during the year and introduced into over 40 sleep labs in the US. Acceptance of MATRx was slower than expected and losses were generated in the department, due to technical issues the inventor/ manufacturer encountered with the current version. A new version is currently under development and expected to be available at the end of 2013.

“We are pleased that as a result of the US medical initiative we were able to form a Medical Advisory Board, appointed a Chief Medical Officer and established a new, experienced, medical sales and marketing team. The impact this will have on our future US sales together with the rapid growth in Europe and an impressive line-up of new products released recently or scheduled to be released in 2013/14 give us great confidence in the future of SomnoMed as the leading company in oral appliance therapy in the world,” said Dr.Neustadt.

“The year 2012/13 has seen SomnoMed broadening its product line after several years of relying essentially on its original product alone. We added the all-important medical capabilities allowing us to be recognised as an equal player, albeit still tiny compared to our CPAP competitors, in the global medical device industry treating sleep disordered breathing patients. At the same time we broadened our presence in major European countries through organic expansion and acquisitions and strengthened our business in the APAC region,” commented Dr Neustadt.

“We are content with the results achieved in an extraordinarily busy and sometimes challenging year and I am very grateful to our global management team for their enormous efforts. However, we are most proud of the fact that all these activities, many of those typically found in loss generating start-up businesses, were not only achieved without generating losses but that we were once again able to generate a profit and funded all our expansion programs internally. SomnoMed finished the financial year with a strong balance sheet with no third party debt. Strong and improved cash management during the year even allowed us to increase our cash balance year on year by $684,000, resulting in a cash position of $4.2 million at the end of June 2013,” said Dr.Neustadt.

SomnoMed Limited
Preliminary consolidated income statement
For the year ended 30 June 2013

	2013 $	2012 $
Sales revenue	18,488,871	15,246,451
Cost of sales	(6,221,200)	(4,888,898)
Gross margin	**12,267,671**	**10,357,553**
Sales and marketing expenses	(5,542,728)	(4,258,860)
Administrative expenses	(3,468,254)	(2,838,918)
Net foreign exchange gain on derivative	(29,629)	20,643
Operating profit before corporate, research and development expenses, non cash items and income tax	**3,227,060**	**3,280,418**
Corporate, research and development expenses	(2,460,722)	(2,355,989)
Other revenue and grants	-	82,376
Revenue from investment activities	92,819	124,289
Share and options expense	(88,183)	(85,880)
Depreciation and amortization	(503,283)	(441,565)
Share of profit of associated company	63,601	75,091
Unrealised foreign exchange loss	(16,305)	(89,904)
Operating profit before income tax	**314,987**	**588,836**
Income tax benefit attributable to operating profit	389,688	110,909
Operating profit after tax	**704,675**	**699,745**

Profit for the period is attributable to:		
Non-controlling interest	115,882	175,065
Owners of the parent	588,793	524,680
	704,675	699,745
Diluted earnings per share (cents per share)	1.37	1.27
Basic earnings per share (cents per share)	1.37	1.27

SomnoMed Limited
Preliminary Consolidated Statement of Comprehensive Income
For the year ended 30 June 2013

	2013 $	2012 $
Profit for the period	704,675	699,745
Other comprehensive income:		
Items that may be classified subsequently to the income statement		
Foreign exchange translation difference for foreign operations	1,159,226	237,138
Other comprehensive income for the period	1,159,226	237,138
Total comprehensive income	**1,863,901**	**936,883**
Total comprehensive income for the period is attributable to:		
Non-controlling interest	115,882	175,065
Owners of the parent	1,748,019	761,818
	1,863,901	936,883

SomnoMed Limited
Preliminary consolidated balance sheet
As at 30 June 2013

	2013 $	2012 $
CURRENT ASSETS		
Cash and cash equivalents	4,221,299	3,537,587
Trade and other receivables	4,383,280	3,741,407
Inventory	854,169	500,229
TOTAL CURRENT ASSETS	9,458,748	7,779,223
NON-CURRENT ASSETS		
Property, plant and equipment	1,154,789	1,068,831
Intangible assets	3,118,040	1,808,536
Investment in associate entity	223,396	159,795
Deferred tax asset	2,156,015	1,181,726
TOTAL NON-CURRENT ASSETS	6,652,240	4,218,888
TOTAL ASSETS	16,110,988	11,998,111
CURRENT LIABILITIES		
Trade and other payables	3,538,757	3,041,511
Provisions	860,660	338,219
TOTAL CURRENT LIABILITIES	4,399,417	3,379,730
NON CURRENT LIABILITIES		
Trade and other payables	123,992	12,034
Provisions	14,857	-
TOTAL NON-CURRENT LIABILITIES	138,849	12,034
TOTAL LIABILITIES	4,538,266	3,391,764
NET ASSETS	11,572,722	8,606,347
SHAREHOLDERS' EQUITY		
Issued capital	26,067,022	25,387,429
Reserves	2,397,601	1,150,192
Accumulated losses	(17,537,449)	(18,126,242)
Parent interests	10,927,174	8,411,379
Non-controlling interests	645,548	194,968
TOTAL EQUITY	11,572,722	8,606,347

SomnoMed Limited
Preliminary consolidated statement of changes in equity
For the year ended 30 June 2013

	Issued Capital	Share Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Owners of parent	Non-controlling interest	Total
	$	$	$	$	$		
Balance at 1 July 2011	23,727,429	1,497,396	(670,221)	(18,650,922)	5,903,682	-	5,903,682
Shares issued during the year	1,660,000	-	-	-	1,660,000	-	1,660,000
Recognition of non-controlling interest	-	-	-	-	-	19,903	19,903
Share option reserve on recognition of remuneration options	-	85,879	-	-	85,879	-	85,879
Total other comprehensive income	-	-	237,138	-	237,138	-	237,138
Profit for the period	-	-	-	524,680	524,680	175,065	699,745
Balance at 30 June 2012	25,387,429	1,583,275	(433,083)	(18,126,242)	8,411,379	194,968	8,606,347
Shares issued during the year	679,593	-	-	-	679,593	-	679,593
Recognition of non-controlling interest	-	-	-	-	-	334,698	334,698
Share option reserve on recognition of remuneration options	-	88,183	-	-	88,183	-	88,183
Total other comprehensive income	-	-	1,159,226	-	1,159,226	-	1,159,226
Profit for the period	-	-	-	588,793	588,793	115,882	704,675
Balance at 30 June 2013	26,067,022	1,671,458	726,143	(17,537,449)	10,927,174	645,548	11,572,722

SomnoMed Limited
Preliminary consolidated cash flow statement
For the year ended 30 June 2013

	2013 $	2012 $
Cash flows from operating activities		
Receipts from customers	18,133,123	14,267,454
Grants received	-	200,376
Payments to suppliers and employees	(17,584,424)	(14,235,936)
Interest received	92,776	115,318
Tax paid	(69,474)	(57,430)
Net cash inflow from operating activities	572,001	289,782
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	(521,903)	(300,577)
Payments for intangible assets	(100,273)	(211,669)
Proceeds from settlement of forward exchange contract	27,544	-
Payments for property, plant and equipment	(198,016)	(270,170)
Net cash outflow from investing activities	(792,648)	(782,416)
Cash flows from financing activities		
Proceeds from issue of shares	540,754	144,000
Proceeds from lease facility	-	10,145
Net cash inflow from financing activities	540,754	154,145
Net increase/(decrease) in cash held	320,107	(338,489)
Cash at beginning of the financial year	3,537,587	3,948,718
Exchange rate adjustment	363,605	(72,642)
Cash at the end of the financial year	4,221,299	3,537,587

The cash balances at 30 June 2012 and 30 June 2013 are represented by cash at bank and money market securities.

RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		
Operating Profit after income tax	704,675	699,745
Share and Option expense	88,183	85,880
Share of associate company profit	(63,601)	(75,091)
Depreciation and amortization	503,283	441,565
Net exchange differences	45,933	69,260
Change in operating assets and liabilities		
(Increase)/Decrease in inventories	(217,702)	(308,828)
(Increase)/Decrease in receivables	(384,108)	(977,685)
Increase/(Decrease) in creditors & other payables	349,976	509,350
Increase/(Decrease) in provisions	184,252	193,447
(Increase)/Decrease in deferred tax assets	(638,890)	(347,861)
Net Cash inflow from operating activities	572,001	289,782

1. REPORTING ENTITY

SomnoMed Limited is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2013 comprise the Company and its controlled entities (together referred to as the Consolidated Entity). The Consolidated Entity produces and sells devices for the oral treatment of sleep related disorders.

2. BASIS OF PREPARATION

a. Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The financial report of the Consolidated Entity and the financial report of the Company comply with International Financial Reporting Standards and Interpretations adopted by the International Accounting Standards Board.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value.

c. Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

d. Use of judgments and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all entities in the Consolidated Entity.

a. Basis of Consolidation

Controlled entities

Controlled entities are entities controlled by the Company. Control exists when the Company has power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in controlled entities are carried at their cost of acquisition in the Company's financial statements.

Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.
A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

Business combinations (continued)

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.
All transaction costs incurred in relation to business combinations are recognised as expenses in profit or loss when incurred.
The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Goodwill

All business combinations are accounted for by applying the acquisition method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.
Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment. Negative goodwill arising on an acquisition is recognised directly in the income statement.

b. Income Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

Sales revenue

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products. Revenue from the sale of goods is recognised upon dispatch of goods to customers.

Other income

Other income, including government grants, is recognised on a systematic basis over the periods necessary to match it with the related costs for which it is intended to compensate or, if the costs have already been incurred, in the period in which it becomes receivable. The income is deemed to be receivable when the entitlement is confirmed. Dividend income from subsidiaries is recognised by the parent when the dividends are declared by the subsidiary.

c. Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the relevant taxation authority are classified as operating cash flows.

d. Foreign Currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of controlled entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary tranactions denominated in foreign currencies that are stated at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rates ruling at the date the fair value was determined. Foreign exchange differences arising on translation are recognised in the income statement.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, generally are translated to the functional currency at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to the functional currency at rates approximating the foreign exchange rates ruling at the dates of transactions. Foreign currency differences arising from translation of controlled entities with a different functional currency to that of the Consolidated Entity are recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount of its FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

e. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

f. Financial Instruments

Derivative financial instruments
The Consolidated Entity holds derivative financial instruments to hedge its exposure to foreign exchange risk arising from operating, investing and financing activities. In accordance with its treasury policy, The Consolidated Entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives are not hedge accounted and are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value with changes in fair value accounted for in the income statement.

Non-derivative financial assets and liabilities

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the income statement, any attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Accounting for finance income is discussed in accounting policy (o).

Determination of fair values

The fair value of forward exchange contracts is based upon the listed market price, if available. If a listed market price is not available, the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate based upon government bonds.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any impairment losses.

g. Provisions

A provision is recognised in the balance sheet when the Consolidated Entity has a present legal or constructive obligation as a result of a past event that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Warranties

Provisions for warranty claims are made for claims in relation to sales made prior to the reporting date, based on historical claim rates and respective product populations. The provision is determined on a discounted cash flow basis. Warranty periods on MAS devices are for up to two years.

Make good lease costs

The Consolidated Entity has an operating lease over its premises that require the premises to be returned to the lessor in its original condition. The operating lease payments do not include an element for the repairs/overhauls. A provision for make good lease costs is recognised at the time it is determined that it is probable that such costs will be incurred in a future period, measured at the expected cost of returning the asset to the lessor in its original condition. An offsetting asset of the same value is also recognised and is classified in property, plant and equipment. This asset is amortised to the income statement over the life of the lease.

Research and development expenditure

Research and development expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project.

Other intangible assets

Intellectual property, acquired is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (h)).

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment annually. The estimated useful lives for the current and comparative periods are as follows:

Patents 10 years

h. Impairment

The carrying amounts of the Consolidated Entity's assets, other than inventories (see accounting policy (j)) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below). An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit or a group of units and then, to reduce the carrying amount of the other assets in the unit or a group of units on a pro-rata basis.

Calculation of recoverable amount

Receivables

The recoverable amount of the Consolidated Entity's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date. The allowance for impairment is calculated with reference to the profile of debtors in the Consolidated Entity's sales and marketing regions.

Other assets

The recoverable amount of other assets is the greater of their fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of the cash flows of other assets or groups of assets (cash generating units). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to the cash generating units that are expected to benefit from the synergies of the combination. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversals of Impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i. Property, Plant and Equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (h)). An asset's cost is determined as the consideration provided plus incidental costs directly attributable to the acquisition. Subsequent costs in relation to replacing a part of property, plant and equipment are recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Consolidated Entity and its cost can be measured reliably. All other costs are recognised in the income statement as incurred.

Leased assets - Operating leases

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property. Minimum lease payments include fixed rate increases.

Depreciation

Depreciation is recognised in the income statement on a straight-line basis. Items of property, plant and equipment, including leasehold assets, are depreciated using the straight-line method over their estimated useful lives, taking into account estimated residual values. Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation rates and methods, useful lives and residual values are reviewed at each balance sheet date. When changes are made, adjustments are reflected prospectively in current and future financial periods only.

The estimated useful lives in the current and comparative periods are as follows:

Leasehold improvements	1 – 3 years
Plant & equipment	3 – 20 years

j. Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and selling, marketing and distribution expenses. Cost is based on the first-in-first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

k. Employee Benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave expected to settle within 12 months of the year end represent present obligations resulting from employees' services provided up to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

Share based payments

The Company has granted options to certain directors and employees. The fair value of options and shares granted is recognised as a share and option expense with a corresponding increase in equity. The fair value is measured at the date the options or shares are granted taking into account market based criteria and expensed over the vesting period after which the employees become unconditionally entitled to the options and shares. The fair value of the options granted is measured using the Black-Scholes method, taking into account the terms and conditions attached to the options. The fair value of the performance shares granted is measured using the weighted average share price of ordinary shares in the Company, taking into account the terms and conditions attached to the shares. The amount recognised as an expense is adjusted to reflect the actual number of options and shares that vest except where forfeiture is due to market related conditions.

l. Receivables

Trade and other receivables are stated at amortised cost less impairment losses (see accounting policy (h)).

m. Taxation

Income tax expense in the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of goodwill and other assets or liabilities in a transaction that affects neither accounting nor taxable profit or differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based upon the laws that have been enacted at reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on a different tax entity but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

n. Payables

Trade and other payables are stated at amortised cost.

o. Finance income and expense

Interest income is recognised as it accrues in the income statement using the effective interest method.

p. Earnings per share

The Consolidated Entity presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the net loss attributable to equity holders of the parent for the financial period, after excluding any costs of servicing equity (other than ordinary shares) by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated using the basic EPS earnings as the numerator. The weighted average number of shares used as the denominator is adjusted by the after-tax effect of financing costs associated with the dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares adjusted for any bonus issue.

q. Segment Reporting - Determination and presentation of operating segments

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

r. Accounting judgment and estimates

Management discussed with the Audit Committee the development, selection and disclosure of the Consolidated Entity's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in the following areas:

- Intangible assets, Provisions, Employee benefits and Financial instruments

s. Share Capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any income tax benefit.

t. New Standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations are effective for the financial years beginning after 1 July 2012, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Consolidated Entity except for AASB 9 Financial Instruments, which becomes mandatory for the Consolidated Entity's 2016 consolidated financial statements and AASB 13 – Fair Value Measurement, which becomes mandatory for the Consolidated Entity's 2014 financial statements. The Consolidated Entity does not plan to adopt this standard early and the extent of the impact has not been determined.

4. CHANGES IN ACCOUNTING POLICIES

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.

5. FINANCIAL RISK MANAGEMENT

Overview

The Company and Consolidated Entity have exposure to the following risks from the use of financial instruments:

• Credit risk

• Liquidity risk

• Market risk

This note presents information about the Company's and the Consolidated Entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Board of directors has overall responsibility for the establishment and oversight of the risk management and monitors operational and financial risk management throughout the Consolidated Entity. Monitoring risk management includes ensuring appropriate policies and procedures are published and adhered to. The Management reports to the Audit Committee.

The Board aims to manage the impact of short-term fluctuations on the Company's and the Consolidated Entity's earnings. Over the longer term, permanent changes in market rates will have an impact on earnings.

The Company and the Consolidated Entity are exposed to risks from movements in exchange rates and interest rates that affect revenues, expenses, assets, liabilities and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities.

Exposure to credit, foreign exchange and interest rate risks arises in the normal course of the Company's and the Consolidated Entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates.

The Audit Committee oversees adequacy of the company’s risk management framework in relation to the risks faced by the Company and the Consolidated Entity.

Credit Risk

Credit risk is the risk of financial loss to the Company or the Consolidated Entity if a customer, controlled entity or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's and the Consolidated Entity's receivables from customers.

Trade and other receivables

The Company's and Consolidated Entity's exposure to credit risk is influenced mainly by the geographical location and characteristics of individual customers. The Consolidated Entity does not have a significant concentration of credit risk with a single customer.

Policies and procedures of credit management and administration of receivables are established and executed at a regional level. Individual regions deliver reports to management and the Board on debtor ageing and collection activities on a monthly basis.

In monitoring customer credit risk, the ageing profile of total receivables balances is reviewed by management by geographic region on a monthly basis. Regional management are responsible for identifying high risk customers and placing restrictions on future trading, including suspending future shipments and administering dispatches on a prepayment basis.

The Company and the Consolidated Entity have established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables.

Liquidity Risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

The Consolidated Entity monitors cash flow requirements and produces cash flow projections for the short and long term with a view to optimising return on investments. Typically, the Consolidated Entity ensures that it has sufficient cash on demand to meet expected operational net cash flows for a period of at least 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's and the Consolidated Entity's net loss or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency Risk

The Consolidated Entity is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the controlled entities, primarily Australian dollars (AUD), but also United States dollars (USD), Euros (EUR), Swiss francs (CHF), Singapore dollar (SGD) and Japanese Yen (JPY). The currencies in which these transactions primarily are denominated are AUD, USD, EUR, CHF, SGD, JPY and PHP.

Over 87% (2012-84%) of the Consolidated Entity's revenues and over 76%(2012-75%) of costs are denominated in currencies other than AUD. Risk resulting from the translation of assets and liabilities of foreign operations into the Consolidated Entity's reporting currency is not hedged.

Interest Rate Risk

The Consolidated Entity is exposed to interest rate risks in Australia.

Capital Management

The Consolidated Entity's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns to shareholders, to provide benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Board aims to maintain and develop a capital base appropriate to the Consolidated Entity. In order to maintain or adjust the capital structure, the Consolidated Entity can issue new shares. The Board of directors undertakes periodic reviews of the Consolidated Entity's capital management position to assess whether the capital management structure is appropriate to meet the Consolidated Entity's medium and long-term strategic requirements. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements. There were no significant changes in the Consolidated Entity's approach to capital management during the year.

6. Events occurring after reporting date

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

7. Associates and Joint Venture entities

The company has a 50% interest in SMH Biomaterial AG. The results for the year include 50% of the profit of SMH Biomaterial AG $63,601 (2012-$75,091).

8. Contingent liabilities

At 30th June 2013 no contingent liabilities existed.

9. Other significant information

N/A.

10. Foreign Accounting standards

N/A.

11. NTA Backing

	2013	2012
Net tangible asset backing per ordinary share	14.55 cents	13.37 cents

12. Profit per Share

The following reflects the profit and share data used in the calculations of basic and diluted profit per share.

	2013	2012
Net profit used in calculating basic and diluted earnings per share	$588,793	$524,680
Basic and diluted profit per share (cents per share)	1.37	1.27
Weighted average number of shares used in the calculation of diluted earnings per share	42,843,375	41,184,334
Weighted average number of shares used in the calculation of basic earnings per share	42,824,254	41,381,209
Shares on issue at year end	43,287,839	42,018,420
Number of options on issue at year end – each option is exercisable at between 87cents and $1.37 per share and converts to one ordinary share	870,000	1,350,000

Adjustment has been made to the weighted average number of shares used in calculating diluted earnings per share for the options on issue that have an exercise price below the average market price for the year.

13. Controlled entities acquired during the year

SomnoMed acquired the Orthosom business in France on 30th November 2012.

	AUD
Purchase consideration	
(i) The purchase was satisfied by the issue of 35% of the shares in SomnoMed France and cash.	
Cash paid to vendors	372,554
Issue of shares in SomnoMed France	266,740
Total purchase consideration	639,294
Fair value of net identifiable assets	(71,475)
Goodwill (at date of acquisition)	567,819

Goodwill arose on acquisition of Orthosom because the acquisition included customer knowledge and market relationships, 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
Provision for employee benefits	(18,738)
100% net identifiable assets acquired	71,475

(iii) Revenue and Net loss after tax of SomnoMed France included in the consolidated revenue and results since the acquisition date amounted to $260,512 and ($240,557) respectively.

13. Controlled entities acquired during the year (continued)

SomnoMed acquired the business of MAS Nordic in Stockholm, Sweden on 1 January 2013.

	AUD
Purchase consideration	
(i) The purchase was satisfied by the issue of SomnoMed shares of A$147,493, cash and deferred consideration.	
Cash paid to vendors	149,334
Issue of shares in SomnoMed Limited	147,493
Deferred consideration	149,347
Total purchase consideration	446,174
Fair value of net identifiable liabilities	20,454
Goodwill (at date of acquisition)	466,628

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

(ii) Assets and liabilities acquired

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

Provision for employee benefits	(20,454)
	(20,454)

(iii) Revenue and Net loss after tax of SomnoMed Nordic included in the consolidated revenue and results since the acquisition date amounted to $753,300 and ($67,506) respectively.

14. Segment Operations

The Consolidated Entity produces and sells devices for the oral treatment of sleep related disorders primarily in the Asia Pacific region, the United States and Europe.

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 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 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 and other income;

-corporate, research and development expenses;

-income tax expense; and

-amortisation of intangible assets.

Information about reportable segments

Geographic location:	**Asia Pacific**	**USA**	**Europe**	**Total**
2013	**$**	**$**	**$**	**$**
External sales revenue	**2,630,412**	**9,705,124**	**6,153,335**	**18,488,871**
Segment net profit before tax	**491,406**	**1,381,542**	**520,445**	**2,349,171**
Unallocated expense items				(2,127,003)
Interest received				**92,819**
Profit before tax				**314,987**
Income tax benefit				389,688
Profit after tax				**704,675**

Geographic location:	**Asia Pacific**	**USA**	**Europe**	**Total**
2012	**$**	**$**	**$**	**$**
External sales revenue	**2,432,183**	**8,859,987**	**3,954,280**	**15,246,451**
Segment net profit before tax	**585,884**	**1,837,820**	**446,465**	**2,870,169**
Unallocated expense items				(2,405,622)
Interest received				**124,289**
Profit before tax				**588,836**
Income tax benefit				110,909
Profit after tax				**699,745**

SomnoMed Limited
Notes to the preliminary consolidated financial statements
for the year ended 30 June 2013

Audit

This report is based on accounts which are in the process of being audited.

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review. -Nil

Description of dispute or qualification if the accounts have been audited or subjected to review -Nil

Sign here: .... Date: 27th August 2013
(Director)

Print name: P Neustadt